



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 25.04.2003
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Proposal for a

COUNCIL DECISION

on the position to be adopted by the Community within the ACP-EC Council of Ministers regarding a decision on the use of the reserve of the long-term development envelope of the ninth European Development Fund for debt alleviation

(presented by the Commission)

EXPLANATORY MEMORANDUM

1. INTRODUCTION

The European Community plays an active role in the preparation and implementation of major initiatives in favour of developing countries, such as debt reduction for the benefit of Highly Indebted Poor Countries (HIPC), the Global Fund to Fight HIV/Aids, Malaria and Tuberculosis (GFATM or "Global Fund"), reproductive health, Johannesburg initiatives etc. Such initiatives in favour of ACP countries make substantial contributions to poverty reduction, the main objective of both the ACP-EC Partnership Agreement signed in Cotonou on 23 June 2000 and the Community Development Policy.

The EDF being the major source of funding of Community Aid to ACP countries, (any further) contributions to these initiatives for the benefit of ACP countries should come from the EDF. The amount earmarked for intra-ACP co-operation under the 9th EDF (€300 million) is too limited to cover all initiatives. The 9th EDF reserves should therefore be mobilised. Using the 9th EDF reserves for new initiatives will also help to speed up the implementation of the funds earmarked for ACP Countries under past Lomé Conventions and the ACP-EC Partnership Agreement signed in Cotonou on 23 June 2000. An overall review of the implementation of the 9th EDF is planned in 2004. The extent to which commitments and disbursements have been made will form the basis for this evaluation. Using 9th EDF reserves for new initiatives and with quick disbursement mechanisms will accelerate the implementation of aid in favour of ACP countries.

In accordance with the Cotonou Agreement and the Internal Agreement between EU Member States, the Commission has proposed to the EDF Committee to continue support from the Community to new initiatives such as health, education, peace and security, and Johannesburg initiatives by transferring €204 million from the 9th EDF reserve for regional co-operation to the allocation for intra-ACP co-operation. This proposal will lead to full absorption of the envelope for regional co-operation. (The total amount available for regional co-operation is €1.204 million¹, of which €700 million are allocated to regional indicative programmes and €300 million have already been allocated to intra-ACP co-operation). Under these circumstances, the ACP-EC Council of Ministers can take appropriate measures in accordance with paragraph 8 of the 9th EDF Financial Protocol, which can be applied when funds provided for in any of the instruments of the Cotonou Agreement are exhausted.

Against this background, the Commission proposes that the Council adopt the enclosed decision on the transfer of €335 million from the reserve of the 9th EDF long-term development envelope to the envelope for regional co-operation, to be used for debt alleviation.

2. DEBT RELIEF

The Highly Indebted Poor Countries (HIPC) Initiative was launched in 1996 and enhanced in 1999 at the G7/G8 Summit in Cologne with the objective of bringing the debt burden of

¹ The 9th EDF Financial Protocol foresees an amount of €1.300 million for regional co-operation. However, taking into consideration that €1 billion of the total amount of the 9th EDF (€13,5 billion) is conditioned by a performance review in 2004, the real amount available for regional co-operation is only €1.204 million.

highly indebted poor countries down to a sustainable level. An HIPC Trust Fund was established in November 1996 to provide financial support for multilateral credit institutions participating in the HIPC initiative and help them achieve their agreed share of debt relief. The Trust Fund can provide financial support for payment of the debt, coverage of the debt service, plus purchase and subsequent forgiveness of the debt. The Trust Fund is administered by the International Development Association (IDA).

Out of a total of 42 countries that are eligible for the initiative, 20 countries have currently reached **decision point** (i.e. are eligible for interim debt relief) and 6 have reached their **completion point** (i.e. starting full debt relief). For these 26 countries the total debt relief, including under traditional mechanisms and additional bilateral debt forgiveness, will amount to some USD 40 billion in Net Present Value terms, resulting in a reduction of about two thirds of their overall debt stock, thus enabling these countries to significantly increase their poverty reduction spending.

By Decisions Nos 1/1999 of 8 December 1999,² 2/2001 of 20 December 2001³ and 3/2002 of 23 December 2002, the ACP-EC Council of Ministers allocated resources to debt alleviation mechanisms in favour of highly indebted poor ACP countries for a total amount of €1 185 million. The EU-Council had furthermore earmarked an amount of €40 million for the same purpose by Decision No 98/453 of 6 July 1998⁴ from interest accrued on EDF treasury accounts.⁵ These resources were intended to (i) cover the overall financing of the initiative in favour of Highly Indebted Poor Countries (HIPC) to the amount of €680 million (donor contribution⁶) and (ii) meet the outstanding debt and debt-servicing obligations to the Community of ACP countries eligible under the HIPC initiative for a total amount of €545 million (creditor contribution).

The latest estimate⁷ of the total HIPC Trust Fund requirement is **USD 3.42 billion**, including the costs of potential additional debt relief needed after completion point caused by external shocks (so-called topping-up). However, total pledges to the HIPC Trust Fund amount only to **USD 2.62 billion**, and therefore the Trust Fund shows a funding gap of **USD 800 million** for the 34 currently costed countries. The amount proposed for a new EC contribution to the Trust Fund is **€200 million**, which has been calculated on the basis of fair burden sharing between all donors.

The current estimated cost for Community participation in the HIPC as a **creditor** is about **€680 million**, including topping-up costs. Given the current level of pledges from the Community, i.e. €545 million, it is proposed that **€135 million** be used to finance the gap for outstanding debt and debt-servicing obligations.

The total amount of the proposed new contribution to HIPC for ACP countries thus stands at **€335 million**. Taking into consideration that the envelope for regional co-operation is fully exhausted by existing allocations and by the new intra-ACP allocation of €204 million, the new contribution for HIPC should be taken from the 9th EDF reserve for long-term development. A decision by the ACP-EC Council of Ministers is required for this purpose.

² OJ L 103, 28.4.2000, p. 73.

³ OJ L 56, 27.2.2002, p. 19.

⁴ OJ L 198, 15.7.1998, p. 40

⁵ The Community gave a further contribution of €54 million to the HIPC initiative from the Budget, in favour of Latin American and Asian countries.

⁶ Together with the contribution from the Budget, the Community has so far participated in the HIPC Trust Fund as a donor for a total amount of €734 million.

⁷ "HIPC initiative – Status of implementation" Joint report prepared by the staffs of the IMF and World Bank, September 23, 2002

For all these reasons, the Commission proposes that the Council should adopt the attached decision on the use of the reserve of the 9th EDF envelope for long term development.

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 310 in conjunction with the second subparagraph of Article 300(2) thereof,

Having regard to the proposal from the Commission,

Whereas:

- (1) Article 15 of the ACP-EC Partnership Agreement signed in Cotonou on 23 June 2000 establishes an ACP-EC Council of Ministers with powers to take decisions in accordance with the Agreement and Paragraph 8 of Annex I allows the Council of Ministers to take appropriate measures if funds provided for in any of the instruments of the Agreement are exhausted.
- (2) Funds from the 9th EDF envelope for regional co-operation and integration are exhausted. The Community's position within the ACP-EC Council of Ministers should therefore be established with a view to its adopting a decision on the Community's participation in debt alleviation in favour of highly indebted poor ACP countries from the reserve of the long-term development envelope of the ninth EDF.

HAS DECIDED AS FOLLOWS:

Article 1

The Community shall take the following position within the ACP-EC Council of Ministers on the use of the reserve of the 9th EDF long-term development envelope for debt alleviation, based on the attached draft decision of the ACP-EC Council of Ministers.

Article 2

Minor changes to the draft decision may be agreed without the need for a further decision by the Council.

Done at Brussels,

*For the Council
The President*

ANNEX

Draft

DECISION OF THE ACP-EC COUNCIL OF MINISTERS

on the use of the reserve of the long-term development envelope of the ninth European Development Fund for debt alleviation

THE ACP-EC COUNCIL OF MINISTERS,

Having regard to the ACP-EC Partnership Agreement signed in Cotonou on 23 June 2000, and in particular Paragraph 8 of its Annex I,

Whereas:

- (1) By Decisions Nos 1/1999 of 8 December 1999, 2/2001 of 20 December 2001 and 3/2002 of 23 December 2002, the ACP-EC Council of Ministers allocated resources to debt alleviation mechanisms in favour of highly indebted poor ACP countries for a total amount of €1 185 million. From this amount, €545 million was earmarked for alleviation of outstanding debt and debt servicing obligations to the Community and €680 million as a contribution to the HIPC Trust Fund administered by the International Development Association.
- (2) To ensure continued support for debt alleviation mechanisms in favour of highly indebted poor ACP countries, it is appropriate to allocate supplementary resources to intra-ACP co-operation for a total amount of €335 million. However, the envelope for regional co-operation and integration as defined in Article 3(b) of annex I to the ACP-EC Partnership Agreement is exhausted. The necessary resources will therefore be transferred from unallocated resources of the 9th EDF long term development envelope.

HAS DECIDED AS FOLLOWS:

Article 1 – Debt relief

An amount of €335 million shall be transferred from unallocated resources of the 9th EDF long-term development envelope to the intra-ACP allocation under the envelope for regional co-operation and integration, and used for debt relief in favour of ACP countries that are eligible under the initiative in favour of Highly Indebted Poor Countries (HIPC), in accordance with Article 66 of the ACP-EC Partnership Agreement. This amount can be used for the following purposes:

- meeting the outstanding debt and debt servicing obligations to the Community of ACP countries that are eligible under the HIPC initiative (€135 million);
- contributing to the financing of the HIPC Trust Fund to the benefit of ACP Countries (€200 million).

Article 2

In accordance with Article 13(2) of Annex IV to the ACP-EC Partnership Agreement, the ACP Council of Ministers requests the Commission to finance support for debt relief for a total amount of €335 million, as defined in Article 1 of the present decision.

Done at Brussels,

*For the ACP-EC Council of Ministers
The President*