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COMMUNICATION FROM THE COMMISSION

EUROPEAN DEVELOPMENT FUND (EDF)

Estimate of commitments and payments and of contributions to be paid by the Member States for 2004 and 2005

Forecast of commitments and payments for 2006 to 2009

INTRODUCTION

The Commission draws up this communication to the Council each year in accordance with Article 8 of the Financial Regulation applicable to the 9th European Development Fund (EDF). Its purpose is to provide an estimate of payments for the following financial year (in this case 2005) and set out the schedule of calls for contributions, taking into account the estimates of the European Investment Bank (EIB) for the operations which it manages. As provided for in Article 8 of the Financial Regulation, the communication also gives estimates of commitments and payments for each of the following four years (2006 to 2009). It starts with an update of the EDF expenditure estimate for the current year (2004).

Since the entry into force of the 9th EDF in 2003 the Member States have made direct contributions to the EIB for the 9th EDF instruments it manages (the Investment Facility and interest-rate subsidies), while contributions for the old instruments managed by the EIB (risk capital and interest-rate subsidies) still go through the Commission. This communication therefore draws a clear distinction between EIB payments under the 9th EDF, and Commission payments (including those for the old instruments managed by the EIB).

SUMMARY

For each of the ACP countries¹ and OCTs² the Commission has updated its forecast commitments and payments for the years 2004 and 2005. As in 2003, the Commission has taken great care with the payments estimate so as to (i) minimise the risk of Member States' earmarking too great an amount in their national budgets; while (ii) ensuring that the EDF is adequately funded and that there are no liquidity problems of the type encountered at the end of 2003 and in May this year. As usual these estimates will be reviewed in next year's communication.

The EIB has also updated its forecasts. The full figures are set out in this communication.

Commitments in 2004 and 2005³

The Commission can confirm the estimate it gave for **2004** in its May communication (EUR 2 850 million).⁴ The EIB's figures for the Investment Facility have been revised downwards (from EUR 500 million to EUR 335 million).⁵ The combined volume of commitments for the Commission and the EIB is EUR 3 185 million.

The EIB has maintained its estimate for **2005** (EUR 555 million). The Commission, however, has had to revise its own sharply upwards (to EUR 3 500 million) compared with both its May estimate (EUR 2 875 million) and that for 2004 (EUR 2 850 million). The combined commitments of the Commission and the EIB total an estimated EUR 4 055 million, a figure that does not take account of any mobilisation of the remaining balance (EUR 750 million) of the EUR 1000 million in conditional resources.

The following table shows the trend in commitments since 2000. The period 2000 to 2002 was the second part of the 8th EDF commitments cycle (which reached a record peak in 2000 and then declined markedly in 2001 and 2002). The ratification of the Cotonou Agreement in 2003 saw commitments kick off fast (EUR 4 127 million), followed by a slight slowing in 2004 (EUR 3 185 million). They will rise again in 2005 (EUR 4 055 million).

¹ African, Caribbean and Pacific States.

² Overseas Countries & Territories.

³ These are new commitments, not including decommitments.

⁴ Communication from the Commission to the Council: financial information on the European Development Funds (COM(2004) 382 final of 25.05.2004).

⁵ Including interest-rate subsidies.

Table 1: state of commitments (€ million)

	2000	2001	2002	2003	2004	2005
Total managed by the Commission, of which:	4.007	1.921	2.115	3.761	2.850	3.500
A. Special measures						
<i>STABEX</i>	373	0	0	0	0	0
<i>HIPC (debt reduction)</i>	1.029	0	60	460	0	0
<i>Global Health Fund</i>				170	0	0
Subtotal	1.402	0	60	630	0	0
B. Normal measures	2.605	1.921	2.055	3.131	2.850	3.500
Total managed by the EIB ⁶					335	555
GRAND TOTAL COM + EIB	4.007	1.921	2.115	4.127	3.185	4.055

Payments in 2004 and 2005

The Commission's updated calculation of payments in **2004**, EUR 2 475 million, confirms the estimate it presented in May. The EIB's payment estimates, like its commitments, have been revised downwards (EUR 90 million against the May estimate of EUR 168 million) as disbursements have been slow as a result of time-lags between the signing of contracts and the actual payments phase.

In **2005** the Commission and the EIB expect to pay out the amount estimated in May and this should be the first year that payments approach the EUR 3 billion mark (EUR 2 760 for the Commission and EUR 235 million for the EIB).

The Commission wishes to stress that the volume of EDF payments has risen markedly in recent years. And this is not simply due to the use of high-disbursing instruments like Stabex, the HIPC and the Global Health Fund. This trend is evident in the table below.

⁶ 9th EDF instruments (Investment Facility and interest-rate subsidies).

Table 2: state of payments (€ million)

	2000	2001	2002	2003	2004	2005
Total managed by the Commission, of which:	1.640	2.124	1.902	2.427	2.475	2.760
A. Special measures						
<i>STABEX</i>	82	353	2	191	-	-
<i>HIPC (debt reduction)</i>	356	350	180	209	100	200
<i>Global Health Fund</i>				170	-	-
Subtotal	439	703	182	570	100	200
B. Normal measures	1.202	1.421	1.721	1.857	2.375	2.560
Total managed by the EIB ⁷ :				4	90	235
GRAND TOTAL COM + EIB	1.640	2.124	1.902	2.431	2.565	2.995

Calls for contributions in 2004 and 2005

Since the estimate of the Commission's total payments for **2004** is unchanged, there is no change in the proposed amount of the last tranche of the contributions (EUR 490 million). The EIB confirms that it does not need any additional funds in 2004. The total amount of contributions for the Commission and the EIB over the year is thus EUR 2 440 million, exactly what was announced in the October 2003 communication.⁸ The request for EUR 490 million from the contributing Member States is thus as expected.

The Commission's payments forecast for **2005** is the same as last May's: it will need contributions of EUR 2 700 million from the Member States to cover the whole year (this takes account of estimated revenue of EUR 55 million in recoveries and interest). Having made a detailed calculation of the pattern of payments, the Commission is asking the Member States to pay an initial tranche of EUR 1 500 million, hoping by so doing to avoid a cash shortfall like last May's, which could jeopardise the operation of the Fund. The Commission must be able to honour its obligations to countries that are among the poorest. The EIB, thanks to what is likely to be a healthy balance at the end of the year, is asking for a relatively small sum to cover the whole year (EUR 155 million against the EUR 207 million forecast in May), of which EUR 60 million for the first 2005 tranche.

At this stage the Commission and the EIB estimate that they will need EUR 800 million and EUR 55 million respectively for the second 2005 tranche, and EUR 400 million and EUR 40 million for the last tranche. Revised estimates for these two tranches will be given in the June communication.

⁷ 9th EDF instruments (Investment Facility and interest-rate subsidies)

⁸ Communication from the Commission - European Development Fund (EDF) - Estimate of decisions, payments and contributions to be paid by the Member States for 2003 and 2004 and Forecast of decisions and payments for the period 2005 to 2008 (COM(2003) 720 final of 21.11.2003).

The future

The Commission and the EIB reiterate their pledge to commit the funds made available under the Cotonou Agreement (including the balances remaining from the 6th, 7th and 8th EDFs that were transferred to the 9th EDF) by the end of 2007. This, however, presupposes that the political situation in all ACP countries is such as to provide the conditions needed for disbursing funds. The cooperation agreements (Lomé and Cotonou) are rooted in the principle of partnership between the Union and the ACP countries, which means that implementation of the EDF depends on the absorption capacity (political stability, quality of governance, etc.) of the ACP countries. Note finally that utilisation of the funds made available by the Cotonou Agreement will also depend on the results of any reallocation of funds. Detailed figures based on the assumption of full use of the available funds can be found in Table 5.

1. FINANCIAL IMPLEMENTATION FORECASTS FOR 2004 AND 2005

1.1. Commitments

1.1.1. 2004

NB. In the May communication⁹ the Commission and the EIB estimated total new commitments in 2004 of EUR 3 350 million, broken down as follows:

- EUR 500 million for the instruments managed by the EIB under the 9th EDF, and
- EUR 2 850 million for instruments managed by the Commission.

Situation at 31.08.2004 and outlook for the end of the year:

- At the end of August the EIB had committed a total of €127 million under the Investment Facility (9th EDF). On the basis of projected commitments for the rest of the year, it has revised downwards its forecast for 2004 as a whole (from EUR 500 million to EUR 335 million).¹⁰
- In the case of instruments managed by the Commission (including the old EIB instruments), EUR 1 299 million had been committed at 31 August, 45% of the end-of-year target (EUR 2 850 million). At the same period in previous years commitments stood at a mere EUR 675 million (2003) and EUR 443 million (2002). Note that the commitment procedure means that a large number of pending commitments accumulate in the first half of the year. Most are project proposals in the course of adoption by the Commission that require consultation with the Member States. At the end of August these proposals stood at EUR 966 million, bringing the total of finalised and pending commitments to EUR 2 265 million, 79% of the target.
- Having carried out a fresh project-by-project analysis, and keeping in mind the degree of uncertainty still surrounding some projects, the Commission estimates that it will be able to achieve the target set in May, namely EUR 2 850 million.

The EUR 75 million earmarked for the Water Facility in May shortly after the Council's decision is a provisional figure. Since then a Task Force has been set up and talks have been under way with the Member States, the NGOs and private sector since July. We can now give firmer figures. The new estimate of commitments under the new initiative is EUR 3 million.

⁹ Communication from the Commission to the Council: financial information on the European Development Funds (COM(2004) 382 final of 25.05.2004).

¹⁰ Of which €10 million for interest-rate subsidies.

1.1.2. 2005

In the May communication the Commission and the EIB forecast a joint total of €3 420 million, of which €545 million for the EIB (9th EDF) and EUR 2 875 million for the Commission.

The Bank's revised figure of EUR 555 million¹¹ is not much different, whereas the Commission is predicting a big jump from EUR 2 875 million to EUR 3 500 million. It should be stressed again that these figures do not take account of any Council decision to mobilise some or all of the remaining EUR 750 million of the EUR 1 000 million in conditional resources.

After the record total of 2003, EUR 4 127 million, the volume of new projects in 2004 will be smaller. But recent estimates made at headquarters and on the ground point to a new rise in 2005.

1.2. Payments

1.2.1. 2004

NB. In the May communication the Commission and the EIB estimated total payments in 2004 at EUR 2 623 million, broken down as follows:

- EUR 168 million for the instruments managed by the EIB under the 9th EDF (down on the October 2003 estimate of EUR 260 million);
- EUR 2 455 million for the Commission, of which EUR 170 million for the old EIB instruments. An indicative sum of EUR 10 million was entered for the Water Facility. But with no firm prospect of any operations under the Peace Facility, no sum has been entered under this heading. The figure of EUR 2 455 million is well up (10%) on the October 2003 estimate of EUR 2 240 million.

Situation at 31.08.2004 and outlook for the end of the year:

- At the end of August the EIB had paid out EUR 41 million under the 9th EDF. On the basis of the contracts already signed or in the pipeline by the end of the year it believes that the EUR 168 million forecast for 2004 is too high a figure and has revised it down to EUR 90 million.
- The Commission had made payments of some EUR 1 364 million by the end of August, 56% of the end-of-year target set in May (EUR 2 455 million). Payments, like commitments, were significantly up on the figures for the same period in the previous two years (end August 2003 EUR 973 million, end August 2002 EUR 829 million). This was not simply because 2004 kicked off with payment of some EUR 270 million outstanding from 2003 but also sign of a sustained pace of disbursement.

The objective set in May has been confirmed by the updated country-by-country forecast ((ACP and OCT). The updated total is EUR 2 475 million, of which

¹¹ Of which €60 million for interest-subsidies.

EUR 170 million for the old instruments managed by the EIB (risk capital and interest-rate subsidies) and EUR 22 million for the Peace Facility, above all for operations in Darfur and Central Africa. There will not be any significant payments for the Water Facility before the end of the year.

- To sum up, the Commission confirms its May estimate while the EIB's has been revised downwards. Total payments (Commission + EIB) are thus EUR 2 565 million against the May estimate of EUR 2 623 million.

1.2.2. 2005

In the May communication payments were estimated at EUR 2 975 million, of which EUR 240 million for the 9th EDF instruments managed by the EIB and EUR 2 735 million for the Commission, including EUR 85 million for the old EIB instruments and an indicative figure of EUR 150 million for the Water Facility as a precautionary measure.

The EIB's updated estimate of requirements under the 9th EDF is EUR 235 million, not much different from the earlier estimate (EUR 240 million).

The same goes for the Commission's fresh estimate of total payments in 2005 (EUR 2 760 million against EUR 2 735 million in May). Payments under the old EIB-managed instruments have been revised up (EUR 135 million against EUR 85 million). It is hard to estimate a figure for the Peace Facility by the very nature of the instrument: EUR 61 million has been entered. On the basis of proposals under way, the forecast for the Water Facility is EUR 57 million (against the preliminary May figure of EUR 150 million).

To sum up, the combined Commission and EIB estimates now total EUR 2 995 million.

The table overleaf gives an overview of commitments and payments made in 2003 and the forecasts for 2004 and 2005.

Table 3

Overview of commitments and payments, booked and forecast (2003, 2004 and 2005).

€ million

	Pro memoria 2003	2004			2005		
		May forecast	2004	October updated forecast	2004	May forecast	2004
COMMITMENTS							
Standard Commission instruments	3761	2525		2597	2650		3303
Peace Facility	-	250		250	-		
Water Facility	-	75		3	225		197
Total for the Commission	3761	2850		2850	2875		3500
EIB instruments (9th EDF)	366	500		335	545		555
TOTAL	4127	3350		3185	3420		4055
PAYMENTS							
Standard Commission instruments	2192	2275		2282	2500		2507
Old EIB instruments	235	170		170	85		135
Peace Facility	-	pm		22	pm		61
Water Facility	-	10		1	150		57
Total for the Commission	2427	2455		2475	2735		2760
EIB instruments (9th EDF)	4	168		90	240		235
TOTAL	2431	2623		2565	2975		2995

2. ESTIMATED CASH POSITION IN 2004 AND 2005 AND CALLS FOR CONTRIBUTIONS BY THE MEMBER STATES

The table below gives the estimated cash position in 2004 and 2005 on the basis of the above payment estimates

Table 4: estimated cash position in 2004 and 2005 (€ million)

	Commission	EIB	TOTAL
Balance 01/01/2004	82	67	
Late payments of Member States' contributions for 2003	96	8	104
2004 contributions paid before 31 December 2003	-1		-1
Member States' contributions for 2004:	2 315	125	2 440
<i>1st tranche (already paid by the Member States)</i>	725	125	850
<i>2nd tranche (already paid by the Member States)</i>	1 100	0	1 100
<i>3rd tranche (proposal)</i>	490	0	490
Interest	5		5
Transfer from Stabex account	10		10
Recoveries	50		50
Payments	-2 475	-90	-2 565
Balance 31.12.2004	82	111	
Member States' contributions for 2005:	2 700	155	2 855
<i>1st tranche (proposal)</i>	1 500	60	1 560
<i>2nd tranche (proposal)</i>	800	55	855
<i>3rd tranche (proposal)</i>	400	40	440
Interest	5		5
Recoveries	50		50
Payments	-2 760	-235	-2 995
Balance 31.12.2005	77	31	

2.1. The last tranche of the 2004 contributions

- The EIB confirms that it will not need additional resources for 2004. Some new instruments are starting up more slowly than forecast and the funds already called up in 2003 and early this year will suffice. The amount remaining at the end of the year is estimated at EUR 111 million.
- Since the payments estimate differs little from the May forecast, the Commission confirms its call for EUR 490 million for the last tranche of 2004. It emphasises that this tranche will make for an end-of year cash position of some EUR 80 million, which, compared to levels prior to 2002 (hundreds of millions of euro), is the minimum necessary for normal operation of the EDF.
- The total call for contributions for both institutions for the whole year is EUR 2 440 million, exactly the amount forecast by the Commission in its communication of October last year.¹² The Commission therefore believes that payment of this last tranche should not pose budgetary problems for the Member States. The EIB has lowered its requirements (from EUR 260 million to EUR 125 million) but this is fully offset by the Commission's increased estimate and therefore makes no difference to the cash position.

Annex 1 sets out the three calls for contributions in 2004, by Member State.

2.2. Calls for contributions in 2005

- The EIB should start the year with a healthy cash surplus (put at EUR 111 million) and so the 2005 contributions can be reduced accordingly to EUR 155 million (against the May estimate of EUR 207 million). The funds available at the beginning of the year should also reduce the first call to EUR 60 million, which should cover requirements until the second call, which is likely to be around 27 July. The second and third calls are estimated at EUR 55 million and EUR 40 million respectively, giving a surplus of EUR 31 million for the whole year, which will be needed to ensure normal management of disbursements until the first 2006 contribution becomes available towards 21 January.
- With revenue of some EUR 55 million in recoveries and interest, the Commission will require funds of EUR 2 700 million for 2005; having made a detailed country-by-country analysis the Commission estimates that it will need EUR 1 500 million for the first tranche. This is a very high figure historically. The main reason is that the total amount of annual contributions is rising year on year (EUR 2 700 million for the Commission in 2005, EUR 2 120 million in 2003 and EUR 1 500 million in 2002) And having had the unhappy experience of a shortfall in funds at the end of 2003 and in May this year, the Commission would like to ensure that there will be no shortfall in 2005 and that it will be able to honour its obligations to the ACP countries and OCTs.

The table in Annex 2 sets out the 2005 calls for contributions, by Member State.

As usual, the second and third tranches may be adjusted up or down in line with real requirements at the time of the call for contributions.

¹² Communication from the Commission to the Council: financial information on the European Development Funds (COM(2003) 353 final of 13.06.2003).

3. EDF EXPENDITURE FORECASTS 2006 TO 2009

On the question of commitments, the Commission and the EIB reiterate their pledge to do everything in their power to mobilise the funds made available under the 9th EDF (including transfers from old Funds) by the end of 2007. It is clear that achievement of this objective is not up to the Commission and the EIB alone. Indeed, the very nature of the cooperation agreements (Lomé and Cotonou), namely the fact that they are based on partnership, means that the rate at which the EDF is implemented will depend on the absorption capacity of the ACP countries (sufficiently stable political situation, minimum governance, etc). Although the Commission endeavours to give national authorising officers as much technical assistance as possible, it cannot actually act for the ACP country. Another determining factor will be any reallocation of funds following the mid-term reviews of 2004 and the final reviews in 2006. If allocations are not redirected to the best-performing countries, the goal will not be achieved. The forecast commitments for the period 2006-2007 are in line with the Commission's aim to commit all 9th EDF funds (including the remaining balances of the previous EDFs) by the end of 2007. The remaining EUR 750 million in conditional resources have not been taken into account. Since the Commission is proposing to budgetise the EDF, no forecasts are presented for 2008 and 2009.

While it is difficult to make reliable long-term estimates for commitments, it is even harder for payments because the payments rate is dictated by factors over which the Commission has no control. In the case of projects, estimates are crucial at the design and decision phase but they play only an ancillary role during implementation. The pace at which budgetary aid, which accounts for an increasing proportion of all aid, is disbursed also depends on factors not easily controllable, such as the economic situation and the political stability of the countries concerned.

On the basis of the payment rates under previous Funds, and taking into account the expected beneficial impact of the reform of the Commission's external service, in particular the devolution of management to ACP State level, the Commission and the EIB's forecast for payments is as follows. (The significant reduction in payments in 2008 and 2009 is based on the assumption that the EDF will be budgetised. This reduction would be offset by payments from the budget.)

Table 5

Forecast EDF commitments and payments 2006-2009

€ million

	2006	2007	2008	2009
Commitments	3 500	2 750	p.m.	p.m.
Payments	3 400	3 100	2 900	2 650

ANNEX 1

Contributions to the EDF for 2004 by Member State (in euros)

COUNTRY	SCALE	1st tranche		2nd tranche		3rd tranche		TOTAL tranches
	8th EDF %	paid to the EIB	paid to the Commission	paid to the EIB	paid to Commission	to be paid to the EIB	to be paid to the Commission	
GERMANY	23,36	29 200 000	169 360 000	0	256 960 000	0	114 464 000	569 984 000
BELGIUM	3,92	4 900 000	28 420 000	0	43 120 000	0	19 208 000	95 648 000
DENMARK	2,14	2 675 000	15 515 000	0	23 540 000	0	10 486 000	52 216 000
SPAIN	5,84	7 300 000	42 340 000	0	64 240 000	0	28 616 000	142 496 000
FRANCE	24,30	30 375 000	176 175 000	0	267 300 000	0	119 070 000	592 920 000
GREECE	1,25	1 562 500	9 062 500	0	13 750 000	0	6 125 000	30 500 000
IRELAND	0,62	775 000	4 495 000	0	6 820 000	0	3 038 000	15 128 000
ITALY	12,54	15 675 000	90 915 000	0	137 940 000	0	61 446 000	305 976 000
LUXEMBOURG	0,29	362 500	2 102 500	0	3 190 000	0	1 421 000	7 076 000
NETHERLANDS	5,22	6 525 000	37 845 000	0	57 420 000	0	25 578 000	127 368 000
PORTUGAL	0,97	1 212 500	7 032 500	0	10 670 000	0	4 753 000	23 668 000
UNITED KINGDOM	12,69	15 862 500	92 002 500	0	139 590 000	0	62 181 000	309 636 000
AUSTRIA	2,65	3 312 500	19 212 500	0	29 150 000	0	12 985 000	64 660 000
FINLAND	1,48	1 850 000	10 730 000	0	16 280 000	0	7 252 000	36 112 000
SWEDEN	2,73	3 412 500	19 792 500	0	30 030 000	0	13 377 000	66 612 000
TOTAL	100,00	125 000 000¹³	725 000 000	0	1 100 000 000	0	490 000 000	2 440 000 000

¹³ Of which €5 million in interest-rate subsidies.

ANNEX 2

Contributions to the EDF for 2005 by Member State (in euros)

COUNTRY	SCALE 8th EDF %	1st tranche		2nd tranche		3rd tranche		TOTAL tranches
		To be paid to the EIB	To be paid to the Commission	To be paid to the EIB	To be paid to the Commission	To be paid to the EIB	To be paid to the Commission	
GERMANY	23,36	14 016 000	350 400 000	12 848 000	186 880 000	9 344 000	93 440 000	666 928 000
BELGIUM	3,92	2 352 000	58 800 000	2 156 000	31 360 000	1 568 000	15 680 000	111 916 000
DENMARK	2,14	1 284 000	32 100 000	1 177 000	17 120 000	856 000	8 560 000	61 097 000
SPAIN	5,84	3 504 000	87 600 000	3 212 000	46 720 000	2 336 000	23 360 000	166 732 000
FRANCE	24,3	14 580 000	364 500 000	13 365 000	194 400 000	9 720 000	97 200 000	693 765 000
GREECE	1,25	750 000	18 750 000	687 500	10 000 000	500 000	5 000 000	35 687 500
IRELAND	0,62	372 000	9 300 000	341 000	4 960 000	248 000	2 480 000	17 701 000
ITALY	12,54	7 524 000	188 100 000	6 897 000	100 320 000	5 016 000	50 160 000	358 017 000
LUXEMBOURG	0,29	174 000	4 350 000	159 500	2 320 000	116 000	1 160 000	8 279 500
NETHERLANDS	5,22	3 132 000	78 300 000	2 871 000	41 760 000	2 088 000	20 880 000	149 031 000
PORTUGAL	0,97	582 000	14 550 000	533 500	7 760 000	388 000	3 880 000	27 693 500
UNITED KINGDOM	12,69	7 614 000	190 350 000	6 979 500	101 520 000	5 076 000	50 760 000	362 299 500
AUSTRIA	2,65	1 590 000	39 750 000	1 457 500	21 200 000	1 060 000	10 600 000	75 657 500
FINLAND	1,48	888 000	22 200 000	814 000	11 840 000	592 000	5 920 000	42 254 000
SWEDEN	2,73	1 638 000	40 950 000	1 501 500	21 840 000	1 092 000	10 920 000	77 941 500
TOTAL	100	60 000 000	1 500 000 000	55 000 000 ¹⁴	800 000 000	40 000 000	400 000 000	2 855 000 000

¹⁴ Of which €5 million in interest-rate subsidies.