



COMMISSION OF THE EUROPEAN COMMUNITIES

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CORRIGENDUM:

Annule et remplace la footnote 14.

Concerne les version EN et DE.

### **COMMUNICATION FROM THE COMMISSION TO THE COUNCIL**

**(1) on a multi-annual financial framework for development finance cooperation under the ACP-EU Partnership Agreement and (2) on a related draft Proposal for a Council Decision fixing the date beyond which the funds of the 9th European Development Fund will no longer be committed**

Proposal for a

### **COUNCIL DECISION**

**fixing the deadline for the commitment of the funds of the 9th European Development Fund (EDF)**

(presented by the Commission)

## COMMUNICATION FROM THE COMMISSION TO THE COUNCIL

### **(1) on a multi-annual financial framework for development finance cooperation under the ACP-EU Partnership Agreement and (2) on a related draft Proposal for a Council Decision fixing the date beyond which the funds of the 9<sup>th</sup> European Development Fund will no longer be committed**

#### EXECUTIVE SUMMARY

In October 2003, the Commission issued a communication on the full integration of cooperation with African, Caribbean and Pacific Countries (ACP) and Overseas Countries and Territories (OCT) into the EU budget, calling on the Council and the European Parliament to support the “budgetisation” of the European Development Fund (EDF)<sup>1</sup>. The European Parliament has expressed itself in favour of budgetisation but so far the EU Council has not taken a final position. Meanwhile, the Council directives for negotiations on the revision of the ACP-EC Partnership Agreement request to “*make the preparations necessary to pursue both options, integration and a 10th EDF*” and to complete the negotiations by 28 February 2005<sup>2</sup>. The Joint ACP-EU Council of Ministers in Gaborone on 7 May 2004 confirmed that, pending a decision on budgetisation, the Commission should propose a 10th EDF.

The proposed budgetisation has been incorporated into the Financial Perspectives 2007-2013<sup>3</sup> and in the Communication on the Instruments for External Assistance under the Future Financial Perspectives 2007-2013 and in the Proposals for a Regulation of the European Parliament and the Council establishing an instrument for financing development cooperation and economic cooperation and an instrument for stability<sup>4</sup>.

The ACP-EU Partnership Agreement provides for an assessment of the degree to which funds have been committed and disbursed as a basis for evaluating the need for new resources after the expiry of the existing financial protocol, which covers the period 2000-2007<sup>5</sup>. The EU has further specified that in evaluating this need, full account must be taken of the date beyond which the 9th EDF funds will not be committed<sup>6</sup>.

This Communication therefore assesses the 9th EDF performance and explains in detail the financial perspectives for development finance cooperation under the ACP-EU Partnership Agreement. In conclusion, the Communication recommends that the Council (i) adopt the attached draft decision fixing 31 December 2007 as the date beyond which the 9th EDF funds will no longer be committed, and (ii) authorise the Commission to formally communicate to

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<sup>1</sup> COM(2003)590, 8.10.2003.

<sup>2</sup> Negotiation Directives adopted by the Council, 28.04.2004.

<sup>3</sup> COM(2004)101, 26.02.2004 on Building our Common Future and COM(2004)487, 14.07.2004 on Financial Perspectives 2007-2013.

<sup>4</sup> COM(2004)626, 629 and 630, 29.09.2004.

<sup>5</sup> ACP-EC Partnership Agreement, Financial Protocol, Annex I.7.

<sup>6</sup> EU Declaration on the Financial Protocol, attached as Declaration XVIII to the ACP-EC Partnership Agreement and Internal Agreement, article 2(4), OJ L 317, 15.12.2000.

the ACP Group the financial package proposed for development finance cooperation under the ACP-EU Partnership Agreement under the future financial perspectives 2007-2013.

## 1. INTRODUCTION

The European Union maintains privileged trade and development cooperation relations with the African, Caribbean and Pacific (ACP) group of developing countries through the ACP-EU Partnership Agreement, signed in Cotonou on 23 June 2000 for a period of 20 years from 1 March 2000.

The development finance cooperation component of the Cotonou Agreement is financed from the European Development Fund (EDF), defined by a financial protocol for each five-year period. The total amount of the first five-year financial protocol (the 9th EDF), supplemented by the balances transferred from the previous EDFs, covers the period 2000-2007. This financial protocol is attached to the Cotonou Agreement as Annex 1 and forms an integral part of the Agreement.

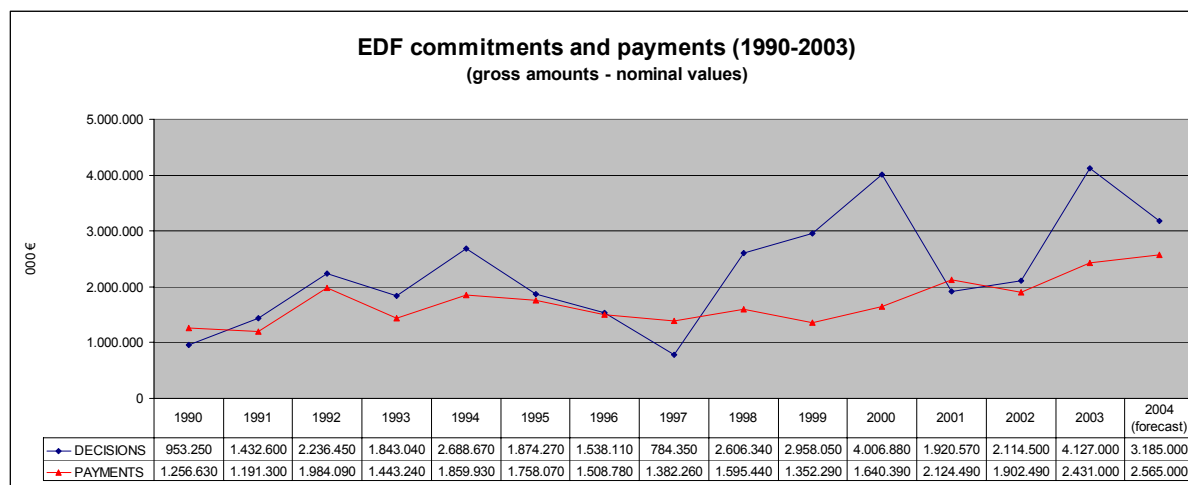
The Cotonou Agreement included some major changes in the ACP-EU partnership, including a reduction in the number of cooperation instruments, the concentration of interventions in focal sectors and improved programming based on strategy papers and measurable results-oriented performance indicators.

Taking the view that budgetisation of the EDF would further underpin the underlying objectives of the innovations in the Cotonou Agreement and of internal reforms in the organisation of the delivery of the European Commission's aid to third countries, and that it would contribute to a more visible, coherent and effective European cooperation policy, in October 2003 the Commission submitted a communication to the Council and the Parliament on full integration of cooperation with the ACP and the Overseas Countries and Territories (OCT) in the EU budget. Budgetisation of the EDF was integrated in the preparation of the Financial Perspectives 2007-2013, and, in September 2004, the Commission incorporated it into the instruments for External Assistance under the proposal for the future Financial Perspectives 2007-2013.

So far, the EU Council has not taken a final position on budgetisation. The negotiating directives for the revision of the Cotonou Agreement state that pending such a decision, *the Commission will make the preparations necessary to pursue both options: budgetisation and a 10th EDF*. The Joint ACP-EU Council of Ministers in Gaborone on 7 May 2004 confirmed that, pending a decision on budgetisation, the Commission should propose a 10th EDF. Irrespective whether the aid is delivered under the Budget or the EDF, the level of aid to the ACP should be the same and mirror the scenario integrated in the Financial Perspectives 2007-2013. However, it is and remains the conviction of the Commission that budgetisation is the better answer in terms of higher political visibility and greater effectiveness, faster responsiveness and better cost-efficiency. The ACP partners will be the first to benefit from this option.

## 2. EDF FINANCIAL PERFORMANCE

The Cotonou Agreement specifies that the need for new resources must be based on an assessment of the degree to which the 9th EDF funds have been committed and disbursed and the date beyond which they will not be committed<sup>7</sup>.



As shown in the table, the performance of the EDF in 2003 was its best ever. This positive evolution was not only due to non-recurrent one shot operations; the upward trend in disbursements in particular, already noticed in previous years, is confirmed by the provisional figures for 2004. These encouraging results were achieved despite the fact that cooperation with a number of ACP countries was hampered by political uncertainty or crises and/or the after-effects of natural disasters.

Considering the transfers to date of balances from the previous EDFs (€2 617 million) and taking into account the release of a part of the 'conditional billion' for the launch of the EU Water Facility (€250 million)<sup>8</sup>, the total amount of funding available under the consolidated 9<sup>th</sup> EDF to date is €15 367 million.

Of this amount, €4 855 million were already committed by the end of September 2004. Taking into consideration the additional commitments expected in the last quarter of 2004, by year end only €9 345 million will remain uncommitted, or, on average, €3 115 million per year over the remaining period of the 9<sup>th</sup> EDF. Considering decommitments on ongoing programmes which averaged +/- €320-340 million over the last 5 years, the gross level of yearly commitments required to absorb the unallocated 9th EDF balances is approximately €3 445 million. This compares to an average gross commitment level of €3 656 million over the last two years (2003-'04).

EuropeAid updated its forecasts<sup>9</sup>, supporting the view that the 9th EDF, including the balances of all previous EDFs and the first instalment of €250 million of the Water Facility,

<sup>7</sup> For a more detailed assessment of financial performance to date, see Annex 1.

<sup>8</sup> Declaration XVIII attached to the ACP-EC Partnership Agreement and the Internal Agreement, article 2(2) specify that out of the overall amount of € 13 500 million of the 9th EDF, € 1 000 million shall be released on the basis of a performance review undertaken in 2004. By Council Decision 2004/289 of 22.03.2004 it was agreed to release a first instalment of € 250million out of the 'conditional billion' and to decide on the release of the balances by March 2005.

<sup>9</sup> COM (2004)763, 19.11.2004.

financed out of the ‘conditional billion’, will be fully committed by the end of 2007, the period covered by the 9th EDF.

On this basis the Commission proposes to fix 31 December 2007 as the date beyond which the remaining 9th EDF funds managed by the Commission and the interest subsidies managed by the EIB will not be committed.

### **3. FINANCIAL PERSPECTIVES BEYOND THE 9TH EDF**

#### *The level of Aid*

The level of aid to the ACP should not depend on the choice of instrument; it should be the same, irrespective whether aid is delivered under the Budget or the EDF. It is however clear that, in case of non-budgetisation, by maintaining two separate systems, the administrative burden on the budget will be higher.

In April 2004, the European Parliament adopted a resolution in favour of budgetising the EDF. In its resolution, Parliament reiterates “*the need to ensure...that there is no reduction in the overall value of funds allocated to the EDF following budgetisation*”.

Given that in the more recent past nominal EDF funding has levelled off, and even decreased in real terms in the case of the 9th EDF<sup>10</sup>, the ACP countries have at several occasions expressed concern regarding the future level of aid, particularly in the event of budgetisation.

The Communication on budgetisation therefore expressly proposes that the EDF-equivalent financial envelope earmarked for the ACP in the budget “*will aim as a minimum at maintaining the total level of support to the region currently provided through the EDF and be guided by the general evolution of EU Gross National Income*”.

Based on the uncommitted balances on the previous EDFs at the end of the year preceding the signature of the 9th EDF (€9 800 million at the end of 1999)<sup>11</sup> and the amount of the 9th EDF, including the conditional billion and implementation costs (€13 800 million), a total nominal amount of €23 600 million was available for the period 2000-2007. On the basis of the performance review, the Commission considers it highly probable that the consolidated 9th EDF funds, including the conditional billion, will effectively be fully committed by the end of 2007 as a result of the Community’s improved capacity for committing and disbursing EDF funds. On the basis of Commission estimates of GNI over the same period, this amount represents 0,031% of EU15 GNI and equates to the average absorption capacity for EDF funds under previous EDFs (for detailed figures see Annex 2).

In preparation of the International Conference on Financing for Development at Monterrey, the Barcelona European Council in March 2002, reaffirmed its commitment to achieving the Millenium Development Goals and pledged to examine the means and timeframe for each EU

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<sup>10</sup> From the perspective of the beneficiary countries the situation is even worse: between the 7th EDF and the 9th EDF, real per capita assistance per beneficiary decreased by 30% given population growth of more than 40% (natural growth and expansion of the ACP group) and inflation of more than 25% over the 1990-2000 period.

<sup>11</sup> When Council decided on the 9th EDF, uncommitted balances on previous EDFs was estimated at only € 9 000 million (see annex 2).

Member State to reach the UN target of 0,7% of Gross National Income, with an intermediate target of 0,39% by 2006, by which year the Member States should reach the target of at least 0,33% of GNI individually. Given that the majority of the poorest countries are part of the ACP-group, a coherent EU approach to achieving the Millennium Development Goals should at least imply that EU aid to ACP- countries as a proportion to EU-GNI be maintained. Any further reduction in EU- aid to ACP- countries in relation to EU GNI, at a time when national cooperation budgets are being increased, would represent a substantial shift in EU-aid channels: less Community aid and more bilateral or/and other multilateral forms of aid, with no guarantees on the level of aid for ACP-countries.

Against this background, the proposed Financial Perspectives 2007-2013 assume that the level of aid for actions which are presently EDF funded is equal to 0,031% of EU GNI<sup>12</sup> and that this level of aid comes in addition to the support already given through existing budget lines. These budgetary resources already channelled to the ACP mainly concern humanitarian and emergency aid, the budget line for South Africa and various budget lines in support of specific thematic issues such as food security, fishery agreements, human rights and civil society or addressing environmental problems, and amount to approximately €700million on a yearly basis.

### *Financial perspectives 2007-2013*

In February 2004, the Commission issued a communication to the Council and the European Parliament on policy challenges and budgetary means of the enlarged Union 2007 – 2013<sup>13</sup>. This communication incorporates the principle of integrating cooperation with ACP countries and OCT into the Community budget. These reflections were further expanded in July 2004 in a communication to the Council and the Parliament on the Financial Perspectives 2007-2013<sup>14</sup>. The communication of 29 September 2004 on the Instruments for External Assistance under the Future Financial Perspectives 2007-2013 invites the Council and Parliament to adopt the proposed regulation on the Economic Cooperation and Development Cooperation instrument which will include the core activities of the present EDF, and to adopt the proposed regulation for the Stability instrument which also includes a contribution for actions which are currently financed under the EDF<sup>15</sup>.

Regarding the external assistance heading, the financial perspectives 2007-2013 are based on a simplified structure built around three new instruments corresponding to the overarching external relations policies: pre-accession policy, policy on the neighbourhood countries, and policy on supporting economic cooperation and development cooperation with other countries. These three main policy driven instruments are complemented by three horizontal instruments to address specific needs, in particular in response to crisis situations (the existing macro-financial assistance and humanitarian aid instruments and the new stability instrument). The ACP would benefit from three out of the six instruments:

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<sup>12</sup> The Explanatory Memorandum to COM(2004)629, article 24, refers to COM(2003)519 on budgetisation, which specifies (point 4.3) that an average around 0,031% of GNI “should as a minimum be targeted after budgetisation”.

<sup>13</sup> COM(2004)101, 10;02;2004.

<sup>14</sup> Article 136 of the Financial Regulations applicable to the 9th EDF (OJ L83, 01.04.2003), provides for a reassessment of the resources reserved for implementation costs. COM (2004)487, 14.07.2004.

<sup>15</sup> COM(2004)626, 629 and 630, 29.09.2004.

- The development cooperation and economic cooperation instrument, which covers all countries outside the inner-circle of pre-accession countries and neighbourhood countries plus most horizontal instruments with a predominant development dimension. It will cover the main part of the financial package for support to the ACP currently funded under the EDF. The ACP shall represent more than half of the global financial envelope of this instrument and have a major impact on its developmental nature.
- The humanitarian aid instrument, which will cover ECHO activities. This instrument shall receive a contribution to cover humanitarian and emergency support to the ACP which is currently funded under the EDF<sup>16</sup>.
- The stability instrument, which will include a contribution to peace and security interventions from support currently funded under the EDF, such as the African Peace Facility.

In addition the external assistance heading of the financial perspectives earmarks 4% of operational expenditures for implementation costs, as against the 1% provided for under the 9th EDF base line scenario, which proved structurally insufficient to cover the cost increases resulting from devolution. These implementation costs also include increased provision for enhanced monitoring and evaluation required as a result of the shift to more results-oriented management introduced in recent years in the delivery of the Community aid<sup>17</sup>.

Although the OCTs have so far always been included in the calculation of the EDF, being covered by the Internal Agreement, they are not part of the ACP and are not covered by the financial protocol. The Member State contribution to external assistance to the OCT is therefore not covered by this communication. Under the 9th EDF the share of the OCT in the total EDF amount (€175 million, out of € 13 800 million) is 1,27%. This relative share has been maintained for the Financial Perspectives 2007-2013<sup>18</sup>.

#### Multi-annual framework under the ACP-EU Partnership Agreement

The Commission is proposing to fix 31 December 2007 as the date beyond which the funds of the 9th EDF will no longer be committed, and new commitment appropriations will only be required from 1 January 2008 onwards. The planning horizon of the financial perspectives 2007-2013 may possibly result in lengthening the programming cycle from 5 to 6 years<sup>19</sup>. This would have the advantage of a more balanced timing of the mid-term review at the end of the third year which would allow more significant reallocations where appropriate, and further streamlining of the planning exercise across all policy-driven geographical external assistance instruments.

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<sup>16</sup> See Working Documents of the Commission Services, Multiannual Financial Framework 2007-2013, Fiche 37 on Outstanding Information on Heading 4 of 9.11.2004 and Fiche 39 on The Humanitarian Aid Instrument of 10.11.2004.

<sup>17</sup> Article 136 of the Financial Regulations applicable to the 9th EDF (OJ L83, 01.04.2003), provides for a reassessment of the resources reserved for implementation costs.

<sup>18</sup> See Working Documents of the Commission Services, Multiannual Financial Framework 2007-2013, Fiche 37 of 09/11/2004.

<sup>19</sup> In that case, Article 95 of the Cotonou Agreement will need revision.

For reasons of comparison with the present 9th EDF Financial Protocol, the financial perspectives of the EDF equivalent support to the ACP are expressed in current prices, based on the Commission growth and inflation scenario used for the overall financial perspectives<sup>20</sup>.

The scenario adopted for the overall financial perspectives is based on the assumption that the commitment rate will progressively increase to reach a relative peak in the years just before and just after the mid-term review, falling back to an average relative commitment rate in the last year of the cycle<sup>21</sup>. This scenario is justified as follows:

- as 2006 and 2007 will primarily be focused on the end of term review, the preparation of the new programming cycle and the final commitments under the 9<sup>th</sup> EDF ahead of the proposed sunset clause of 31 December 2007, the commitment rate in the first year of the new multi-annual financial framework can reasonably be expected to be lower than average, contrary to what happened under the 9th EDF;
- the experience gained with the mid-term review confirms that this exercise builds in pressure to commit funds in advance of the review;
- the mid-term and the end of term reviews will again consider performance and absorption capacity and will result in reallocations which will further speed up commitments;
- in the last year of the programming cycle, commitments are wound up and attention shifts again to the next programming cycle.

### Financial perspectives for EDF-equivalent support to the ACP, 2005-2013

*In million €, current prices*

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2008 - 2013
	<i>9th EDF – forecasts</i>										
gross EDF equivalent	3 185	4 305	3 900	2 850	3 445	3 803	4 201	4 391	4 497	4 611	24 948
variation around GNI average					-7,5%	-2,2%	3,5%	3,8%	1,8%	0,0%	
annual average (**)				2 950							4 158
OCT					-43	-49	-53	-56	-57	-59	-317
contribution to stability instrument					-108	-110	-113	-115	-117	-120	-683
contribution to humanitarian aid instr.					-60	-61	-62	-63	-64	-66	-376
gross contribution to DCEC instr. (*)					3 234	3 583	3 973	4 157	4 259	4 366	23 572
implementation costs DCEC (*) (4%)					-130	-143	-159	-166	-170	-175	-943
net contribution to DCEC instr. (*)					3 104	3 440	3 814	3 991	4 089	4 191	22 629

(\*) DCEC = development cooperation and economic cooperation instrument.

<sup>20</sup> The Commission scenario is based on an average yearly inflation rate of 2%, an average yearly real growth rate of 2,3% and assumes that Romania and Bulgaria will join the European Union in 2007.

<sup>21</sup> COM(2004)629, 29.09.2004.



(\*\*) The 9th EDF yearly average of €2 950 million covers the period 2000-'07 and includes the 'conditional billion' (see annex 2).

The proposed financial perspectives for the period 2008-2013 for external assistance currently funded from the EDF, amounts to €24 948 million. On a yearly basis, this is €4 158 million, or a 41% nominal increase compared to the expected commitment rate over the period 2000-'07 (including the balances of the previous EDFs)<sup>22</sup>. The real growth rate is 26% in comparison to the whole 2000-'07 period. This increase can be subdivided in an enlargement effect (5,4%) and a wealth effect resulting from the link with the EU GNI.

#### 4. FUTURE OF THE FINANCIAL PROTOCOL

The EDF equivalent support for the ACP has been anchored in the financial perspectives 2007-2013 and in the regulations to be adopted by the European Parliament and the Council concerning the new external assistance instruments. As a result a new financial protocol annexed to the ACP-EU Agreement confirming an amount for ACP cooperation and a sunset clause setting a deadline at the end of the programming cycle would no longer be required and the ACP-EU Partnership Agreement should be amended accordingly during the ongoing revision.

However, in response to the Council request to prepare an alternative scenario to budgetisation, above information could be transformed in a new financial protocol with following, simplified, content, taking into account that with the introduction of the sunset clause under the 9th EDF, no balances will be transferred:

- Annex I.1 Duration: the present financial protocol ends on 28 February 2005 but covers the amounts for the period until 2007. Any new protocol, commencing on 1 March 2005, will cover the amounts for commitment starting from 1 January 2008 onwards.
- Annex I.2 Financial envelope: see above multi-annual framework.
- Annex I.3 Allocation of the net EDF-equivalent financial protocol over the various instruments: an amount of €1 500 million will be managed by the EIB to complement the capital of the Investment Facility (€1 100million) and to provide for interest subsidies (€400 million), the balances will be managed by the Commission<sup>23</sup>.
- Annex I.4-5 Similar procedural clauses as under the existing Financial Protocol I.7-8.

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<sup>22</sup> This growth rate does not include the ACP participation in the horizontal initiatives which are already funded from the budget and will be further strengthened under the proposed Financial Perspectives 2007-2013.

<sup>23</sup> In line with one of the goals pursued by the negotiations on the revision of the ACP-EU Partnership Agreement, which is to increase flexibility in the management of the EDF funds, it is deemed undesirable to further disaggregate these amounts in an international Treaty nor to refer to the funds provided by the EIB from its own resources.

## **5. THE FINANCIAL IMPACT OF THE PROPOSAL FOR THE MEMBER STATES**

The exact financial impact of the financial perspectives for the period 2008-2013 depends on three factors: the size of the financial envelope requested, the payment profile of committed funds and the contribution of the Member States to EU27 GNI.

- This Communication has consolidated the information regarding the Commission's proposed level of external assistance under the ACP-EC Partnership Agreement in the multi-annual framework of the financial perspectives 2007-2013, consistent with past absorption capacity and experience and the Community's international commitments.
- The payment profile is determined by past experience and the improving implementation record as measured through the RAL indicator;
- The Member States' contributions to the budget are governed by the Council Decision of 29 September 2000 on the system of the European Communities' own resources<sup>24</sup>.

## **6. CONCLUSION**

The Commission invites the Council

- (1) to adopt the proposed Decision in Annex fixing the date beyond which the funds of the 9th EDF will not be committed;
- (2) to authorise the Commission to formally inform the ACP about the level of aid proposed for the development finance cooperation under the ACP-EU Partnership Agreement under the future financial perspectives 2007-2013.

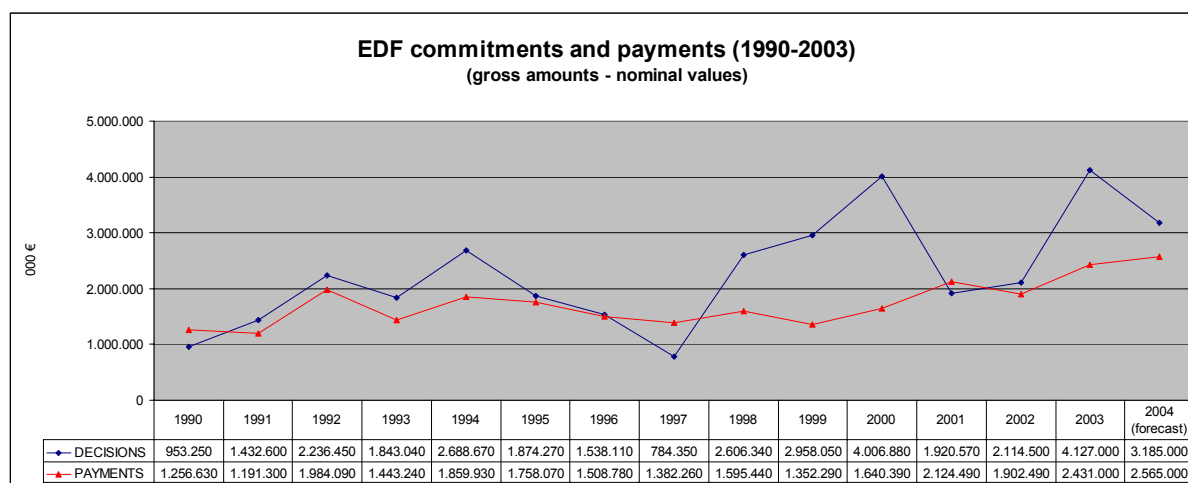
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<sup>24</sup> OJ L253, 7.10.2000, Article 2(d).

## ANNEX 1

### EDF FINANCIAL PERFORMANCE

The Cotonou Agreement specifies that the need for new resources must be based on an assessment of the degree to which the 9<sup>th</sup> EDF funds have been committed and disbursed and the date beyond which they will not be committed.



As shown in the table, the performance of the EDF in 2003 was its best ever. This positive evolution was not only due to non-recurrent one shot operations; the upward trend in disbursements in particular, already noticed in previous years, is confirmed by the provisional figures for 2004. These encouraging results were achieved despite the fact that cooperation in a number of ACP countries was hampered by political uncertainty or crises and/or the after-effects of natural disasters.

#### Commitments

In 2003, the Commission committed €3 761 million. In addition, the EIB which manages 9th EDF funds for the new Investment Facility entirely independently, committed €366 million. This brings total commitments in 2003 to €4 127 million.

EDF commitments have traditionally followed a cyclical pattern, with high levels of commitments in the first years which then level off. The historic level of commitments in 2003 could therefore partially be explained by the fact that it was the beginning of a new commitment cycle, following the entry into force of the Cotonou agreement. Based on the figures available at the end of the third quarter of 2004 and the pipeline of programmes subject to appraisal, the level of regular commitments will fall back in 2004, to pick up again in 2005 and then decrease gradually from 2006<sup>25</sup>. This dip in the 2004 figure can probably be

<sup>25</sup> COM(2004)763 of 19 November 2004 on the European Development Fund (EDF), Estimate of decisions, payments and contributions to be paid by the Member States for 2004 and 2005 and forecast of decisions and payments for the period 2006 to 2009. After the forecasts were finalized, it appeared that the approval of some large financing proposals risked being delayed beyond 2004 due to political and economic governance issues. Total commitments in 2004 may therefore be overestimated by up to €250 million depending on factors outside the control of the Commission.

explained partly by the huge effort made in 2003, shifting attention from programming to implementation issues, but also by the major staff redeployment resulting from the final stage of the devolution exercise<sup>26</sup>. The programming pipeline, assessed in a series of regional seminars in early 2004 and reexamined during the mid-term review process, also suggests that the level of commitments will pick up again sharply in 2005.

#### COMMITMENTS

	<i>million €</i>					
	2000	2001	2002	2003	2004 <sup>e</sup>	2005 <sup>e</sup>
TOTAL managed by COM	4 007	1 921	2 115	3 761	2 850	3 500
of which (1)						
A. Special operations						
- STABEX	373					
- HIPC	1 029		60	460		
- Global Health Fund GFATM				170		
- Peace Facility					250	
- Water facility					3	247
Subtotal	1 402		60	630	253	247
B. Regular commitments	2 605	1 921	2 055	3 131	2 597	3 253
TOTAL managed by EIB (2)				366	335	555
<b>GRAND TOTAL COM + EIB</b>	<b>4 007</b>	<b>1 921</b>	<b>2 115</b>	<b>4 127</b>	<b>3 185</b>	<b>4 055</b>

(1) Also includes an amount of €105 million as special assistance to the DRC funded as a result of the Council Decision of 21 July 2003 to reallocate reimbursements of special loans managed by the EIB under previous EDFs.

(2) 9th EDF instruments managed by the EIB (Investment facility and interest subsidies).

Based on commitments at the end of August (€119 million), the EIB had to revise its forecasts for the implementation of the Investment Facility downwards for 2004 to €335 million (from an initial estimate of €500 million) but maintains its initial forecasts for 2005, based on the existing portfolio of contacts.

#### Disbursements

The Commission disbursed €2 427 million in 2003. This amount includes some special operations such as the €191 million transferred to a special account for Sudan under the Stabex instrument, and a further contribution to HIPC of €209 million and the contribution of €170 million to the Global Fund against Aids, Tuberculosis and Malaria, both funded from the intra-ACP reserves<sup>27</sup>. The EIB disbursed €4 million under the Investment Facility, which brought total disbursements for both institutions to €2 431 million.

Based on the assessment of the pipeline of ongoing projects and programmes and the payment situation at the end of September 2004, the level of disbursement is forecast to increase further in 2004 and 2005, even allowing for the impact of some €270 million of payments carried over from 2003 due to treasury constraints<sup>28</sup>. This confirms the structural nature of the

<sup>26</sup> ACP-related implementation support staff in EuropeAid decreased by one third in 2004; this was more than compensated by increased staffing in the Delegations under devolution but the exceptionally high staff turnover rate during this transitional period affected the normal implementation of the project cycle.

<sup>27</sup> STABEX funds are not payments in the strict accounting sense. However, they are included in order to be consistent with past presentations. This transfer should in principle be one of the last made on this instrument.

<sup>28</sup> COM(2004)763 of 19 November 2004. In 2004, for the first time effective disbursements closely followed the disbursement forecasts made by the Commission, leading to treasury problems for Member States that had not budgeted for the forecast contributions – see COM(2004)647 of 8 October 2004, Proposal for a Council Decision fixing the financial contribution to the EDF (third instalment for 2004) and draft Council Decision 13362/02/04 approved by the ACP Working Group of 29 October 2004.

improved disbursement performance. Only the payment forecasts for the EIB-managed funds had to be revised downwards as result of the lower-than-expected commitments under the Investment Facility.

#### DISBURSEMENTS

million €

	2000	2001	2002	2003	2004	2005
TOTAL managed by COM	1 640	2 124	1 902	2 427	2 475	2 760
of which						
A. Special operations						
- STABEX	82	353	2	191		
- HIPC	356	350	180	209	100	200
- Global Health Fund GFATM				170		
- Peace Facility					22	61
- Water Facility						57
Subtotal	439	703	182	570	122	318
B. Regular payments	1 202	1 421	1 721	1 857	2 353	2 442
TOTAL managed by EIB (1)				4	90	235
<b>GRAND TOTAL COM + EIB</b>	<b>1 640</b>	<b>2 124</b>	<b>1 902</b>	<b>2 431</b>	<b>2 565</b>	<b>2 995</b>

(1) 9th EDF instruments managed by the EIB (Investment Facility and interest subsidies).

#### The RAL (“Reste à Liquider”)

The ratio between the RAL (“Reste à Liquider” or the volume of unpaid balances on ongoing projects and programmes) and the yearly disbursement level is a useful indicator of project implementation. It is a proxy for the average remaining implementation time before closure of all ongoing projects and programmes. As the time horizon of a project on average is not longer than 4 years, a ratio significantly above this figure measures the relative gap between commitments and disbursements and may indicate serious delays and problems in implementation. While the ratio indeed grew gradually to reach 5,5 in 2000, the Commission managed to reduce it to 4,41 by the end of 2002 and 3,88 by the end of 2003 despite the high commitment rate that year. The ratio should further decrease over the next few years to less than 3,5.

## Financial situation at the end of September 2004

The state of implementation of EDF resources for ACP countries is shown in the table below.

### Available EDF resources for the ACP

	Initial allocation 31 March 03	Changes since 01 April 03	Allocations 30-sept-04	Commitments 30-sept-04	as %	Unallocated balances 31 Aug 04
<b>9th EDF</b>						
<b>1. Long term development</b>	<b>9 072 150,000</b>		<b>10 369 136,300</b>	<b>3 050 342,532</b>	29,42%	<b>7 318 793,769</b>
- NIPs	8 523 200,000	1 663 109,463	10 186 309,463	3 012 464,532	29,57%	7 173 844,931
- CDE-CTA-JAA (*)	164 000,000	-99 101,000	64 899,000	37 878,000	<b>58,36%</b>	27 021,000
- reserve	384 950,000	-267 022,163	117 927,838	0,000	0,00%	117 927,838
<b>2. Regional cooperation</b>	<b>1 204 000,000</b>		<b>2 773 679,752</b>	<b>1 319 629,084</b>	47,58%	<b>1 454 050,668</b>
- intra-ACP (**)	300 000,000	1 556 536,248	1 856 536,248	1 059 122,656	<b>57,05%</b>	797 413,592
- regional cooperation	643 000,000	274 143,505	917 143,505	260 506,428	28,40%	656 637,076
- reserve	261 000,000	-261 000,000	0,000	0,000		0,000
<b>Sub-total COM managed funds</b>	<b>10 276 150,000</b>		<b>13 142 816,053</b>	<b>4 369 971,616</b>	33,25%	<b>8 772 844,437</b>
<b>3. EIB managed funds</b>						
- Investment Facility	2 037 000,000	0,000	2 037 000,000			
- interest rate subsidies	186 850,000	0,000	186 850,000			
<b>Sub-total EIB managed funds</b>	<b>2 223 850,000</b>		<b>2 223 850,000</b>	<b>485 000,000</b>	21,81%	<b>1 738 850,000</b>
<b>Sub-total available EDF</b>	<b>12 500 000,000</b>	<b>2 866 666,053</b>	<b>15 366 666,053</b>	<b>4 854 971,616</b>	31,59%	<b>10 511 694,437</b>
- additional instalment	1 000 000,000	-250 000,000	750 000,000	0,000		750 000,000
<b>Total 9th EDF</b>	<b>13 500 000,000</b>	<b>5 483 332,106</b>	<b>16 116 666,053</b>	<b>4 854 971,616</b>		<b>11 261 694,437</b>
6th, 7th and 8th EDF (***)	32 389 204,304	-2 607 910,427	29 781 293,877	29 717 936,821	99,79%	63 357,056

(\*) CDE - Centre for the Development of Enterprise; CTA - Centre for the Development of Agriculture; JPA - Joint Parliamentary Assembly.

(\*\*) This figure anticipates the reallocation proposal COM(2004)208 approved by Council, for which ACP endorsement is expected in December.

(\*\*\*) The difference between the transfer from the previous EDFs and the changes to the 9th EDF is interest on non-transferred STABEX funds.

Since the entry into force of the Cotonou Agreement, a total amount of €2 607million was transferred from the old EDFs to the 9th EDF<sup>29</sup>. With the partial release of the “conditional billion” for the launch of the EU Water Facility, total funding available under the consolidated 9th EDF to date is €15 367 million<sup>30</sup>.

The total amount available for commitments for the last quarter of 2004 and the next three years, excluding the balances of the conditional billion, is €10 512 million net. Taking into consideration pending commitments and additional commitments expected in the last quarter of 2004, by year end only €9 345 million will remain uncommitted or on average €3 115 million per year over the remaining period of the 9th EDF. Considering the decommitments on ongoing programmes which averaged +/- €320-340 million over the last 5 years<sup>31</sup>, the gross level of yearly commitments required to absorb the unallocated balances of the

<sup>29</sup> The negative transfers for the CDE and the CTA reflect the need for transitional measures under the 8th EDF in order to ensure the continuity of their activities pending ratification of the Cotonou Agreement.

<sup>30</sup> To this amount should be added €105 million of special assistance to the Democratic Republic of Congo, Council Decision of 21 July 2003.

<sup>31</sup> With a peak of €365 million in 2003, resulting from the continued effort to reduce the abnormal RAL (i.e. RAL which stayed unchanged on specific projects or programmes for several years).

consolidated 9th EDF is approximately €3 445 million, including some €2 945 million for Commission-managed funds and €550 million for EIB-managed funds.

### Forecasts 2004-2007

EuropeAid updated its forecasts on the basis of the consolidation of the implementation pipeline of each national and regional indicative programme and the intra-ACP envelope, which was assessed in a number of regional seminars in the ACP during February and March 2004, and screened again in September<sup>32</sup>. They are in line with the forecasts adopted by the Council in November 2003 and support the view that the 9th EDF, including the balances of all previous EDFs and the first instalment of €250 million of the Water Facility, financed out of the “conditional billion”, will be fully committed by the end of 2007, the period covered by the 9th EDF<sup>33</sup>.

### **Forecast of commitments and disbursements under the 9th EDF Years 2006 – 2009**

(million €)

	2003*	2004 <sup>c</sup>	2005 <sup>e</sup>	2006 <sup>f</sup>	2007 <sup>f</sup>	2008 <sup>f</sup>	2009 <sup>f</sup>	2003-'07
Commitments of available funds	4 127	3 185	4 055	3 500	2 750	-	-	17 617
of which								
- from previous EDFs	574							574
- decommitments	365	340	340	320	320			1 685
- 9th EDF, net	3 188	2 865	3 735	3 180	2 430			15 358
Conditional balances			250	400	100			750
Payments**	2 431	2 565	2 995	3 400	3 100	2 900	2 650	

(\*) The 2003 commitment figure includes €574 million from previous EDFs, committed before 1 April 2004 (since which time all balances, €2 608 million to date, have been transferred to the 9th EDF).

(\*\*) Payments relate to actions funded under the 9th EDF and ongoing actions funded under previous EDFs.

(e) Estimate, based on a detailed screening of the pipeline.

(f) Forecast.

It is on this basis that the Commission is preparing a Communication to the Council justifying the release of the balances of the conditional billion, to be used mainly to meet some needs resulting from new initiatives and international commitments<sup>34</sup>. The existing intra-ACP funds are expected to be nearly fully committed by the end of 2005. If the decision on the release of the €750 million conditional balances can be taken by March 2005 as foreseen<sup>35</sup>, these funds are expected to be committed for an amount of €250 million in 2005, €400 million in 2006 and the balance of €100 million in 2007.

<sup>32</sup> COM (2004)763, 19.11.2004.

<sup>33</sup> Most programmable funds are already earmarked for commitment before the end of 2006. There is therefore a prudential margin to take into account the usual delays and to correct the situation during the end of term review in early 2006 which will allow transferring funds from low to high performers.

<sup>34</sup> The performance review will be further detailed and complemented by a qualitative performance assessment as part of the Communication on the release of the conditional billion.

<sup>35</sup> Council Decision 2004/289 of 22 March 2004.

On the same basis the Commission proposes to fix 31 December 2007 as the date beyond which the remaining 9th EDF funds managed by the Commission and the interest subsidies managed by the EIB will not be committed<sup>36</sup>.

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<sup>36</sup> As the Investment Facility managed by the EIB is a revolving fund, the amount reserved for the Investment Facility will not be affected by the sunset clause.



## ANNEX 2

### Evolution of successive EDF allocations and their implicit aid effort

*million €*

EDF allocations (*)		Average / year	Aid effort in % of GDP**	Member States
6th EDF (1985-'90)	7 560	1 512	0,037 %	12
7th EDF (1990-'95)	10 940	2 188	0,039 %	12
8th EDF (1995-'00)	12 840	2 568	0,034 %	15
<i>6th-7th-8th EDF effective (1986-'99)<sup>(1)</sup></i>		<i>1 699</i>	<b><i>0,031 %</i></b>	
9th EDF (2000-'05)	13 800	2 760	0,030 %	15
<i>9th EDF plus balances (2000-'07)<sup>(2)</sup></i>		<i>2 850</i>	<i>0,030 %</i>	<i>15</i>
<i>9th EDF plus balances (2000-'07)<sup>(3)</sup></i>		<i>2 950</i>	<b><i>0,031 %</i></b>	<i>15</i>

(\*) Includes support for the ACP plus support to the OCT and administrative implementation costs (for the 9th EDF the OCT contribution is €175million, administrative expenses €125 million).

(\*\*) For the EU financial perspectives 2000-2006 the reference used was GDP, for the new financial perspectives 2007-2013 the reference used is GNI. The difference between EU-GDP and EU-GNI is only 0,13%.

1. Cumulative commitments, including €2 243 million uncommitted balances from 4th and 5th EDF at the end of 1985. The aid effort as % of GDP is weighted for 12 member States for 6th and 7th EDF commitments at the end of 1999 and for 15 member States for 8th EDF commitments.
2. Based on the estimates used for the Ministerial Coordination Meeting of 8 December 1999 deciding on the 9th EDF financial envelope.
3. Based on the effective level of balances on previous EDFs on 31 December 1999 as per COM(2000)357 of 15 June 2000.

## EXPLANATORY MEMORANDUM

The ACP-EC Partnership Agreement and the Internal Agreement between representatives of the Governments of the Member States, meeting within the Council, on the Financing and Administration of Community Aid under the Financial Protocol to the ACP-EC Partnership Agreement provide for an assessment of the degree to which the funds have been committed and disbursed as a basis for evaluating the need for new resources after the expiry of the existing Financial Protocol, which covers the period 2000-2007.<sup>37</sup>

The EU has further specified that in evaluating this need, full account must be taken of the date beyond which the 9th EDF funds will no longer be committed.<sup>38</sup> Article 2 (4) of the Internal Agreement also provides that before the expiry of the 9th EDF, the Member States must set a date beyond which the funds of the 9th EDF may no longer be committed.<sup>39</sup>

It is therefore proposed to fix 31 December 2007 as the date beyond which the remaining funds of the 9<sup>th</sup> EDF managed by the Commission, the interest subsidies managed by the European Investment Bank and the revenue accruing from the interest on these appropriations will no longer be committed.

The amount allocated to finance the Investment Facility managed by the EIB, as a revolving fund, will not be affected by this Decision.<sup>40</sup>

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<sup>37</sup> Annex I, paragraph 7 of the Financial Protocol to the ACP-EC Partnership Agreement and Article 2 (3) of the Internal Agreement.

<sup>38</sup> EU Declaration on the Financial Protocol, attached as Declaration XVIII to the ACP-EC Partnership Agreement.

<sup>39</sup> Article 2(4) of the Internal Agreement.

<sup>40</sup> Article 2(1)(c) of the Internal Agreement.

Proposal for a  
**COUNCIL DECISION**

**fixing the deadline for the commitment of the funds of the 9th European Development Fund (EDF)**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to the proposal from the Commission<sup>41</sup>,

Having regard to the ACP-EC Partnership Agreement signed in Cotonou on 23 June 2000<sup>42</sup>,

Having regard to the Internal Agreement between representatives of the Governments of the Member States, meeting within the Council, on the Financing and Administration of Community Aid under the Financial Protocol to the ACP-EC Partnership Agreement<sup>43</sup> and in particular Article 2(4) thereof,

Whereas:

- (1) Paragraph 5 of Annex I (Financial Protocol) of the ACP-EC Partnership Agreement provides that the overall amount of the Financial Protocol, supplemented by the balances transferred from previous EDFs, covers the period 2000-2007.
- (2) Paragraph 7 of Annex I (Financial Protocol) of the ACP-EC Partnership Agreement and Article 2(3) of the Internal Agreement provide for an assessment of the degree to which the funds have been committed and disbursed as a basis for evaluating the need for new resources after the expiry of the existing Financial Protocol.
- (3) The EU Declaration on the Financial Protocol, attached as Declaration XVIII to the ACP-EC Partnership Agreement, specifies that, in evaluating the need for new resources, full account should also be taken of the date beyond which the funds of the 9th EDF will no longer be committed.
- (4) It is therefore necessary, according to Article 2(4) of the Internal Agreement to set, before the expiry of the 9th EDF, the date beyond which the funds of the 9th EDF may no longer be committed.

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<sup>41</sup> COM(2004) XXX.

<sup>42</sup> OJ L 317, 15.12.2000, p. 3.

<sup>43</sup> OJ L 317, 15.12.2000, p. 355.

HAS DECIDED AS FOLLOWS:

*Article 1*

The date beyond which the funds of the 9th EDF managed by the Commission, the interest subsidies managed by the European Investment Bank and the revenue accruing from the interest on these appropriations will not be committed, is fixed at 31 December 2007.

*Article 2*

The amount allocated to finance the Investment Facility as a revolving fund, and managed by the European Investment Bank, is not affected by this Decision.

*Article 3*

This Decision shall enter into force on the day of its publication in the *Official Journal of the European Union*.

Done at Brussels,

*For the Council*  
*The President*