



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 11.4.2001
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Proposal for a

COUNCIL DECISION

on the adoption of the position of the Community within the ACP/EC Council of Ministers regarding the settlement of all ACP HIPC LDCs' special loans remaining after full application of HIPC debt alleviation mechanisms

(presented by the Commission)

EXPLANATORY MEMORANDUM

At the G7 Summit in Cologne in June 1999, it was decided that the initiative for heavily indebted poor countries ("HIPC") agreed in 1996 be enhanced in order to provide for faster, deeper and broader external debt relief. Within this context, the Community and the ACP countries decided in December 1999 that a contribution from EDF resources of the order of magnitude of € 1 billion be made in favour of the enhanced HIPC Initiative. The decision was to cover, on the one hand, the Community's contribution as creditor for the first ACP countries to qualify for the initiative (estimated at € 320/360 million), and, on the other hand, a contribution as a donor to the HIPC Trust Fund managed by the World Bank (up to € 680 million, out of which 670 earmarked for the African Development Bank and 10 earmarked for Guyana), which would be both sufficient and commensurate with a fair burden sharing between donors. In addition, the Council decided that a contribution of €54 million be made towards the HIPC Trust Fund in favour of Latin American and Asian countries eligible for HIPC debt relief.

The Community decided to make such a massive contribution to the HIPC Trust Fund in order to actually allow some Multilateral Development Banks, and specifically the AfDB, to face the significant increase of cost related to the enhancement of the HIPC Initiative. The EC decision was also decisive in allowing the AfDB to offer interim relief within the framework of the initiative. In a context where overall donor contributions to the Trust Fund were, and still are, insufficient, the EC decision was thus instrumental in effectively and rapidly alleviating debt burden, and freeing accordingly new resources for poverty alleviation and additional social spending. This of course had a particular significance for LDCs, which are the most vulnerable among the HIPCs. It is to be noted that the EC contribution represents about the third of total paid-in contributions to the HIPC Trust Fund so far.

On top of its decisive financial involvement in the Initiative both as a creditor and a donor, the Community has also been in the forefront on more conceptual issues, and specifically in emphasising the need to link debt relief assistance to progress in poverty alleviation. For instance, through increasing its Structural Adjustment Facility's allocations for HIPCs much before the Cologne Summit, it was among the first donors to insist on the necessary link between debt alleviation and increased social spending.

Since the putting in place of the enhanced HIPC framework by the World Bank and the IMF, important progress has been made in the implementation of the Initiative. As of end-2000, as many as 22 countries have become eligible for debt relief by reaching their decision points and thus directly benefiting from debt service relief. However, further progress in the implementation of the enhanced HIPC Initiative and related debt-relief measures in favour of the beneficiary poor countries should remain high on the agenda of G7 discussions. In particular, most industrialised countries (, Australia, Canada, France, Germany, Italy, Japan, Netherlands, Norway, UK and the U.S.) have announced their intention to provide up to 100% debt relief for bilateral claims to eligible HIPCs.

The Least Developed Countries (LDCs) constitute the majority of the HIPC countries. As a group they represent 48 of the poorest nations on earth with a combined population of 610.5 million. This group of countries constitute a marginalised section of the global economy notably in terms of trade and investment. In addition, their domestic resources are limited and their institutional capacities weak. Their reliance on foreign assistance is high. In short, their economies are extremely fragile. The Commission has recently initiated several concrete

proposals to help these countries in attaining sustainable development and make progress in reducing poverty. Recently, the Community decided to step up efforts in the combat of communicable diseases such as AIDS and malaria which are main concerns for most LDCs. Furthermore, a Commission proposal, the 'all but arms' proposal, presently under discussion would also benefit specifically LDCs by granting near free market access to LDCs.

In order to go a step further in the context of the evolving international consensus on debt alleviation and in order to respond to growing concerns in the international community regarding the increased marginalisation of LDCs in the world economy, the Community is now willing to propose the total alleviation of all remaining special loans granted and defined under the First to the Third Lomé Conventions to least developed ACP countries after agreed debt relief under the enhanced HIPC framework. The Community has deemed it as a timely action in view of the third UN Conference on LDCs to be held in Brussels (May 14-20, 2001), in order to effectively tackle the debt problem in the very poorest countries and as complementary to other actions being take in favour of the LDCs. This decision should also be seen in the light of the gradual phasing out of the Special loan instrument, which is not in use since Lomé IV. This line of action by the EC would go beyond the existing enhanced HIPC framework while respecting the parameters established. For these reasons, the Commission proposes to the Council the adoption of the attached decision establishing the Community's position in the ACP-EC Council of Ministers regarding the settlement of all ACP HIPC LDCs' special loans remaining after full application of HIPC debt alleviation mechanisms.

Proposal for a

DECISION OF THE COUNCIL

on the adoption of the position of the Community within the ACP/EC Council of Ministers regarding the settlement of all ACP HIPC LDCs' special loans remaining after full application of HIPC debt alleviation mechanisms

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty Establishing the European Community and in particular Article 310 in conjunction with Article 300, paragraph 2, second subparagraph;

Having regard to the proposal of the Commission;

Whereas:

- (1) The Fourth ACP-EC Convention, as amended by the Agreement signed in Mauritius on 4 November 1995, and in particular its Article 282, paragraph 5, provides that “any unallocated resources remaining from the programmable resources shall be used for financing operations falling within the scope of development finance cooperation, notably those relating to programmable assistance, save as otherwise decided by the Council of Ministers”;
- (2) This provision remains applicable according to Decision N° 1/2000 of the ACP-EC Council of Ministers regarding transitional measures pending the entry into force of the Cotonou Agreement;
- (3) The position of the Community in the ACP-EC Council of Ministers regarding the settlement of all ACP HIPC LDCs' special loans remaining after full application of HIPC debt alleviation mechanisms should be established;

HAS DECIDED AS FOLLOWS:

Sole Article

The position of the Community to be adopted within the ACP-EC Council of Ministers shall be based on the draft decision of the said Council annexed to the present decision.

Done in Brussels,

*For the Council of the European Union
The President*

ANNEX

Draft

DECISION OF THE ACP-EC COUNCIL OF MINISTERS

on settling all ACP HIPC LDCs' "special loans" remaining after full application of HIPC debt alleviation mechanisms

THE ACP-EC COUNCIL OF MINISTERS,

Having regard to the Cotonou Agreement as put into early application by Decision N° 1/2000 of the ACP-EC Council of Ministers,

Having regard to the Fourth ACP-EC Convention, as amended by the Agreement signed in Mauritius on 4 November 1995, and in particular Article 282(5) thereof,

Whereas:

- (1) The ACP countries have consistently and repeatedly pressed for more ambitious initiatives to reduce their external debt, and, specifically, for 100% cancellation of public debt;
- (2) At the G7 summit in Cologne in June 1999 ministers approved an Enhanced Initiative to provide *faster, deeper and broader* debt relief. As a result of the proposed improvements, the Community decided a significant EC contribution to the Highly Indebted Poor Countries ("HIPC") Initiative, both as a creditor (€ 320 million and the remaining of the previously earmarked € 40 million) and as a donor (€ 680 million from the European Development Fund ("EDF") and € 54 million from the Community budget);
- (3) Although significant debt alleviation are granted within the framework of the HIPC Initiative, so as to make debt burden sustainable, additional resources for highly indebted ACP Least Developed Countries ("LDCs") would boost development and poverty alleviation;
- (4) Special loans, which are concessional long-term loans defined in and granted under the First to the Third Lomé Conventions to ACP Countries, are not used anymore since the Fourth Lomé Convention;
- (5) The current Community participation in the Enhanced HIPC Initiative takes into account exposure both on special loans and risk capital, but requires that HIPC countries use the funds provided by the Community under the initiative first to repay debt on any outstanding special loans before they start repaying on risk capital;
- (6) In many ACP LDCs, such standard HIPC debt alleviation mechanism is sufficient to settle all special loans, but it should not be the case for some countries like Guyana, Zambia, Benin, Chad, Madagascar, Niger, Democratic Republic of Congo and Togo.

- (7) The settlement of all ACP LDCs HIPC's special loans, which would remain after full application of the normal HIPC mechanism, should cost roughly € 55-60 million, which would come on top of the estimated € 530 million cost of the already decided EC contribution as a creditor (out of which € 320+40 million have already been set aside). Should the total cost of the additional settlement exceed the € 60 million, the appropriate steps should be taken to provide for appropriate funding from EDF resources;
- (8) Such decision would allow all ACP LDC countries having reached their decision point to immediately benefit from a total settlement of the debt service related to special loans, provided they are not concerned by article 96 and 97 of the Cotonou Agreement.
- (9) The financing of such further initiative shall use the mechanisms governing the Community participation in the HIPC initiative as a creditor;

HAS DECIDED AS FOLLOWS:

Article 1

Each least developed ACP country reaching its decision point under HIPC will benefit from a Community interim debt relief covering at least the whole debt service on special loans. After completion point, the Community will settle all special loans to least developed ACP countries qualified within the HIPC Initiative which will remain after full implementation of existing enhanced HIPC mechanisms.

Article 2

The additional relief specified in Article 1 will be released in one tranche of € 60 million from resources of the 8th or previous EDFs or, after its entry into force, from the 9th EDF to the EIB Trust Fund dedicated to finance the Community contribution to the HIPC initiative as a creditor. It will be exclusively devoted to ACP LDC additional special loans' settlements, and thus treated specifically within the EIB Trust Fund.

Article 3

Implementation of additional debt relief will thus be integrated within the mechanism governing the existing Community contribution to the HIPC initiative as a creditor, such as defined in the Financing Agreement between the EC Commission and the ACP States. For ACP HIPC LDCs, standard HIPC procedures will apply with a common reduction factor allowing *at least* a total settlement of all special loans: if the HIPC common reduction factor is sufficient for that purpose, nothing will be changed; if it is not, the Commission will unilaterally provide additional relief to achieve the said total settlement.

Article 4

Should the € 60 million not be fully utilised, the remaining funds shall be used to finance 'standard' HIPC debt alleviation.

Article 5

The Commission is requested to take the measures necessary to give effect to this Decision, which shall enter into force on the day it is adopted.

Done at

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