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REPORT

on the Commission communication to the Council and to the European Parliament on Untying: Enhancing the effectiveness of aid (COM(2002) 639 - 2002/2284(INI))

Committee on Development and Cooperation

Rapporteur: Fernando Fernández Martín

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PROCEDURAL PAGE

By letter of 18 November 2002 the Commission forwarded to Parliament its communication to the Council and to the European Parliament on Untying: Enhancing the effectiveness of aid (COM(2002) 639), which had been referred to the Committee on Development and Cooperation and to the Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy and the Committee on Industry, External Trade, Research and Energy for information.

At the sitting of 16 January 2003 the President of Parliament announced that the Committee on Development and Cooperation had been authorised to draw up an own-initiative report, pursuant to Rules 47(2) and 163 of the Rules of Procedure, and the Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy and the Committee on Industry, External Trade, Research and Energy had been asked for their opinions.

The Committee on Development and Cooperation had appointed Fernando Fernández Martín rapporteur at its meeting of 3 December 2002.

It considered the draft report at its meetings of 17 March, 23 April and 20 May 2003.

At the latter meeting it adopted the motion for a resolution unanimously.

The following were present for the vote: Joaquim Miranda, chairman; Margrietus J. van den Berg and Anders Wijkman, vice-chairmen; Fernando Fernández Martín, rapporteur; Jean-Pierre Bebear, Yasmine Boudjenah, Marie-Arlette Carlotti, John Alexander Corrie, Nirj Deva, Concepció Ferrer (for John Bowis), Michael Gahler (for Karsten Knolle), Richard Howitt, Karin Junker, Glenys Kinnock, Paul A.A.J.G. Lannoye, Miguel Angel Martínez Martínez, Didier Rod, Ulla Margrethe Sandbæk, Francisca Sauquillo Pérez del Arco, Agnes Schierhuber (for Luigi Cesaro), Maj Britt Theorin and Jürgen Zimmerling.

The opinion of the Committee on Industry, External Trade, Research and Energy is attached. The Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy decided on 21 January 2003 not to deliver an opinion.

The report was tabled on 22 May 2003.

MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

**on a Commission communication to the Council and to the European Parliament on
Untying: Enhancing the effectiveness of aid
(COM(2002) 639 - 2002/2284(INI))**

The European Parliament,

- having regard to the Commission communication (COM(2002) 639 - C5-0626/2002¹),
 - having regard to the International Conference on Financing for Development, held in Monterrey on 18-22 March 2002,
 - having regard to the World Summit on Sustainable Development, held in Johannesburg on 26 August – 4 September 2002,
 - having regard to the Recommendation by the OECD Development Assistance Committee (DAC) on untying official development aid to least developed countries, OECD DCD/DAC (2001),
 - having regard to Rules 47(2) and 163 of its Rules of Procedure,
 - having regard to the report of the Committee on Development and Cooperation and the opinion of the Committee on Industry, External Trade, Research and Energy (A5-0190/2003),
- A. whereas the practice of a donor's tying aid to a developing country by insisting that the money be spent only on goods and services provided by the donor's public or private enterprises has proved to make the aid granted less effective,
- B. whereas in the absence of competition purchases made under tied aid contracts entail excess costs in the developing countries and tend to encourage corruption,
- C. whereas aid tied to the purchase of goods, supplies or services in the donor Member State creates distortions of competition on the internal market, thus breaching EU competition law, especially as regards the principles of non-discrimination and equal treatment,
- D. whereas calls for tender in respect of supplies, goods or services in developing countries under an aid programme must be based on objective and transparent criteria for selection and award of contracts, in line with the EU's public procurement directives,
- E. whereas the main objectives of the untying of aid are the reinforcement of capabilities and economic development; whereas, therefore, calls for tender for the purchase of supplies, goods or services in developing countries must include clauses favouring local provision,
- F. noting that a significant measure of untying has already been implemented by the European Union, enabling sourcing from any one of the Member States and the countries of the regional grouping concerned, be they ACP or MEDA states or those covered by the

¹ Not yet published.

ALA Regulation,

- G. whereas there are no grounds for differentiating between the least developed countries and other developing countries,
 - H. pointing out that food provided as humanitarian aid in emergency situations must be appropriate to local conditions and if possible purchased in the country or region concerned, to combine maximum alleviation of hunger with minimum negative impact on vulnerable countries' capacity, local agricultural development and regional and local markets,
 - I. noting that EU aid is being progressively directed at balance of payments and budgetary support, which by definition is completely untied, and that adequate monitoring mechanisms have to be guaranteed when using these forms of aid,
 - J. whereas the untying of aid can also give a boost to the local and regional private sector in developing countries,
 - K. welcoming the EU's clear commitment to further discussions on untying of aid in its negotiating platform for the Monterrey Conference on Financing for Development (2002),
 - L. noting that the EU's development goals, the primary one of which is poverty reduction, will be better served by a significant further untying of aid,
 - M. aware that such a further untying of aid will be both more feasible and more effective to the extent that non-EU donor countries adopt the same policy and modalities but believing that the EU should be ready to continue raising the matter with the OECD's Development Assistance Committee (DAC), especially in the light of the fact that the EU and its Member States together provide more than half of world aid,
 - N. noting that debate on untying of aid is still going on in the DAC and in other multilateral fora like the London Convention on Food Aid or the WTO, and that according to the DAC, half of world aid remains tied and that, if all aid were untied, the increased effectiveness would be equivalent to a USD 5 billion increase,
 - O. further noting that tying aid is still common practice amongst EU Member States, that more than one-third of Member States' aid remains tied, and that the DAC's recommendations are not applied in a uniform fashion by individual countries,
1. Welcomes the Commission communication as a necessary contribution which should play a leading role in the debate on untying aid, which must be pursued with the Member States and the relevant multilateral bodies in view of recognition of the limits and ineffectiveness of the traditional practice of tied aid;
 2. Welcomes the Commission's attempts to shift the underlying logic of aid procurement towards putting the interests of the recipient countries first, and insists that aid should be totally disconnected from the economic interests of the donor countries;
 3. Calls for the complete untying of all ODA by the EU and its Member States within the next five years and demands that the definition of ODA within the European Union should

be restricted to untied aid only; supports, therefore, the Commission's approach in already extending untying to almost all Community aid arrangements;

4. Supports the line which the Commission takes on untying Community aid; calls, however, for the equal treatment of horizontal and the geographical budget lines so as to introduce open procurement:
 - a) for all developing countries;
 - b) for all Member States and accession countries;
 - c) for all developed countries, subject to reciprocity by the third country and agreement by the recipient country;demands additionally that these provisions be linked to a clear preference for local and regional cooperation, prioritising - in ranking order - suppliers from the recipient country, neighbouring developing countries, and other developing countries;
5. Supports the Commission's proposal regarding contracts awarded by authority of the recipient country and calls on the Member States to systematically insert a contractual clause binding the recipient country to apply award procedures based on the principles underlying the EU public procurement directives;
6. Underlines the need to take account of local operators in the programming and management of aid, and points out that untying aid must benefit the development of the national and regional capacities of the developing countries;
7. Recommends that the Commission and Member States introduce into their procurement manuals measures to support the sourcing of goods and services from developing countries (e.g. significant price preferences);
8. Recommends that, in the context of the untying of aid, a debate be held on introducing a system of preferences which would give priority to the award of contracts to suppliers or service providers from, firstly, the beneficiary countries, secondly, neighbouring countries in the same regions, and, finally, other developing countries, with a view to encouraging the development of local markets;
9. Calls on the Commission to ensure that the emphasis on public procurement is not detrimental to recipient countries when the principle of untying is applied; stresses this should not undo the underlying principles of transparency, equal treatment, proportionality and mutual recognition;
10. Welcomes the intention of the Commission to introduce two horizontal legislative proposals, one covering the instruments under the EC budget and the other within the European Development Fund;
11. Supports the Commission proposal to extend untying aid on behalf of the developing countries on horizontal and geographical budget headings, and calls for and calls for the extension of untying to all developing countries, to non-ACP developing countries and to the least developed countries in particular; calls therefore, in line with the Commission and in the interests of the greater effectiveness of aid for all developing countries to be covered by the present communication and by future legislation on the untying of EU aid;

12. Considers that in the multilateral fora, with special reference to the forthcoming meeting of the Food Aid Convention in London in June 2003, the EU and its Member States must insist on the need to untie food aid and its transport and to incorporate a series of requirements on transparency and good practice, including that of local and regional preference for the acquisition of products, the commitment to regulate the large-scale use of farm surpluses as food aid in kind and address market distortion, the need to take account of the food habits and cultural practices of the recipient people, and the need to avoid transgenic products;
13. Calls on the Commission, in addition, to invite Member States also to untie their technical cooperation;
14. Calls on the Commission to invite the Member States to involve independent bodies in selecting aid projects in order to prevent possible conflicts between their interests and those of the beneficiary countries;
15. Calls on the Commission to make use of co-financing and direct budgetary aid only with the safeguard of corresponding mechanisms for monitoring and controlling the aid granted through such schemes; with sectoral aid strongly being preferred for the moment;
16. Points out that the question of applicability of Community rules on state aids, public contracts and the single market to the Member States' bilateral aid awaits a ruling by the Court of Justice on the infringement proceedings that the Commission has brought against various Member States;
17. Notes that the internal market rules, and specifically the public procurement directives, apply to aid-related procurement undertaken by a Member State contracting authority, and notes that this applies when the contracting authority is situated in a third country, for example in an embassy;
18. Welcomes the recommendation in paragraph 42 of the Commission communication to apply the public procurement directive principles (i.e. equal treatment, transparency, mutual recognition and proportionality) to 'contracts awarded by authority of the recipient country where these do not act on behalf of and for the account of a contracting authority of a member state';
19. Calls on the Commission to take out infringement proceedings on a systematic basis against Member States whose tying of aid is in breach of the EU's public procurement directives and competition law;
20. Instructs its President to forward this resolution to the Council and Commission.

EXPLANATORY STATEMENT

1. Aid fatigue

In the present context of globalisation the world has become interdependent. Problems are shared problems: extreme poverty, hunger, military conflict, illegal immigration, transmissible diseases, ecological disasters, organised crime and the like. So efforts to solve them must also be shared. Here the question of development aid is more important than ever. The international community should continue to investigate inadequacies in traditional cooperation practices and look into their reform, to boost the effectiveness of aid in fulfilling the ambitious aim of solving the problems of under-development.

The European Union and its Member States are familiar with this problem and attach great importance to development cooperation policy, dedicating a percentage of their GDP to Official Development Aid (ODA).

As long ago as 1970 the United Nations General Assembly adopted a resolution defining for the first time a clear commitment for the industrialised nations to grant a net sum of 0.7 % of GDP as ODA for the developing countries¹. Almost a quarter of a century later, the aims of that resolution have yet to be fulfilled and only four countries have achieved or exceeded the target of 0.7%: Denmark, Norway, the Netherlands and Sweden.

The European Council in Barcelona in March 2002 reached an important agreement, maintaining the above target of 0.7 % and undertaking to reach a European average ODA of 0.39 % of GDP by 2006, for which each of the Member States will need to grant a minimum of 0.33 % of its GDP. This figure is in line with the global average needed to achieve the development objectives of the Millennium Declaration, according to an estimate by the World Bank². The European summits of Göteborg and Laeken confirmed the commitment made at Barcelona.

The EU and its Member States are the world's leading donor of ODA. But the traditional approach taken by European cooperation, through programmes and projects, has not managed to fulfil their aims after 40 years of development cooperation policy. It is difficult to monitor funding because of the dispersion of programmes through all their stages. The ineffectiveness of tied aid is the origin of what has come to be known as 'aid fatigue'.

2. The alternative of untied aid

Precisely because of recognition of the limits and ineffectiveness of the traditional practice of tied aid, which has not succeeded in ending the main problems facing the people of developing countries, the debate is now focusing on the alternative of untying aid, and on the need to know if this will increase its effectiveness. 'Untied aid' means the granting of aid which is neither directly nor indirectly linked to the acquisition of goods and services obtained by means of that aid in the donor country. For many years the untying of aid has been a vital issue in the OECD's Development Assistance Committee (DAC), a body which has supported the argument for abandoning conditional aid.

¹ Resolution 2626 (XXV) on the strategy for the second United Nations development decade, 1970.

² Commission communication to the Council on Preparation of the International Conference on Financing for Development, COM(2002) 87, 13 February 2002.

Donor countries have in practice been increasing the relative proportion of this kind of untied aid in their programmes, so as to make them compatible with the guidelines in the recommendation by the OECD DAC, on untying public development aid for the least developed countries, of April 2001. According to estimates by the World Bank quoted by the Commission, total untying of aid could reduce the transaction costs of aid by some 25 %. The DAC estimates that this reduction could affect between 15 % and 30 % of costs.

The first United Nations International Conference on Funding for Development, in Monterrey, wanted recipients and donors to reach agreement on supporting the measures and initiatives needed to make the terms of aid more favourable. In the same way it concluded that to be effective ODA should serve to help developing countries to mobilise an adequate volume of their internal resources within an appropriate period, and at the same time improve their human resources and increase their productive and export capacity. ODA could also decisively contribute to improving the environment for private-sector activities. At the same time, it is a support instrument of critical importance to education, health, the development of public infrastructure, farming, rural development and increasing food security. Finally, there is an international consensus that ODA is indispensable for attaining the thresholds and objectives for development set out in the Millennium Declaration and other internationally agreed development objectives¹.

To this end the Johannesburg World Summit on sustainable development in September 2002 insisted on the need to use aid effectively to bring about the elimination of poverty. Paragraph 43 of the Monterrey Consensus defends the reduction of transaction costs. It argues that the granting and supply of official aid should be more flexible and more suited to the needs and objectives of national development, respecting the principle of the autonomy of the recipient countries.

Similarly, the Commission has expressed its determination to ensure that development aid fulfils its main purpose and reaches its recipients as easily, speedily and cost-effectively as possible. In this spirit, and with the aim of encouraging the debate on giving practical effect to the untying of aid, the Commission presented a communication on untying on 18 November 2002.

3. A cautious and determined approach to untying aid

It is important to take as a starting point the principle that untying cannot be regarded as an end in itself, but as a way of increasing the effectiveness, transparency and consistency of granting aid, the main purpose of which is to reduce poverty.

The Commission's position, in arguing for the total untying of aid, should be interpreted with caution since the necessary reports and analyses on the ultimate effects of untying do not at present exist. There are various points in the debate which have already given rise to some doubt, and these are being studied and debated in the appropriate multilateral fora, particularly the DAC and the WTO, and also the London Conference where food aid is concerned.

Extending the untying of aid to the developing countries does not present problems, as the many advantages it provides for them are clear. The same is not true in the case of the

¹ Final document of the United Nations International Conference on Funding for Development, Monterrey, Mexico, 18-22 March 2002.

developed countries, for which the Commission also wishes to extend untying. It is important to bear in mind the volume of European aid, which exceeds that of the other individual donors, and the high level of transparency in EU procedures, unlike that of other donors, which have not adopted transparency criteria sufficient to allow the untying of aid to take place on equal terms for all concerned. For this reason there is a need for the Commission to spell out the condition of reciprocity in greater detail, in the light of the above. This is a key factor for ensuring that the untying of aid really does increase efficiency, resulting in improving the position of recipient countries without creating a lack of symmetry between some donors and others.

The particular sensitivity of food aid also calls for caution in an area where there are still major risk factors. These include the risk of unintended expansion of transgenic crops, the use of food aid as a way of reallocating farm surpluses, the particular character of local cultural practices and food habits and so on. These issues underline the need to strengthen the analysis and assessment of the possible consequences of the total untying of food aid and its transport, as advocated by the Commission.

Untying aid is undoubtedly a complex process and needs to be supported by the international community as a whole, as the result of joint efforts by all donor countries¹. The Commission must continue to play a pioneering role, always working in conjunction with the Member States, whose support in this area is vital to ensure that the voice of European aid gets an effective hearing in the multilateral fora. They must take account of the views of those who are the final recipients of aid, of local operators, and always bear in mind the ultimate aim of improving the national and regional capacities of the developing countries themselves.

¹ DAC recommendation on untying official development aid to least developed countries. OECD, DCD/DAC (2001).

22 May 2003

OPINION OF THE COMMITTEE ON INDUSTRY, EXTERNAL TRADE, RESEARCH AND ENERGY

for the Committee on Development and Cooperation

on the Commission communication to the Council and to the European Parliament on
Untying: Enhancing the effectiveness of aid
(COM(2002) 639 - 2002/2284(INI))

Draftsman: Neena Gill

PROCEDURE

The Committee on Industry, External Trade, Research and Energy appointed Neena Gill draftsman at its meeting of 3 December 2002.

It considered the draft opinion at its meetings of 25 March 2003, 23 April 2003, 30 April 2003, and 22 May 2003.

At the latter/last meeting it adopted the following conclusions unanimously, with 1. abstention.

The following were present for the vote Carlos Westendorp y Cabeza (chairman), Yves Piétrasanta (vice-chairman), Jaime Valdivielso de Cué (vice-chairman), Neena Gill (draftsman) (for Massimo Carraro), Sir Robert Atkins, Bastiaan Belder (for Yves Butel), Luis Berenguer Fuster, Felipe Camisón Asensio (for Guido Bodrato), Giles Bryan Chichester, Willy C.E.H. De Clercq, Marie-Hélène Descamps (for Angelika Niebler), Harlem Désir, Christos Folias (for John Purvis), Norbert Glante, Michel Hansenne, Roger Helmer (for Christian Foldberg Røvsing), Bashir Khanbhai, Dimitrios Koulourianos (for Konstantinos Alyssandrakis), Werner Langen, Rolf Linkohr, Caroline Lucas, Erika Mann, Hans-Peter Martin (for Reino Paasilinna), Marjo Matikainen-Kallström, Eryl Margaret McNally, Bill Newton Dunn (for Nicholas Clegg), Paolo Pastorelli, Elly Plooi-j-van Gorsel, Samuli Pohjamo (for Colette Flesch), Godelieve Quisthoudt-Rowohl, Bernhard Rapkay (for Myrsini Zorba), Imelda Mary Read, Mechtild Rothe, Paul Rübig, Umberto Scapagnini, Esko Olavi Seppänen, Gary Titley, Claude Turmes, Dominique Vlasto, Olga Zrihen Zaari and Pierre Jonckheer (for Nuala Ahern pursuant to Rule 153(2)) Armin Laschet (for Konrad K. Schwaiger pursuant to Rule 153(2)), Brigitte Wenzel-Perillo (for Concepció Ferrer pursuant to Rule 153(2)), Arie M. Oostlander (for W.G. van Velzen pursuant to Rule 153(2)), and Hans Kronberger (for Daniela Raschhofer pursuant to Rule 153(2)).

CONCLUSIONS

The Committee on Industry, External Trade, Research and Energy calls on the committee on Development and Cooperation, as the committee responsible, to incorporate the following points in its motion for a resolution:

1. Endorses the approach for untying of EC aid based on three *priorities* to be pursued: regional integration and across regions, institutional and capacity building, and avoidance of distortion of competition between donors and recipient countries; endorses equally the principle of reciprocity as well as the co-operation with relevant international organisations in applying the proposal of untying to all EC aid to third countries;
2. Considers it necessary to completely untie all aid for all developing countries in order to use all cooperation means available for the development of local infrastructure and productivity of the recipient countries, in order to avoid high transport costs and in order to avoid re-direction of aid to those countries that are not bound to untying aid obligations;
3. Believes that an assessment should be undertaken by the Commission, seeking to quantify the impact of untying on trade creation and trade diversion as well as the net effect on welfare enhancing within two years of the date Parliament adopts this resolution;
4. Calls upon the Commission to ensure that the emphasis on public procurement is not detrimental to recipient countries when the principle of untying is applied; stresses that the Commission's proposal to insert in the instruments by which aid is granted a clause on public procurement award procedures must include advice to the countries concerned to apply the underlying principles of transparency, equal treatment, proportionality and mutual recognition; stresses, however, that this must not constitute an obligation for recipient countries to transpose European directives on public procurement into their national legislation;
5. Welcomes the intention of the Commission to introduce two horizontal legislative proposals, one covering the instruments under the EC budget and the other within the European Development Fund;
6. Recognises that the untying of food aid may be attained in stages - implying a transitional period - without compromising the underlying principle of untying of all Community aid; underlines the necessity to also untie technical aid which represents an ever increasing part of ODA;
7. Asks for a life-cycle assessment of aid supply in order to identify, among other things, true transport costs, before deciding upon suppliers, and systematically employ sustainability criteria concerning the recipient country for the decision making process;

8. Recognises that particular attention should be paid to exemption clauses inserted in all international agreements, to the level of aid with respect to the GDP of Member States, and to country preference by donor countries due to historic or cultural reasons;
9. Calls upon the Commission to clarify the following: whether or not this communication would create new rigid rules resulting in more bureaucracy which may restrict the ability of Member States to execute aid quickly; whether or not State aid rules may stand in the way of the timely granting of aid for humanitarian purposes.