

ACP-EU JOINT PARLIAMENTARY ASSEMBLY

Committee on Economic Development, Finance and Trade

24.08.2011

DRAFT REPORT

on the impact of debt on development financing in ACP countries

Committee on Economic Development, Finance and Trade

Co-rapporteurs: Mr Amadou Ciré Sall (Senegal) and Mr Robert Sturdy

PART A: DRAFT MOTION FOR A RESOLUTION

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PROCEDURAL PAGE

At its meeting of 1 December 2010, the Bureau of the ACP-EU Joint Parliamentary Assembly authorised its Committee on Economic Development, Finance and Trade to draw up a report, pursuant to Rule 2(8) of its Rules of Procedure, on the impact of debt on development financing in ACP countries.

At its meeting of 17 March 2011, the Committee on Economic Development, Finance and Trade appointed Mr Amadou Ciré Sall (Senegal) and Mr Robert Sturdy.

The Committee on Economic Development, Finance and Trade considered the draft report at its meetings of 5 October and 19 November 2011.

At the latter meeting, it adopted the accompanying draft motion for a resolution.

The following were present for the vote: ...

The resolution was tabled for adoption on ...

MOTION FOR A RESOLUTION

on the impact of debt on development financing in ACP countries

The ACP-EU Joint Parliamentary Assembly,

- meeting in Lomé (Togo) from 21 to 23 November 2011,
- having regard to Article 17(1) of its Rules of Procedure,
- having regard to the ACP-EU Partnership Agreement signed in Cotonou on 23 June 2000 and revised in 2005 and 2010, and in particular Articles 60 and 66 thereof,
- having regard to the UN Millennium Declaration of 8 September 2000, which sets out the Millennium Development Goals (MDGs) as objectives established jointly by the international community for the elimination of poverty and hunger,
- having regard to the Monterrey Consensus, adopted at the International Conference on Financing for Development held in Monterrey, Mexico, on 18-22 March 2002,
- having regard to the Conference on Innovative Financing held in Paris on 28 and 29 May 2009 and the International Conference on Development Financing held in Doha between 28 November and 2 December 2008,
- having regard to the Heavily Indebted Poor Country (HIPC) Initiative launched in 1996 by the IMF and World Bank with the aim of ensuring that no poor country faces a debt burden it cannot manage,
- having regard to the Multilateral Debt Relief Initiative (MDRI) launched in June 2005 by the G-8,
- having regard to the draft UNCTAD principles on promoting responsible sovereign lending and borrowing, of 26 April 2011,
- having regard to the European Consensus on Development¹,
- having regard to the Commission Staff Working Paper "Supporting developing countries in coping with the crisis - Where does the EU go from Doha? What prospects for meeting the EU targets of 2010 and 2015?" of 15 April 2009,
- having regard to the report of the Committee on Economic Development, Finance and Trade (ACP-EU/...),

¹ OJ C 46, 24.2.2006, p. 1.
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- A. whereas the global crisis has led to increased sovereign debt levels in many countries around the world and whereas one third of ACP countries are either in debt distress or at a high risk of debt distress,
- B. whereas servicing high levels of debt can become an obstacle to development by diverting significant budgetary resources from investment in social sectors and poverty-related spending; whereas debt servicing could also reduce investments necessary to stimulate economic growth,
- C. whereas donors should assist ACP countries to reach and maintain a sustainable level of debt in the long term, thus reinforcing their efforts to reduce poverty and promote growth; whereas, in this sense, it is commendable that the Paris Club of creditors cancelled in July 2010 a second tranche of debt owed by Seychelles to help the country get its debt on a sustainable footing,
- D. whereas debt relief is one of the targets of Millennium Development Goal 8, which aims specifically to deal comprehensively with developing countries' debt problems through national and international measures to make debt sustainable in the long run,
- E. whereas currently the most significant international debt relief instruments to developing countries are the Heavily Indebted Poor Countries Initiative (HIPC) and the Multilateral Debt Relief Initiative (MDRI); whereas, as of December 2010, debt reduction packages under the HIPC Initiative have been approved for 36 countries, 32 of which in Africa, providing US\$72 billion in debt-service relief over time; whereas the European Commission and EU Member States bear the bulk of the cost of HIPC and MDRI,
- F. whereas HIPC and MDRI are coming to an end and policy reforms and new international mechanisms dealing with loan contraction, debt management and resolution are therefore needed;
- G. whereas future debt management and sustainability mechanisms should not only be based on financial considerations but need to factor in the spending needs of the indebted developing countries to achieve the MDGs,
- H. whereas ACP countries' oversight bodies such as supreme audit institutions, parliaments and civil society organisations should play a major role in monitoring government use of budgetary resources, thus reducing mismanagement of public funds,
- J. whereas good governance, the rule of law and transparency are indispensable for the proper management of public funds and debt sustainability,
- K. whereas, in the aftermath of the global economic crisis, ACP countries should pay increased attention to domestic mobilisation of resources as a palliative for a

possible reduction of foreign aid and foreign source of finance for the implementation of their poverty reduction strategies,

1. Calls on the EU and other donors to enact a set of guidelines on responsible financing;
2. Calls on the EU and relevant international bodies to jointly work out, in cooperation with the African Union and other regional institutions representing ACP countries, clear and transparent set of rules for debt sustainability assessment based on independent impact assessments, which factors in the spending needs of developing countries to fulfil the fundamental rights of their citizens; believes that this set of rules would allow donors to objectively establish the appropriate debt offsetting scheme for individual countries, thus reducing the scope for over-politisation of decision-making on debt relief, including possible corruption on the donor's side (retro-commissions);
3. Considers that, on a case-by-case basis, an appropriate debt offsetting mechanism for each indebted ACP country should be worked out, where donors take into account the particular situation of the partner state and its overall development level; is of the opinion that the debt offsetting mechanisms for developing countries could be in the form of debt cancellation, debt rescheduling, debt repayment, or a mix of these options;
4. Calls on donors to jointly define with the partner ACP country the specific conditions attached to its debt offsetting scheme, in order to strike the right balance between the obligation to service the debt and the obligation to provide for the basic population's needs;
5. Considers that any additional funds obtained by ACP governments through debt cancellation should be allocated to increase social expenditure in areas such as basic education, primary health care and HIV/AIDS, thus contributing to the attainment of the MDGs; calls therefore on the Commission to explore with partner ACP countries the possibility of debt transformation into public investment in social services and public goods as part of their particular debt relief scheme or in combination with other schemes;
6. Calls on the Commission and donor countries to assist ACP countries in designing national debt strategies within the context of their national development strategies;
7. Calls on the EU and the OECD not to broaden the definition of official development aid (ODA) by counting debt cancellation as aid spending;
8. Calls on the Commission to closely monitor (with the assistance of the International Monetary Fund and the Association of European Development Finance Institutions) the evolution of the indebtedness rate of ACP countries, with a special focus on the situation of the Least Developed Countries and the Small Island Developing States;

9. Calls on the Commission to regularly inform, in the form of a report, the ACP-EU Joint Parliamentary Assembly about the debt offsetting schemes in place with the partner ACP countries and their impact on the countries' capacity to meet the MDGs, especially with regard to the fight against hunger and malnutrition, and provision of health services;
10. Urges the partner ACP countries to take seriously the due servicing of both their foreign and domestic debt;
11. Calls on the partner ACP countries to step up their domestic efforts with respect to sound financial management, budgetary control, fight against corruption, fraud, and tax evasion and to sustain their long-term efforts to create the required stable economic environment to be able to better develop their domestic financial markets and banking sector;
12. Considers that ACP countries should focus on designing and implementing sustainable taxation systems, including the creation of a robust tax collection body empowered to defend the essential interest of the state in accessing what should be the primary source of state funding;
13. Calls for enhanced cross-border cooperation between ACP countries in exchanging best practices regarding the preparation of their public budget and control of its use for the public welfare; recommends that under the 11th EDF the Commission earmarks greater funding for technical assistance and capacity building in ACP countries for budget setting and control and for debt management;
14. Instructs its Co-Presidents to forward this resolution to the ACP-EU Council of Ministers, the European Commission, the European Parliament, the World Bank, the International Monetary Fund and EU Member States.