COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMUNICATION FROM THE COMMISSION

Implementation of a special Community programme to aid certain highly indebted low-income countries in sub-Saharan Africa

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Proposal for a

COUNCIL DECISION

on the allocation of 60 million ECU for the implementation of a special programme to aid certain highly indebted low-income African countries

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(presented by the Commission)

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Summary

This communication follows the informal communication on a Community initiative for certain highly indebted low-income countries in sub-Saharan Africa that the Commission sent to COREPER, at the request of the Member States, in preparation for the Vencie Summit.

It concerns implementation in 1988 and 1989 of a special 100 million ECU Community programme in the form of quick-disbursing aid for this group of countries in addition to financing available under the Lomé Convention.

The Commission proposes that part of this sum, namely 40 million ECU, should come from the non-allocated funds remaining from the earlier Lomé Conventions and the rest, 60 million ECU, from the partial recycling of current and future funds from the repayment of special loans and risk capital granted earlier to ACP countries.

The Commission also proposes that the Council approve the general guidelines contained in the communication concerning the implementation schedule, the type of operations to be financed and the eligibility criteria for the choice of recipients.

I. INTRODUCTION

1. This communication follows the informal communication on a Community initiative for certain highly indebted low-income countries in sub-Saharan Africa that the Commission sent to COREPER[1] in preparation for the Venice Summit at the request of the Member States.

2. The communication pointed to:
   (i) the exceptional seriousness of the situation of a number of low-income countries in sub-Saharan Africa which have large public-sector debts, particularly with multilateral bodies, the debt-servicing charge of which, combined with inadequate external earnings, has become not only a cause of financial strangulation and economic and social regression, but also, and above all, an obstacle to rene..d growth and development;

   (ii) the danger that this situation might lead the authorities of the countries concerned seriously to consider abandoning the highly promising reform and austerity policies which they have courageously adopted over the last few years and which are now needed more than ever;

   (iii) the urgent need for exceptional measures to reduce the burden of debt servicing and restore imports to levels which are more in line with essential consumption and growth requirements;

   (iv) the desirability of an initiative by the Community and its Member States, justified not only by the facts of the situation but also by their particular responsibilities towards this part of the world, where they account for more than half of total aid from OECD countries.

3. In this spirit the Commission suggested that:
   (i) the Member States declare themselves ready, within the framework of an overall approach in conjunction with their OECD partners, to take a range of measures including: softening the terms of Paris Club rescheduling, continuing the retroactive adjustment of aid terms and providing further concessional funds, both bilateral and multilateral (e.g. the proposal for an increase in the resources of the IMF Structural Adjustment Facility);

   (ii) that the Community take action of its own to aid these countries by:
   - setting up a 100 million ECU special programme to provide quick-disbursing aid partially financed by the recycling of existing and future funds from the repayment of special loans and risk capital previously granted to ACP States;
   - speeding up the commitment and disbursement of the financial resources available under Lomé III by increasing the proportion of quick-disbursing operations, particularly in the form of sectoral import programmes.

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[1] SEC(87) 904/2, 3 June 1987.

4. In giving its broad approval to the Commission's analysis and the general framework for future concerted action to deal with this situation, COREPER indicated its agreement that Community representatives should tell the Venice Summit that all Member States were ready to take appropriate measures, provided OECD partners were prepared to take similar measures.

   COREPER also noted the Commission's intention of sending a formal communication in the light of the Venice Summit results spelling out how the specific Community measures would be implemented.

5. Debt problems received particularly close attention at the Summit. It was recognized that the problems of the highly indebted low-income countries - in particular those in sub-Saharan Africa - needed to be treated as a special case, and that a position should be agreed before the end of the year on the various proposals put forward.

   This analysis and the approach were confirmed quite recently at a meeting organized jointly by the IMF and the IBRD (Paris, 10 July), to which members of the Group of Ten, Switzerland and the Commission were invited. They received further confirmation in the speech made by the President of the Council at the opening of UNCTAD VII (10 July).

6. The Commission welcomes these developments and is pleased to note that the Comunity and the Member States participating in the Summit played the role of catalyst.

   In order to consolidate this achievement and apply it in practice, the efforts undertaken before the Summit must be actively continued, both in the form of concerted action by the Member States and action by the Community itself, so that decisions are reached and concrete actions undertaken in the time-scale specified in the communiqué.

   (i) **joint action by the Member States:** close coordinaion of the Member States' positions in the relevant Community bodies in respect of the measures referred to in 3(i);

   (ii) **action at Community level:** by increasing the number of quick-disbursing operations under Lomé III and implementing the special programme that is the subject of this communication and the draft Decision in Annex II.

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II. PRELIMINARY REMARKS

7. The immediate and temporary purpose of the operations defined in the framework of the approach outlined above is to counter the shortage of foreign currency caused by the excessive debt burden, the fall in export earnings from commodities and the inadequacy of external financial flows, all of which has led these countries to cut back their imports to levels incompatible with the minimum consumption requirements of households and industry, and investment in and maintenance of basic infrastructure.

8. These operations will be special in two ways:

(i) the proposed operations will complement normal operations providing long-term development aid, which remain just as necessary and appropriate as in the past and must continue as usual. The guidelines and priorities agreed with all the ACP countries during the Lomé III programming exercise will also be unaffected, whether or not the country is a beneficiary of these special measures;

(ii) the operations proposed must be tailored, in form and content, to the specific objective in question (countering the shortage of foreign currency and boosting the level of imports) - hence the importance of quick-disbursing aid, especially sectoral import programmes.

III. INCREASING THE PROPORTION OF QUICK-DISBURSING AID UNDER LOME III

9. The Commission suggests taking advantage of the flexibility that is a feature of the management of programmable resources under Lomé III to increase the role of sectoral import programmes, which, by helping to ease balance of payments constraints and because of their relationship with the reforms they support, are a particularly suitable instrument for assisting the renewal of the development process in the highly indebted countries.

Many countries have included recourse to this type of instrument in their indicative programmes. However, an overview of the outcome of the programming exercise shows that the percentage of operations of this type could be increased substantially.

10. The Commission intends - for the countries concerned (see points 16-18) to increase the proportion of quick-disbursing aid for these countries to about 20% of national programmable aid, without changing the priorities and guidelines agreed during the programming exercise. This figure is an overall objective, which could vary from country to country, depending on the wishes and needs of the recipients.

Work is being carried out by Commission departments in conjunction with the countries concerned to look into ways of encouraging the use of this sort of aid in the framework described above.

11. Article 188 of the third Lomé Convention expressly provides for the use of sixth EDF resources for quick-disbursing operations, including sectoral import programmes, and therefore no specific Council decision is sought for this. The Member States will be informed of the outcome of this work and will be called on to approve specific financing proposals in accordance with the normal EDF procedures.

IV. SPECIAL PROGRAMME (1988/89)

12. In addition to the measures just referred to, the Commission proposes that the Community implement in 1988/89 a special 100 million ECU programme for this group of countries. Financing under this programme would be additional to financing for these countries under Lomé III and given in the form of quick-disbursing aid.

(a) Objective and nature of such operations

13. The purpose of the special programme is to help ease quickly balance of payment difficulties, largely caused by the growing debt-service burden, which is seriously compromizing the capacity of the countries concerned to import what is necessary for their development.

In view of the seriousness and urgency of the situation, implementation of this programme should start at the beginning of 1988 and end in the first half of 1989 at the latest.

14. Financing would be in the form of quick-disbursing grants for:

(i) sectoral import programmes as provided for in the conclusions of the Council (Development) meeting of December 1982[1] or in Article 188 of the third Lomé Convention; and

(ii) subject to the amount of supplementary financing made available by the Member States (see point 19 below), general import programmes.

These programmes should cover essential imports and correspond to the priorities agreed and reciprocal undertakings made between the EEC and each of the ACP States concerned during the programming exercise, and take account, especially in the case of general import programmes, of the adjustment programmes and reforms decided on in agreement with the World Bank or the IMF.

15. The counterpart funds in local currency raised from the sale of the imports thus financed would be used, by agreement between the Community and the government of the recipient country, to further the priorities mentioned above.

This financing will be coordinated with similar operations carried out by other multilateral or bilateral donors, notably the Member States.

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[1] Conclusions concerning aid for maintenance, adopted on 3 December 1982 (see Annex 1).

The Commission will present a mid-term report on the programme's implementation.

(b) Recipient countries

16. The level of indebtedness in sub-Saharan Africa is far from uniform. Some countries have hardly any particular problems. In the case of others, the further easing of terms by the Club of Paris currently under way, should, alone or in conjunction with changes in the practices of commercial banks, be enough to solve some temporary difficulties.

There remains a third group of countries, most of whose debts are owed to public, mainly multilateral, creditors, and which are very dependent on official development assistance. This group is undergoing extremely serious problems and need to be treated as a special case.

These were the countries that received special attention at the Venice Summit and for which the special Community programme is designed.

17. At this stage, rather than draw up an exhaustive list with all the danger of inflexibility this would involve in face of a very fluid situation and a lack of reliable statistics on the debt of some countries, the Commission proposes an approach based on eligibility criteria that would allow flexible adaptation to whatever situation presents itself during the application period of the programme (developments in the debt situation, action by the Club of Paris, degree of effective growth of financing under the IMF's Structural Adjustment Facility, etc.).

Notwithstanding this flexible approach and in view of the relatively small amount available under the proposed special programme, the Commission believes that the funds available should be concentrated as much as possible on a restricted number of countries with quite special problems.

18. The Commission proposes three criteria of eligibility, namely countries:

(i) with low per capita income and no access to capital markets, characteristics reflected in their eligibility for access to financing from the International Development Association (IDA);

(ii) which are highly indebted, the debt burden seriously affecting their capacity to import and hence any renewed development;

(iii) engaged in major policy adjustment and reform measures that merit and provide grounds for Community support.

These criteria are consistent with those selected by the World Bank in its recent proposals for tackling the same problem.[1]

[1] "Elements of a special action program for low-income debt-distressed African countries" (June 1987).

(c) Financing of the special programme

19. The financial resources available for the implementation of the programme will total, as mentioned earlier, 100 million ECU. The Commission proposes that part of this sum, 40 million ECU, be financed from the non-allocated funds remaining from the previous Conventions.

The allocation of such a sum will mean some degree of additionality for countries where operations under the special programme are concentrated. To accentuate the effect of the actual additionality - so as to establish more firmly the credibility of the Community initiative - the Commission proposes that the other part, 60 million ECU, be financed by the partial recycling of funds accruning from the payment by the ACP countries of interest and capital relating to special loans and risk capital accorded by the Community.

This measure, clearly demonstrating the Community's determination, as a creditor of the countries concerned, to take special and imaginative steps, would draw its inspiration from the precedent set by the Stabex Decision of July 1982 and the provisions governing IDA resources whereby repayments of capital are automatically made available for further financing.

(d) Formula for establishing contributions

20. Since this operation falls witin the framework of ACP-EEC relations, and by analogy with the 1982 Stabex decision, these additional resources should, in the Commission's view, be contributed by the Member States on the basis of the financing formula used under the present Convention. If the Council adopts this formula, the Member States' contributions to make up the 60 million ECU would be as follows:

	million ECU	%
Belgium	2.38	3.96
Denmark	1.25	2.08
Germany	15.64	26.06
Greece	0.74	1.24
France	14.15	23.58
Ireland	0.33	0.55
Italy	7.55	12.58
Luxembourg	0.11	0.19
Netherlands	3.38	5.64
United kingdom	9.95	16.53
Spain	4.00	6.66
Portugal	0.53	0.88
	60.00	100

(e) Recycling of the funds in the Member States' special accounts at the EIB, and EDF advances

21. According to estimates and forecasts carried out for purposes of information by EIB officials on the basis of the debt situation at 31 May, net revenue accruing to the Member States' special accounts should stand at some 16.8 million ECU in the second half of this year, 32 million ECU in 1988 and 36.7 million ECU in 1989.

If the actual balance at 30 June (26.6 million ECU) is added, the total amount available in the special accounts should be enough to cover the requirement for an additional 60 million ECU as long as the basic assumptions hold true,[1] namely:

(i) that the ACP countries fulfil their obligations in full and on time;
(ii) that the Member States do not make any withdrawals after 1 July.

While the overall amount for the financing of the programme might seem large, this is not true of the Member States' individual contributions, especially in view of the fact that much of the current balance and future revenue comes from operations carried out under Conventions previous to Lomé I (see table overleaf).

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[1] Basis for calculation

(a) forecast revenue from loans paid out at 31 May 1987, net of EIB management commission, plus future interest to be paid by the Bank on deposits;[2] (b) balance in the special accounts at 30 June 1987.

[2] The interest on deposits will obviously shrink since there will be a loss of earnings as a result of the special accounts being drawn on to finance the programme. This is why the Commission will make sure that whenever possible payments will be made by drawing on the 40 million ECU derived from the non-allocated funds remaining from previous Conventions (see point 19).

(million ECU)

	Contribution to special programme	Forecast assets in special accounts at 30.6.87	Deficit
Belgium	2.38	11.0	-
Denmark	1.25	1.12	0.13
Germany	15.64	22.61	-
Greece	0.74	0.36	0.38
France	14.15	19.59	-
Ireland	0.33	0.28	0.05
Italy	7.55	17.79	-
Luxembourg	0.11	0.70	-
Netherlands	3.38	8.98	-
United Kingdom	9.95	8.85	1.10
Spain	4.00	-0.08	4.00[1]
Portugal	0.53	-0.01	0.53[1]
TOTAL	60.00	91.19	6.19

22. By analogy with the Stabex Decision of July 1982, and in order to avoid some Member States having to make specific transfers to the European Development Fund, the Commission proposes that their contributions to the special programme be prefinanced, if these Member States so wish, by means of advances from EDF funds in accordance with the procedures set out in the draft Decision in the Annex.

Total prefinancing would amount, by the end of the implementaion period of the special programme, to some 6 million ECU, if the assumptions set out in point 15 prove accurate. The sum would be repaid to the EDF by the Member States concerned as and when future revenue accrues to their special accounts.

(f) Implementation procedures

23. The financing of the special programme by means of:

(i) outstanding balances remaining from previous Conventions, and
(ii) the recycling by the Member States of some of the payments made by the ACP countries

will entail different procedures.

[1] Not including the amount still outstanding for the commissions charged on opening the risk capital file.

The utilization of the resources referred to in (i), which go back into the pool of EDF resources, do not require the adoption of a special decision by the Council. The individual financing decisions will be taken by the Commission on a case-by-case basis following the normal procedures and after receiving the opinion of the EDF Committee.

The utilization of the revenues referred to in (ii), on the other hand, will require a prior decision by the Council as regards:
(i) the allocation of this revenue to the proposed programme;

(ii) the procedures for committing and paying the corresponding allocations, which, for the most part, the Commission proposes to base on those in force for the utilization of Lomé III allocations.

CONCLUSION

24. To sum up, the Commission requests that the Council:

(a) agree that the Member States should confirm their readiness:
- to take special measures to aid the countries in question in conjunction with their main partners;
- to take an active part in the talks on this subject that were decided at the Venice Summit so that decisions can be reached on concrete action within the time-limit set at the Summit;
- to cooperate closely to this end within the relevant Community bodies.

(b) note the Commission's intention, in agreement with each country concerned, to increase the proportion of quick-disbursing non-project aid to 20% of programmable aid;

(c) approve in principle the implementation of a special 100 million ECU programme for certain highly indebted low-income African countries and the general guidelines for its implementation set out earlier, notably as regards:
(i) the implementation schedule,
(ii) the type of operations to be financed,
(iii) the eligibility criteria for choosing the beneficiaries.

(d) note the Commission's intention to allocate 40 million ECU from the outstanding balances remaining from previous Conventions to finance the programme;

(e) decide, by adopting the draft Decision in Annex II:
- on the allocation to the special programme of 60 million ECU by means of a partial recycling of the repayments of interest and capital made or to be made by the ACP States relating to special loans and risk capital accorded by the Community;
- the application of the formula used for the sixth EDF for calculating the contributions;
- the use of the commitment and payment procedures in force under the sixth EDF for the resources referred to above.

ANNEX I

Council conclusions on maintenance assistance

Introduction

Following the worsening of the economic and financial situation in a large number of developing countries and in particular in the poorest countries, the Community is receiving an increasing number of requests for maintenance assistance.

In these circumstances it would seem advisable to lay down guidelines for allocating maintenance assistance.

These guidelines apply insofar as the existing legal bases allow for maintenance assistance.

This text does not cover aid to consumption since this is covered at Community level by the existing provisions on food aid and emergency aid.

Objectives

Ensuring the operation of the productive capacities of a certain sector of the economy of a developing country.

Reason: the operation of the production system has, in certain situations, priority over investing in a new project or programme.

The terms "productive capacities", "production system" and "production sectors" should be understood in a broad sense.

.../...

Types

- aid for the continuation of previously initiated action;
- aid towards the operation of production sectors;

in the form of the supply or financing of inputs into the production system, e.g. raw materials, spare parts, fertilizers, insecticides, inputs for improving health and education services, but excluding budgetary assistance.

General characteristics

- at the request of a developing country, taking into account the development priorities of that country and in accordance with Community development policy;
- intended to deal with a serious situation, particularly in low-income countries, involving an exceptional and increasing shortage of foreign exchange and/or local resources which rules out adequate maintenance of productive capacities, thus threatening vital economic functions and economic and social development achievements.

Implementation of aid

- where a serious situation as referred to above is of a structural nature, assistance will be linked to measures designed to solve the underlying problems, so that the need for it disappears after a certain time; these measures will be in the form of, primarily sectoral, investment projects or programmes and/or economic policy measures adopted by the recipient country;
- aid will be subject to a time-limit; without prejudice to the legal texts which apply, it will be degressive; where appropriate it will be phased and subject to annual review;

....

- within the framework of co-operation between the Community and the recipient country and in order to avoid duplication, all relevant factors - including any assistance from bilateral and multilateral donors and from international financial institutions - are to be taken into account;
- aid will be implemented on the same conditions as investment aid;
- any counterpart funds will be used, with the Community's agreement, for projects or programmes;
- all the objectives and components of the aid, including the use of counterpart funds, are to be defined in detail.

COUNCIL DECISION

on the allocation of 60 million ECU
for the implementation of a special programme
to aid certain highly indebted low-income African countries

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,

Having regard to the Third ACP-EEC Convention, signed in Lomé on 8 December 1984, hereinafter referred to as "the Third Convention",

Having regard to the 1985 Internal Agreement on the financing and administration of Community aid, hereinafter referred to as the "Internal Agreement", and in particular Article 9(1) thereof,

Having regard to the proposal from the Commission,

Whereas the problems of debt were the subject of close attention at the Venice Summit and it was recognized that the problems of the highly indebted low-income countries of sub-Saharan Africa had to be treated as a special case;

Whereas a special 100 million ECU programme in aid of these countries should be implemented in 1988 and 1989 for the financing of quick-disbursing non-project aid; whereas 40 million ECU will be drawn from the outstanding balances of previous Conventions;

Whereas to provide the 60 million ECU not covered by the outstanding balances, recourse shold be had to the possibilities provided for in Article 9(1) of the Internal Agreement with a view to financing part of this special programme,

HAS DECIDED AS FOLLOWS:

Article 1

From the payments, proceeds and income referred to in Article 9(1) of the Internal Agreement from operations financed under the second, third, fourth, fifth and sixth European Development Funds there shall be allocated, after deduction of any commission due to the European Investment Bank, hereinafter referred to as "the Bank", 60 million ECU for financing part of a special programme for the highly indebted low-income countries of sub-Saharàn Africa, hereinafter referred to as "the Special Programme".

Article 2

The amount referred to in Article 1 shall be allocated, in accordance with the procedures in force under the Third Convention, for utilization as non-reimbursable non-project aid to finance sectoral or general import programmes provided that these programmes concern essential imports that contribute to the optimum functioning of the production sectors of the economy and help meet basic human needs.

Article 3

Countries which may benefit from the special programme shall be those which:

- are eligible for financing from the International Development Association,
- have a debt burden that seriously affects their capacity to import,
- are engaged in major policy adjustment and reform.

Article 4

The amount referred to in Article 1 shall be broken down as between the Member States by means of the financing formula used under the Third Convention. It shall be paid by the Bank to the Commission, at the Commission's request, subject to the actual availability of the sums and currencies.

The conversion rates between those currencies and the ECU shall be those of the second working day before payment.

Contributions from Member States that are not covered by a credit balance on their special accounts shall be prefinanced, for those Member States which so desire, by an advance from EDF resources, to be repaid as future revenue accrues to those accounts.

Article 5

This Decision shall be published in the Official Journal of the European Communities. It shall take effect on the day following its publication.

Done at

For the Council