



COMMISSION OF THE EUROPEAN COMMUNITIES

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**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND THE
EUROPEAN PARLIAMENT**

Financial Information on the European Development Funds

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FOREWORD

This document is to be annexed to the draft budget for 2007, in accordance with the 1979 agreements on budgetary procedure.

Article 8(3) of the Financial Regulation of 27 March 2003 applicable to the 9th European Development Fund¹ (EDF) requires the Commission to make this document available to the Council by 15 June, stipulating that this information serve as a basis for compiling an interim estimate of commitments and payments.

As in previous years, this document shows:

- implementation of the EDFs (6th to 9th) at 31/12/2005;
- financial implementation forecasts for the current year;
- expenditure forecasts for 2007.

The Member States contribute funds directly to the European Investment Bank (EIB) for the instruments which it manages under the 9th EDF (the Investment Facility and interest-rate subsidies). Contributions for other instruments, including contributions for the old instruments managed by the EIB (risk capital and interest-rate subsidies), go through the Commission.

Unless otherwise indicated, all the commitments and payments listed in this Communication are gross amounts, i.e. no decommitments or recoveries have been deducted. This is in keeping with the approach adopted for the European Union's general budget.

¹ OJ L 83, 1.4.2003, p. 1.

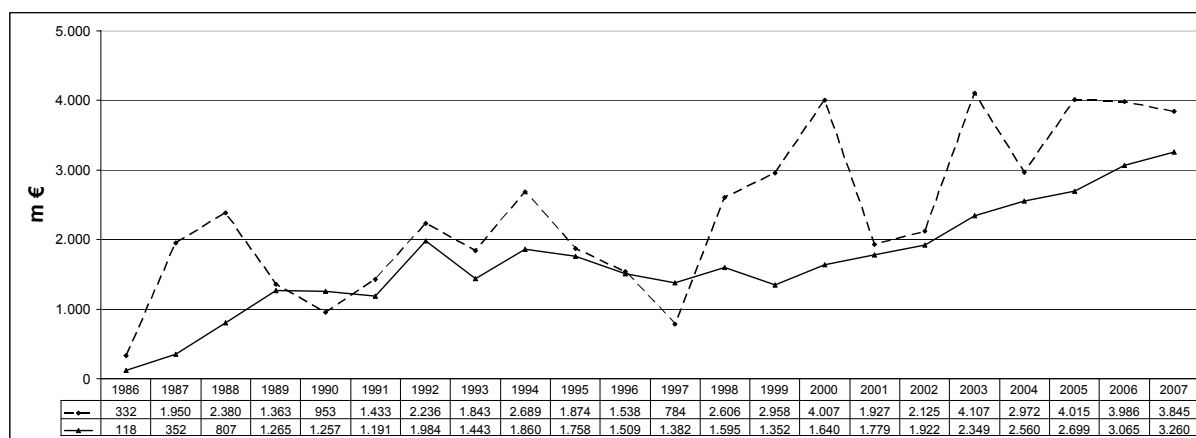
INTRODUCTION

The Commission and the EIB have updated their commitment and payments forecasts for 2006 and 2007 for each of the ACP countries² and OCTs.³ The payment forecasts in particular have been compiled with great care with the aim of helping the Member States to earmark amounts that are as accurate as possible in their national budgets while ensuring that sufficient financial resources are available for the EDF to avoid liquidity problems.

In accordance with Article 8 of the Financial Regulation applicable to the 9th EDF,⁴ these forecasts will be adjusted in the October 2006 Communication.

Annex 1 shows the status of EDF execution at 31 December 2005, and Annex 2 lists the commitments and payments made in 2004 and 2005 for the main instruments. The table in Annex 3 shows the new commitment and payment forecasts for 2006 and 2007, and compares them with the figures presented in the October 2005 communication.⁵ Annex 4 gives an overview of the financial situation and shows the total contributions payable into the EDF by the Member States. Finally, Annex 5 gives a breakdown by Member State of the contributions for 2006.

The graph below shows the general trend in commitments and payments, including projections for 2006/2007 (Commission and EIB): the upward structural trend in payments since 2000 is clear.



-- Commitments; ___ Payments

² African, Caribbean and Pacific States.

³ Overseas Countries and Territories.

⁴ OJ L 83, 1.4.2003, p. 1.

⁵ Communication from the Commission – EDF: estimate of commitments and payments and of contributions to be paid by the Member States (COM(2005) 542 final of 4.11.2005).

1. IMPLEMENTATION OF THE EUROPEAN DEVELOPMENT FUNDS AT 31 DECEMBER 2005

1.1. Funds available at 31 December 2005

Under the 6th to 9th EDFs, the funds available to the Commission and EIB totalled EUR 46 823 million at the end of 2005. Of this amount, approximately EUR 39 894 million was committed and EUR 28 657 million disbursed. Of the amount not committed (EUR 6 929 million), EUR 5 851 million fall within the remit of the Commission and will be committed by the end of 2007. These figures take account of the full mobilisation of the conditional EUR 1 billion. More detailed figures are available in Annex 1.

Unlike the figures in the rest of this document, the figures in this section and in Annex 1 are “net” figures, i.e. after decommitments and recoveries. This is necessary to determine the level of available funds, which is by definition a net figure.

1.2. Implementation of the EDFs in 2005

1.2.1. Commitments

With commitments totalling EUR 3 511 million, the Commission has achieved its goal of committing EUR 3 500 million (announced in October 2004 and unchanged since then). The EIB committed EUR 504 million under the Investment Facility (including interest-rate subsidies), falling short of the EUR 597 million forecast in the October 2005 communication. Taking both institutions together, the commitments made in 2005 totalled just over EUR 4 billion. More detailed figures are available in Annexes 2 and 3.

In total, the Commission decommitted some EUR 476 million. This figure is relatively high compared with recent years (the 2000-2004 average was EUR 325 million) and is the result of the Commission’s efforts to pursue a proactive fund reallocation policy before the 10th EDF enters into force.

1.2.2. Payments

In 2005, payments reached a record high (EUR 2699 million in total by the Commission and the EIB). This confirms the positive structural trend in the volume of payments.

With EUR 2 544 million, the Commission has achieved 98% of the volume forecast in October last year (EUR 2 596 million) and 97% of the volume estimated in October 2004. This slight shortfall is due to the overestimation of the need for risk capital under the old EDFs (EUR 61 million actually paid compared to an EIB estimate of EUR 117 million). The other differences cancel each other out. With regard to the Investment Facility (and interest-rate subsidies), the EIB made payments totalling EUR 155 million, lower than its October 2005 estimate of EUR 190 million. More detailed figures are available in Annexes 2 and 3.

1.2.3. *Financial movements in 2005*

The table in Annex 4 shows the start-of-year and end-of-year balances for 2005, the Member States' contributions to the EDF, and payments. The table does not include payments made under Stabex (EUR 71 million) or payments for special measures for DR Congo (EUR 89 million) because these were made from separate accounts into which Member States had already contributed. Consequently, these accounts do not require any new contributions.

The cash balance available to the Commission for operations at the end of 2005 was approximately EUR 137 million.⁶ This balance is higher than expected (EUR 66 million), mainly due to less expenditure on risk capital and, to a lesser extent, to larger amounts being recovered. Even though the balance is higher than in the two previous years, it is still much lower than in the years preceding that (the 1998-2002 average was EUR 340 million). The EIB's end-of-year balance was EUR 141 million.

2. FINANCIAL IMPLEMENTATION FORECASTS FOR 2006 AND 2007

2.1. Commitments

2.1.1. 2006 financial year

- With commitments totalling EUR 586 million for the Investment Facility and interest-rate subsidies, the EIB is still on target for achieving the figures communicated in October 2005.
- The Commission's new estimate of EUR 3 400 million confirms the overall total announced in October 2005 and remains well above the cautious forecast of June 2005 (EUR 3 100 million).
- The total volume of commitments has been upwardly adjusted to EUR 3 986 million.

2.1.2. 2007 financial year

- The EIB forecasts that it will commit EUR 395 million under the Investment Facility and for interest-rate subsidies.
- In its October 2005 communication, the Commission based its forecasts for 2007 on the commitments cycle of previous EDFs. The new estimates, giving a total of EUR 3 450 million,⁷ are based on actual activities and confirm that the

⁶ Does not include EUR 1.4 million in 2006 contributions.

⁷ Based on the assumption that some EUR 1 billion will be decommitted and re-committed in 2006 and 2007.

Commission will, by the end of 2007, be able to honour its pledge to make use of the entire financial allocation made available under the Cotonou Agreement.

- Taken together, the commitments of the Commission and the EIB are expected to total EUR 3 845 million.

2.2. Payments

2.2.1. 2006 financial year

- The EIB has upwardly adjusted its estimates from EUR 240 million in October 2005 to EUR 315 million now. EUR 270 million of this will be used under the Investment Facility and EUR 45 million for interest-rate subsidies.
- As in recent years, the Commission has made a particular effort with the updating of the payments forecasts. The forecast can now be broken down by project (commitment) and by contract. The new forecast shows a total of EUR 2 750 million for the Commission, practically unchanged from the October 2005 forecast (EUR 2 784 million). This slight decrease can be explained mainly by the EIB's downward adjustment of payments under the old instruments (risk capital and interest-rate subsidies) from EUR 106 million to EUR 82 million. The other differences roughly cancel each other out. The upward trend in payments for Stabex bears witness to the Commission's will to re-activate this system.
- Updated, the EIB and Commission payments now total EUR 3 065 million, roughly the same as in the October 2005 forecast (EUR 3 024 million).

2.2.2. 2007 financial year

Total payments in 2007 are estimated at EUR 3 260 million. This total comprises:

- EUR 410 million for the EIB under the 9th EDF, EUR 330 million of which goes to the Investment Facility;
- EUR 2 850 million for the instruments managed by the Commission.

These figures should be treated with caution as they focus on a timeframe further in the future.

3. FINANCIAL SITUATION FORECAST FOR 2006 AND 2007

To be able to meet the increase in payments forecast for 2006, the EIB has requested an extra EUR 40 million in contributions for 2006 (EUR 180 million instead of EUR 140 million).

Member State contributions to the Commission, on the other hand, will drop from EUR 2 690 million to EUR 2 510 million. This is due to several factors, which are listed in the table in Annex 4. The first of these is a reduction in the forecast for risk capital payments (EUR 80 million less for 2005 and 2006 together). There has also

been a slight reduction in payments under other instruments (down EUR 63 million for 2005 and 2006), except for the Stabex⁸ system (for which funds had already been contributed in the past). Finally, the upwards adjustment in recoveries means that fewer contributions are needed (EUR 33 million less for 2005 and 2006).

The Commission proposes a second tranche slightly lower than the one estimated in October (EUR 910 million against EUR 1000 million). On the basis of the current estimate, it might also be possible to reduce the third tranche (from EUR 290 million to EUR 200 million). The Commission will review the situation in its October 2006 communication. The EIB, on the other hand, has requested EUR 100 million – as opposed to the EUR 60 million forecast last October – to finance the new higher disbursements forecast.

A preliminary estimate of the contributions required for 2007 is EUR 3 100 million. There has been a large increase in the contributions made between 2003 and the 2007 estimate (2003: EUR 2 200 million; 2004: EUR 2 340 million; 2005: EUR 2 640 million). This shows that the EDF is becoming more efficient.

⁸

See also section 1.2.3.

ANNEX 1

Consolidated situation of the EDFs (6th to 9th) for the ACP countries and OCTs at 31 December 2005 (EUR million)

	Allocations	Commitments	Payments
COMMISSION			
National and OCT allocations	23 967	20 258	13 023
CDE ⁹ , CTA ¹⁰ and JPA ¹¹	107	105	61
Long-term development reserve	864	0	0
Regional cooperation	6 431	5 338	3 344
Interest-rate subsidies	391	391	352
Risk capital (6th to 8th EDFs)	2 541	2 541	2 198
Structural adjustment facility	2 728	2 728	2 649
Emergency aid	723	723	722
Aid for refugees	297	297	271
Stabex	3 862	3 862	3 477
Mining products	697	697	578
Use of interest	38	38	32
Transfers from 1st to 5th EDFs	422	422	398
Debt relief (EDFs 7 and 8)	1 100	1 100	1 100
Studies and TA ¹² for OCTs	2	1	0
Implementation expenses	125	125	109
DR Congo special assistance	108	92	89
Miscellaneous revenue	53	9	0
Subtotal	44 455	38 727	28 403
EIB (9th EDF)			
Interest-rate subsidies	188	38	38
Investment Facility	2 057	1 130	216
Subtotal	2 245	1 167	254
Conditional billion	123		
TOTAL (6th to 9th EDFs)	46 823	39 894	28 657

Unlike the other figures presented in this document, the figures in this table are net figures, i.e. they take decommitments and recoveries into account. This is necessary to determine the level of available funds, which is by definition a net figure.

⁹ Centre for the Development of Enterprise
¹⁰ Technical Centre for Agricultural and Rural Cooperation
¹¹ Joint Parliamentary Assembly
¹² Technical assistance

ANNEX 2

Breakdown of expenditure by instrument for the years 2004 and 2005

EUR million

	2004		2005	
	Commitments	Payments	Commitments	Payments
COMMISSION				
<u>6th to 8th EDFs</u>				
<u>Indicative Programmes</u>	-	1 075.1	-	887.7
<u>Excluding indicative programmes</u>				
Interest-rate subsidies	-	9.8	-	0.4
Emergency aid	-	2.5	-	1.9
Aid for refugees	-	26.9	-	9.4
Risk capital	-	143.3	-	60.8
Mining products	-	27.4	-	15.0
Stabex	9.6	7.3	8.8	70.8
Structural adjustment facility	-	89.7	-	15.9
Unexpended balances (4th + 5th EDFs)	-	11.2	-	5.6
Implementation expenses	-	16.4	-	1.9
Subtotal	9.6	334.5	8.8	181.6
<u>9th EDF + transitional measures</u>				
Envelope A	1 739.5	654.7	2 806.3	950.5
Envelope B	230.2	144.4	288.0	192.8
Regional projects	134.1	12.3	217.2	23.8
Intra-ACP Cotonou projects	413.6	158.9	143.0	131.5
Implementation expenses	1.8	56.5	7.3	54.0
DR Congo	92.0	0.1	0.0	89.2
Other	27.0	27.7	40.5	33.2
Subtotal	2 638.2	1 054.6	3 502.3	1 475.0
Total managed by Commission	2 647.8	2 464.3	3 511.1	2 544.3
EIB (9th EDF)				
Investment Facility + interest-rate subsidies	324.5	95.3	503.8	154.5
EDF TOTAL	2 972.3	2 559.6	4 014.9	2 698.8

Annex 3 – Commitments and Payments Made in 2005 and Forecast for 2006 and 2007 (EUR million)

	2005		2006		2007	
	COM Oct 2005 (**)	Actual	COM Oct 2005 (**)	Adjusted	COM Oct 2005 (**)	Adjusted
COMMITMENTS						
Peace Facility	-	-	0	50		0
Water Facility	80	80	225	185		190
Other measures from the conditional billion	0	0	330	326		174
Stabex (interest on secured accounts)	10	9	10	10		10
Other	3 410	3 422	2 835	2 829		3 076
<i>Total for the Commission</i>	3 500	3 511	3 400	3 400		3 450
Investment Facility	537	473	511	526		295
Interest-rate subsidies	60	31	60	60		100
<i>Total for EIB instruments (9th EDF)</i>	597	504	571	586		395
TOTAL	4 097	4 015	3 971	3 986	3 150	3 845
PAYMENTS						
Peace Facility	88	88	45	124		12
Water Facility	5	5	41	44		89
Other measures from the conditional billion	0	0	44	60		188
Risk capital (*)	117	61	106	82		71
Debt relief	0	0	60	60		100
Other	2 245	2 230	2 443	2 297		2 300
<i>Subtotal</i>	2 455	2 384	2 739	2 667		2 760
Stabex	52	71	45	83		90
DR Congo	89	89	0	0		0
<i>Total for the Commission</i>	2 596	2 544	2 784	2 750		2 850
Investment Facility	150	119	200	270		330
Interest-rate subsidies	40	35	40	45		80
<i>Total for EIB instruments (9th EDF)</i>	190	155	240	315		410
TOTAL	2 786	2 699	3 024	3 065	3 350	3 260

* Including interest-rate subsidies under the previous EDFs

** As adjusted by the EIB (see Council doc. No 161/05 ACP)

Annex 4 – Financial Situation in 2005 and Forecast for 2006 and 2007 – Excluding Stabex and Special RD Congo Account(*)
(*EUR million*)

		COM Oct 2005 (**)			Adjusted		
		Commission	EIB 9th EDF	TOTAL	Commission	EIB 9th EDF	TOTAL
2005	Balance at 01/01/2005	62	8	70	62	6	68
	2004 contributions paid in 2005	42		42	42		42
	2005 contributions , of which:	2 350	290	2 640	2 336	290	2 626
	<i>First tranche (***)</i>	1 360	60	1 420	1 360	60	1 420
	<i>Second tranche</i>	750	250	1 000	750	250	1 000
	<i>Third tranche</i>	240	-20	220	226	-20	206
	Interest and other	25		25	26		26
Recoveries	42		42	55		55	
Payments	-2 455	-190	-2 645	-2 384	-155	-2 539	
	Balance at 31/12/2005	66	108	174	137****	141	278
2006	2005 contributions paid in 2006				14		14
	2006 contributions , of which:	2 690	140	2 830	2 510	180	2 690
	<i>First tranche</i>	1 400	60	1 460	1 400	60	1 460
	<i>Second tranche</i>	1 000	60	1 060	910	100	1 010
	<i>Third tranche</i>	290	20	310	200	20	220
	Interest and other revenue	10		10	10		10
	Recoveries	40		40	60		60
Payments	-2 739	-240	-2 979	-2 667	-315	-2 982	
	Balance at 31/12/2006	67	8	75	64	6	70
2007	2007 contributions				2 690	410	3 100
	Interest and other revenue				10		10
	Recoveries				60		60
	Payments				-2 760	-410	-3 170
	Balance at 31/12/2007				64	6	70

* Funds available for operations

** as adjusted by the EIB (see Council doc. No 161/05 ACP)

*** Of which EUR 180.4 million in 2005 contributions paid in at the end of December 2004

**** Does not include EUR 1.4 million from 2006 contributions

Annex 5

CONTRIBUTIONS TO THE EDF FOR 2006 (EUR)

COUNTRY	SCALE %	1st tranche		2nd tranche		3rd tranche		TOTAL
		paid to the EIB	paid to the Commission	payable to the EIB	payable to the Commission	payable to the EIB	payable to the Commission	
GERMANY	23.36	14 016 000	327 040 000	23 360 000	212 576 000	4 672 000	46 720 000	628 384 000
BELGIUM	3.92	2 352 000	54 880 000	3 920 000	35 672 000	784 000	7 840 000	105 448 000
DENMARK	2.14	1 284 000	29 960 000	2 140 000	19 474 000	428 000	4 280 000	57 566 000
SPAIN	5.84	3 504 000	81 760 000	5 840 000	53 144 000	1 168 000	11 680 000	157 096 000
FRANCE	24.30	14 580 000	340 200 000	24 300 000	221 130 000	4 860 000	48 600 000	653 670 000
GREECE	1.25	750 000	17 500 000	1 250 000	11 375 000	250 000	2 500 000	33 625 000
IRELAND	0.62	372 000	8 680 000	620 000	5 642 000	124 000	1 240 000	16 678 000
ITALY	12.54	7 524 000	175 560 000	12 540 000	114 114 000	2 508 000	25 080 000	337 326 000
LUXEMBOURG	0.29	174 000	4 060 000	290 000	2 639 000	58 000	580 000	7 801 000
NETHERLANDS	5.22	3 132 000	73 080 000	5 220 000	47 502 000	1 044 000	10 440 000	140 418 000
PORTUGAL	0.97	582 000	13 580 000	970 000	8 827 000	194 000	1 940 000	26 093 000
UNITED KINGDOM	12.69	7 614 000	177 660 000	12 690 000	115 479 000	2 538 000	25 380 000	341 361 000
AUSTRIA	2.65	1 590 000	37 100 000	2 650 000	24 115 000	530 000	5 300 000	71 285 000
FINLAND	1.48	888 000	20 720 000	1 480 000	13 468 000	296 000	2 960 000	39 812 000
SWEDEN	2.73	1 638 000	38 220 000	2 730 000	24 843 000	546 000	5 460 000	73 437 000
TOTAL	100.00	60 000 000	1 400 000 000	100 000 000	910 000 000	20 000 000	200 000 000	2 690 000 000