Development cooperation: exceptional aid for heavily indebted ACP countries, HIPC Initiative

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OBJECTIVE: to propose a mechanism allowing 11 heavily-indebted ACP states to lighten their debt to the Community. The proposal constitutes the Community's response to the 'debt initiative' proposed by the World Bank and the IMF with a view to reducing the debt burdens of certain heavily-indebted poor countries (HIPCs). SUBSTANCE: in autumn 1996 the World Bank and the International Monetary Fund decided to implement an international action programme to help heavily-indebted poor countries (the HIPC Debt Initiative), so as to help them pursue sound policies aimed at growth and focus on sustainable development and the fight against poverty. At the moment, 13 countries are listed as eligible for this type of assistance, including 11 ACP states on which the Community has claims. These are Burundi, Ethiopia, Guinea-Bissau, Madagascar, Mozambique, Niger, Rwanda, Sao Tome e Principe, Uganda, Zaire and Zambia (the other two, on which the Community does not have any claims, are Myanmar and Nicaragua). The Community contribution to this initiative would aim at: 1) providing additional support for the process of structural adjustment, decided on a case-by-case basis for each country; 2) envisaging support for operations to re-purchase the commercial debt; 3) reinforcing debt management support measures; 4) reducing the present net value of the debt of the ACP states to the Community by refinancing existing claims through non-repayable grants. To benefit from the initiative, the countries concerned should provide evidence of a good economic performance over a certain period. The Community claim on these countries amounts to ECU 595 million in nominal terms, of which special EDF loans account for 69%, risk capital for 30%, and EIB loans on own resources for 1%. The present value of these claims amounts to about ECU 300 million. The cost of the support initiative to the Community would be around ECU 150 million. In concrete terms, this means that the cost of this debt relief mechanism, on average, would not exceed a few tens of millions of ECU per year. As far as the Commission is concerned, an allocation of ECU 25 million per year for the four years from 1997 to 2000 (total of ECU 100 million) would appear to be sufficient to cover needs. The Commission proposes that the cost of debt relief incurred by the Community be covered by the allocation of reflows from EDF-financed loans. A Council decision authorizing this would be consistent with the internal agreement on the financing and administration of Community aid within the framework of Lomé IV.