COMMISSION OF THE EUROPEAN COMMUNITIES

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Proposal for a

COUNCIL DECISION

granting a Community guarantee to the European Investment Bank against losses under loans for projects outside the Community (Central and Eastern Europe and Wester Balkans, Mediterranean countries, Latin America and Asia, and the Republic of So Africa)

(presented by the Commission)

EXPLANATORY MEMORANDUM

1. Introduction

1.1 This proposal for a Council Decision deals with the renewal of the Community budget guarantee to the European Investment Bank (EIB) for the loans it grants from its own resources in various non-member countries (Central and Eastern European countries [1], Mediterranean, Asian and Latin American countries, and the Republic of South Africa). In general, the current EIB mandates guaranteed by the Community expire at the end of January 2000. For political and practical reasons, it is desirable that the Bank's operations in third countries continue to run smoothly and it is to this end that the Commission is submitting this proposal.

1.2 EIB loans guaranteed by the Community budget are subject to the arrangements set out in the Guarantee Fund Regulation adopted in 1994.[2] In association with the Fund, the Financial Perspective has established a reserve for loans and loan guarantees which effectively sets a yearly ceiling on loans and guarantee commitments. In this respect, we note that the adoption of Agenda 2000 will establish the next Financial Perspective, including the above-mentioned reserve, and that, as part of Agenda 2000, the Commission submitted a report on the functioning of the Fund as well as a proposal to amend the existing Regulation.[3]

The attached proposal fulfils the underlying assumption of Agenda 2000, namely that the annual volume of the Community's external lending for the duration of the next Financial Perspective will be comparable to current volumes. Furthermore, following the strategy outlined at the time of the previous renewal of the mandates,[4] it is proposed that the lending period extend, in principle, until the end of the Perspective.

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1 In respect of EIB lending in third countries, the Bank has established a pre-accession Facility to assist the countries which have applied for EU membership in their progress towards integration. The Facility doubles the Community mandate in central and eastern Europe and lending under the Facility (from the Bank's own resources) is not covered by budgetary guarantee.

2 Council Regulation No 2728/94 (OJ L 293, 12.11.1994).

3 COM(1998)168 final of 18 March 1998.

4 COM(96)586 of 13 November 1996.

2. EIB operations in third countries

2.1 At present, the Bank lends in Central and Eastern Europe, the Mediterranean countries, Asia/Latin America and the Republic of South Africa under the regional mandates defined in the framework Council Decision of 14 April 1997.[5] The Decision was amended on 19 May 1998 so as to extend the Community guarantee for the EIB to cover loans for projects in the Former Yugoslav Republic of Macedonia (FYROM).[6] The amendment follows the cooperation agreement between the Community and this country, which came into force on 1 January 1998 and includes a protocol providing for possible EIB financing out of own resources.

The regional/country ceilings and expiry dates of the three-year mandates defined by the framework Decision as amended are summarised in Table 1, which also shows that at 31 December 1998 the Bank had signed loans for a total of euro 4 733 million, representing in terms of the regional mandates a high proportion of the respective ceilings. Furthermore, if account is taken of projects identified or approved but not yet signed, the Bank has an amount in the pipeline that covers all the regional ceilings.

Table 1. EIB mandates (own resources)

Regional/country mandates	**Ceiling (in euro m)**	**Contracts Signed at 31.12.1998**	**Expiry date (three-year mandates)**
Central and Eastern Europe[7, 8]	3 520	2 463 (70%)	31.1.2000 (+6 months)
Mediterranean countries [9]	2 310[10]	1 611 (70%)	"
Asia and Latin America [11]	900	454 (50%)	"
Republic of South Africa	375	135 (36%)	30.6.2000 (+6 months)
FYROM	150	70 (47%)	31.12.2000(+6 months)
TOTAL	**7 255**	**4733 (65%)**	

5 Council Decision 97/256/EC (OJ L 102, 19.4.1997).

6 Council Decision 98/348/EC (OJ L 155, 29.5.1998).

7 Albania, Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia.

8 At 31 December 1998 lending under the EIB pre-accession facility totalled euro 1320 million in Central and Eastern Europe and euro 50 million in Cyprus.

9 Algeria, Cyprus, Egypt, Gaza-West Bank, Israel, Jordan, Lebanon, Malta, Morocco, Syria, Tunisia and Turkey.

10 The ceiling does not include the special measure in favour of Turkey taken in the context of the customs union.

11 Bangladesh, Brunei, China, India, Indonesia, Macao, Malaysia, Mongolia, Pakistan, Philippines, Singapore, Sri Lanka, Thailand and Vietnam in Asia; Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela in Latin America.

In addition to the above mandates, on 14 December 1998 the Council decided to amend yet again the framework Decision (97/256/EC) in order to extend the budget guarantee to cover loans of up to euro 100 million granted by the Bank in Bosnia and Herzegovina over a period of two years [12].

To complete the picture, it should be noted that a special measure in favour of **Turkey** was taken in the context of the customs union with this country. By way of financial cooperation, the Council envisaged EIB loans of up to euro 750 million for a period of five years starting on 1 January 1996. This measure was vetoed by Parliament.

2.2 EIB lending is one of the Community's financial commitments to third countries and is conducted within the framework of Community programmes. The Bank lends in these countries out of its own resources and according to its own criteria. Nevertheless, each mandate has its own distinguishing features: thus in Central and Eastern Europe, the Bank mandate is geared to assisting countries to prepare for EU membership by facilitating adoption of the *acquis communautaire*; the Mediterranean mandate reflects the Euro-Mediterranean Partnership launched by the European Union and its Mediterranean partners at the Barcelona Conference of November 1995 and later confirmed and consolidated at the Palermo Conference of June 1998; in Asia and Latin America, the Bank mandate serves to finance projects of interest to both the Community and the countries concerned; finally, the objective of the mandate in the Republic of South Africa is to assist the country's new democracy and contribute to its reconstruction and development programme.

3. Council guidelines on EIB external lending guaranteed by the Budget

This proposal for the renewal of the budget guarantee to the Bank for lending outside the Community is not only consistent with the Agenda 2000 proposal, as mentioned earlier, but it also complies with the guidelines given by the Council (Ecofin) in this respect (October 1996). These are:

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12 Council Decision 98/729/EC (OJ L 346, 22.12.1998)

- The Community budget shall cover *the political risks*. These are those defined as arising from currency non-transfer, expropriation, war or civil disturbance.

- The *commercial risk* shall be shared between the EIB and the Community budget. In this respect, the Bank is called on to secure, in respect of a significant proportion of its lending, adequate third-party guarantees.

- The EIB's creditworthiness must be safeguarded.

- The volume of external lending must comply with the Financial Perspective and with Community budget discipline as well as with internal Bank guidelines on external lending, which ensure that the essential and primarily Community vocation of the Bank will not be compromised.[13]

4. Renewal of current mandates

The guarantee system

4.1 In agreement with the Council guidelines, the current guarantee system has two components: a risk-sharing element and a blanket guarantee.

4.2 The framework Decision of April 1997 introduced for the first time a **risk-sharing** element that separates the commercial and political risks in the Community guarantee scheme along the lines suggested by the Council. Risk-sharing is defined in Article 1(3) of the Decision, which stipulates: "*The European Investment Bank is invited to aim to cover the commercial risk on 25% of its lending under this decision from non-sovereign guarantees to be expanded upon whenever possible insofar as the market permits on an individual mandate basis.*"

Table 2 shows the risk-sharing situation as at 31 December 1998. According to the figures, the Bank has already exceeded the 25% target (% of ceiling) in Asia and Latin America and prospects for reaching the target in Central and Eastern Europe are good.

13 The internal EIB guidelines currently specify that EIB lending from own resources outside the Community should not, in principle, exceed 10% of total loans outstanding.

The low level of risk-sharing operations in the Mediterranean is largely explained by the nature of the Euro-Mediterranean partnership, which calls for particular assistance to public-sector reform projects with governments or public bodies as main borrowers.

In terms of the *overall mandate*, the risk-sharing target is likely to be achieved: at 31 December 1998 risk-sharing amounted to euro 1120 million or 15.4% of the overall mandate and 23.7% of lending to date. In this context, the Bank's own pre-accession facility should also be mentioned. At 31 December 1998 loans signed under the facility totalled euro 1 370 million granted *entirely* at the Bank's own risk.

Table 2. Risk-sharing as at 31 December 1998

Regional/country mandates	Ceiling (in euro m)	Contracts Signed (in euro m)	Risk-sharing lending			
			Number of loans	euro m	% of ceiling	% of contracts signed
Central and Eastern Europe	3 520	2 463	16	735	21%	30%
Mediterranean countries	2 310	1 611	4	66	3%	4%
Asia and Latin America	900	454	7	319	35%	70%
Republic of South Africa	375	135	---	---	---	---
FYROM	150	70	---	---	---	---
TOTAL	**7 255**	**4 733**	**27**	**1120**	**15.4%**	**23.7%**

The results of the risk-sharing arrangement so far would seem to indicate that the 25% risk-sharing target for the use of non-sovereign guarantees is unlikely to be reached on each of the individual mandates, but it could be attained on an overall basis. In view of the results and of the length of the new period proposed, *the Commission proposes that the current risk-sharing arrangement should continue, but that the overall current target should be increased to 30%*.

4.3 The second component of the scheme is the **blanket guarantee** that at present stands at 70%. It covers the commercial risk not underwritten by the above risk-sharing arrangement as well as the political risk in all cases. The blanket guarantee refers to the total amount guaranteed without distinguishing between regions.

In 1996 the Commission, with the agreement of the Bank, proposed to the Council [14] that the level of the blanket guarantee should be limited to 50% for the established mandates in the foreseeable future. It stands by the technical assessment made at the time, namely that this is sufficient to safeguard the creditworthiness of the Bank. Nevertheless, given that the EIB has recently assumed considerable risk on external lending though the Bank's own pre-accession facility, the Commission proposes a *blanket guarantee of 60%* for the period covered by the mandate as a compromise.

Beneficiaries and eligible countries

4.4 Since the adoption of the framework Decision of 14 April 1997 and as mentioned above, the Bank is operating in FYROM and likely to start operating soon in Bosnia and Herzegovina. In both cases, EIB operations are or will be undertaken under a specific country mandate. For the forthcoming lending period and in so far as both **FYROM** and **Bosnia and Herzegovina** benefit from PHARE assistance, the Commission proposes to include them in the Central and Eastern European mandate and to rename this mandate **"Central and Eastern Europe and Western Balkans"**. In the case of Bosnia and Herzegovina, this proposal is subject to the report to be submitted by the Commission before the end of 1999 being favourable to the continuation of EIB operations.

4.5 Similarly, since the last renewal of EIB mandates, the Community has concluded new cooperation agreements with some countries or has upgraded existing ones with others. Accordingly, the Commission proposes to add **Nepal, Yemen, South Korea** and the **Lao PDR** to the list of countries eligible for EIB financing under the **Asia and Latin America** mandate. The agreements with Nepal, Lao PDR, and Yemen entered into force on 1 June 1996, 1 December 1997 and 1 July 1998 respectively, whereas the agreement with South Korea, signed on 28 October 1996, is due to enter into force during the first half of 1999. This brings to 35 the number of countries eligible for EIB financing, of which 18 are in Asia and 17 in Latin America.

[14] Community budget guarantees in respect of EIB lending outside the Community (SEC(96)1131 of 26 June 1996). At present however the Bank would prefer the existing 70% level of coverage to be retained.

4.6 As far as the Republic of South Africa is concerned, the Commission view is that the current budget guarantee for EIB lending there should, for the time being, be renewed within the general framework. The country may be included in future arrangements for the Lomé countries currently being discussed within the Council, but the situation is far from clear at present and it therefore seems best to continue with the current arrangements until a decision on the post-Lomé arrangements is adopted.

4.7 Regional mandates do not have country ceilings, thus allowing the full use of all available funding. It should be noted however that the Bank is required to ensure as far as possible a *balanced distribution* of its loans among the countries covered in the mandates. Furthermore, Bank financing in eligible countries should be managed in such a way as to support Community policies in those countries and to enhance coordination with the Community's other financial instruments.

Mandate period and ceilings

4.8 In the Agenda 2000 proposals mentioned above, the Commission's underlying assumption is that the annual volume of the Community's external lending (loans and loan guarantees) for the duration of the next Financial Perspective will be *comparable* to current volumes. In terms of 100% guaranteed lending, this amounts to about euro 2.5 billion per year (1999 prices). However, the actual lending capacity is higher since EIB lending is currently guaranteed at 70%.[15] Agenda 2000 reflects the principle of budgetary discipline highlighted in the Luxembourg and Cardiff European Council conclusions. Furthermore, as far as EIB lending is concerned, the Bank, as mentioned earlier, must respect the guidelines for external operations (currently the external lending ratio stands at just above 10%).

4.9 Within the framework outlined, the Commission proposes to renew the budget guarantee to cover *a period of three and a half years starting on 31 January 2000* (three years for the Republic of South Africa in order to align this mandate with the others) and the following amounts:

[15] EIB lending under the current mandate (1997-99) amounts on average to euro 2.4 billion per year.

- Central and Eastern Europe /Western Balkans	euro	4 725 million
- Mediterranean	euro	3 100 million
- Asia/Latin America	euro	1 225 million
- Republic of South Africa	euro	425 million
TOTAL	**euro**	**9 475 million**

This regional distribution is in line with existing proportions. Compared with the previous mandate, the proposed overall EIB lending ceiling represents, broadly speaking, an nominal increase of just under 12% which, in the Commission's view, is comparable to current volumes and therefore consistent with the Commission's underlying assumption in the Agenda 2000 proposals in respect of external lending. The proposed increase is also consistent with nominal increases in budgetary assistance outside the Community proposed in Agenda 2000, e.g. Phare (15%), and with the proposed appropriations for commitments for the period 2000-2006 (17%). (For reference, it should also be mentioned that the ceiling of the current mandates, as stipulated in the Decision 97/256/EC and amended on 19 May 1998, represents an increase of about 20% relative to previous mandates).

Furthermore, the Commission proposes that at the end of the three and a half years the guarantee be *automatically extended to cover the same overall ceiling with the same regional distribution until the end of the next Financial Perspective (31 December 2006) unless the Council decides otherwise on a proposal from the Commission.* Such a proposal would be submitted before the first period expires so that Bank operations continue to run smoothly.

The reasons for proposing the above extension of the guarantee until the end of the next Financial Perspective are mainly practical. The Bank's experience has shown that a three-year period for *established regional mandates* is much too short and that for operational purposes a longer period would be preferable. In this respect, the Commission points out that under the Mediterranean Protocols the lending period was five years and takes the view that it would be natural for the Bank mandates to be scheduled so as to coincide with the period covered by the Financial Perspective, given that the Perspective establishes the reserve associated with the Guarantee Fund Regulation, to which Bank lending is subject. Furthermore, the proposed guarantee arrangements once adopted by Council should, in the Commission's view, remain unchanged in the medium term. That said, it should also be noted that during this period developments (such as the forthcoming enlargement of the Community) are likely to occur that may affect the proposed lending programmes. The extension of the guarantee for a second period in the manner proposed by the Commission aims to take account of the above requirements.

4.10 EIB lending guaranteed by the Community budget is subject to the arrangements set out in the Guarantee Fund Regulation. Payment into the Guarantee Fund amounts to euro 97.5 million per year on average on account of the proposed euro 9 475 million for a period of three and a half years, assuming a 6% provisioning rate [16] and a 60% blanket guarantee. This represents 48.7% of the annual reserve agreed by the Berlin European Council, leaving enough resources in the reserve for other actions outside the Community. Details are given in the attached Financial Statement (point 11).

5. New EIB mandates

5.1 In addition to the lending proposed in Section 4, it is likely that during the coming seven-year period covered by the next Financial Perspective, the Bank may be invited to extend its lending activities. In this respect *two actions*, referred to at the time of the previous renewal, should be highlighted again. One of these concerns the above-mentioned *special measure* adopted in favour of **Turkey** in the context of the customs union (see point 2.1) and which could be authorised and/or extended during the reference period. The other concerns the possibility of EIB lending in **Croatia**. In April 1995 the Council approved the negotiating brief for an agreement with this country for the period 1996-2000. The agreement would include a protocol on financial cooperation stipulating an amount of euro 230 million in EIB loans guaranteed by the Community. It is expected that negotiations, suspended in August 1995, will resume soon.

16 COM(1998)168 final of 18 March 1998. On 1.12.1998 ECOFIN reached a political agreement on a 9% provisioning rate. Taking account of this and of the conclusions of the Berlin European Council ("the provision for the loan guarantee reserve should not exceed euro 200 million per year – 1999 prices") the EIB lending proposed would require euro 146.2 million per year on average in reserve resources, which represents 73.1% of the annual reserve.

5.2 The possibility that the Community may conclude an agreement with the **Federal Republic of Yugoslavia** should not be excluded either, in which case the agreement is likely to include the possibility of EIB lending.

5.3 Like all EIB lending guaranteed by the budget, the expected loans in the above countries are subject to the arrangements set out in the Guarantee Fund Regulation and due consideration must therefore be given to their impact on the resources of the reserve.

Russia, Ukraine and Moldova

5.4 The possible extension of EIB operations to Russia, Ukraine and Moldova has been raised in the framework of the Partnership and Co-operation Agreements and at other high-level political meetings.

Applicants from any country, including Russia, Ukraine and Moldova can already identify projects of specific Community interest and submit them to the EIB, which would consider them under Article 18 of the Bank's Statute. The current economic and financial situation in these countries however, makes it difficult for the Bank to consider such operations without a full Community guarantee. Therefore, no EIB loans have been provided until now.

5.5 The extension of the Community guarantee for EIB lending in Russia, Ukraine and Moldova has not been considered due to a number of constraints:

- The size and needs of Russia and Ukraine. Any substantial involvement of the EIB would be a major undertaking for the Bank and cannot be compared to the addition of a small country to an established lending mandate.
- The current economic, financial and political situation in these countries.
- The Bank needs to observe a careful balance between its lending within the Community (its primary role) and elsewhere. In this respect it should be noted that the external lending ratio currently stands at just above 10%.

- Member States' tight restraints on spending are forcing restrictions on the Community Budget which underwrites all external lending and, thus, limit the capacity of the Community to expand its guarantee to new and important areas.

5.6 However, there are strong political arguments and economic reasons for considering the extension of EIB lending to these three countries:

- Their strategic importance is demonstrated by the Partnership and Co-operation Agreements which set the frameworks for the political, trade and economic relations between the Community, its Member States and the partner countries. Russia, Ukraine and Moldova are important neighbours to the EU, have close links with future Member States and represent increasingly important trade and business partners.
- The Commission proposal for a new Regulation (ex Tacis) calls for increased support for catalysing investments in the NIS through closer co-ordination and co-operation with the IFIs.

5.7 The Commission will therefore re-examine the political, economical and financial situation in Russia, Ukraine and Moldova when circumstances justify it, or at the latest in the mid-term report that will be carried out to evaluate the proposed initiative. The review will take into account, among others, the following criteria:
- Progress in terms of macro-economic stabilisation and structural reform;
- Where relevant, the existence of an IMF-supported programme;
- The climate for both public investment and private sector enterprise.

In the light of the re-examination, the Commission would consider proposing the extension of the guarantee, within the overall guarantee ceiling, to operations in Russia, Ukraine and Moldova. In such a case, the budget guarantee would aim to cover projects of specific Community economic interest (e.g. in the energy, telecommunication or transport sectors).

5.8 The extension of the EIB remit to other NIS countries could be considered at the same time.

6. Conclusion

In compliance with the Council guidelines on EIB external lending and Agenda 2000, the Commission proposes that the Council:

- call on the EIB to continue its lending operations out of its own resources in accordance with its criteria for investment projects in Central and Eastern Europe and Western Balkans, in the Mediterranean countries, in Latin American and Asian countries with which the Community has concluded cooperation agreements and in the Republic of South Africa;

- grant a Community budget guarantee to the EIB for a period of three and a half years starting on 31 January 2000 (except for the Republic of South Africa, where a period from 1 July 2000 until 31 July 2003 is suggested so as to realign mandates) in respect of 60% of all loans signed within a ceiling of euro 9 475 million, broken down as follows:

- Central and Eastern Europe/Western Balkans	euro 4 725 million
- Mediterranean	euro 3 100 million
- Asia/Latin America	euro 1 225 million
- Republic of South Africa	euro 425 million

- at the end of the period of three and a half years, automatically extend the guarantee to cover the same overall amount until the end of the next Financial Perspective unless the Council were to decide otherwise on the basis of a proposal from the Commission;

- invite the Bank to cover the commercial risk on 30% of the lending under the regional mandates defined by this proposal from non-sovereign guarantees to be expanded whenever possible;

- adopt the attached decision.

Proposal for a

COUNCIL DECISION

granting a Community guarantee to the European Investment Bank against losses under loans for projects outside the Community (Central and Eastern Europe and Western Balkans, Mediterranean countries, Latin America and Asia, and the Republic of South Africa)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 235 thereof,

Having regard to the Commission's proposal,[1]

Having regard to the opinion of the European Parliament,[2]

(1) Whereas the European Council meeting in Madrid on 15 and 16 December 1995 confirmed the importance of the European Investment Bank, hereinafter referred to as "the EIB", as an instrument of cooperation between the Community and Latin America and called on the EIB to intensify its activities in the region; whereas these projects should be of interest to both the Community and the countries concerned;

(2) Whereas the European Council meeting in Florence on 21 and 22 June 1996 welcomed the results of the Asia-Europe summit, which marked a turning-point in relations between the two continents;

(3) Whereas the European Council meeting in Amsterdam on 16 and 17 June 1997 welcomed the conclusions adopted at the Second Euro-Mediterranean Conference, which was held at

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Valletta, Malta, on 15 and 16 April 1997 and reaffirmed the principles and objectives agreed at Barcelona in 1995;

(4) Whereas the European Council meeting in Luxembourg on 12 and 13 December 1997 launched the enlargement process with the Central and Eastern European countries and Cyprus;

(5) Whereas the European Council meeting in Cardiff on 15 and 16 June 1998 welcomed the efforts which the Republic of South Africa was making to modernise its economy and integrate it into the world trading system;

(6) Whereas the EIB is completing the current loan programmes for Central and Eastern Europe, the Mediterranean region, Asia and Latin America and the Republic of South Africa pursuant to Council Decision 97/256/EC of 14 April 1997,[3] as well as the lending that is governed by the Protocol on Financial Cooperation with the Former Yugoslav Republic of Macedonia;[4]

(7) Whereas the Council has invited the EIB to start operations in Bosnia and Herzegovina; whereas these operations may be continued, subject to a positive report being drawn up as stipulated in Council Decision 98/729/EC of 14 December 1998;[5]

(8) Whereas the Cooperation Agreements between the European Community and Nepal, between the European Community and Lao PDR and between the European Community and Yemen entered into force on 1 June 1996, 1 December 1997 and on 1 July 1998 respectively; whereas the Cooperation Agreement between the European Community and South Korea, signed on 28 October 1996, will enter into force during the first half of 1999; whereas Nepal, Yemen, Lao PDR and South Korea and should become beneficiaries of EIB funding under the Bank's mandate for Asia and Latin America;

(9) Whereas it is appropriate to make certain improvements in the programmes of operations in respect of duration and country coverage;

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3 OJ L 102, 19.4.1997, p. 33.

4 OJ L 155, 19.5.1998, p. 53.

5 OJ L 346, 22.12.1998, p.54

(10) Whereas the Council is calling on the Bank to continue its operations in support of investment projects carried out in those countries by offering it the guarantee provided for in this Decision;

(11) Whereas, in June 1996, the Commission, in agreement with the Bank, presented to Council a proposal for a new guarantee system for EIB lending to third countries;[6]

(12) Whereas on 2 December 1996 the Council approved conclusions on new guarantee arrangements for EIB lending to third countries, according to which the approach of a global guarantee, without distinguishing between regions and projects, is approved and a risk-sharing scheme accepted; whereas under the risk-sharing scheme the EIB should secure adequate non-sovereign third-party guarantees for commercial risks, with the budgetary guarantee in that case covering only political risks arising from currency non-transfer, expropriation, war or civil disturbance;

(13) Whereas the guarantee arrangements will not affect the excellent credit standing of the EIB;

(14) Whereas EIB financing in eligible third countries should be managed in such a way as to support Community policies and to enhance coordination with the Community's other financial instruments; whereas, in particular, EIB financing in the candidate countries should reflect the priorities established in the accession partnerships between the Community and those countries;

(15) Whereas the Bank and the Commission will adopt the procedures for granting the guarantee;

(16) Whereas, for the purpose of adopting this Decision, the only powers provided for by the Treaty are those set out in Article 235,

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6 SEC(96)1131 of 26 June 1996.

HAS DECIDED AS FOLLOWS:

Article 1

1. The Community shall grant the European Investment Bank a global guarantee in respect of all payments not received by it but due in respect of credits opened, in accordance with its usual criteria, for investment projects carried out in the Central and Eastern European countries and Western Balkans, in the Mediterranean countries, in the Latin American and Asian countries, and in the Republic of South Africa.

This guarantee shall be restricted to 60% of the aggregate amount of the credits opened, plus all related sums. The overall ceiling of the credits opened shall be equivalent to euro 9 475 million, broken down as follows:

- Central and Eastern Europe / Western Balkans	euro 4 725 million
- Mediterranean	euro 3 100 million
- Asia/Latin America	euro 1 225 million
- Republic of South Africa	euro 425 million

and shall cover a period of three and a half years beginning on 31 January 2000 for Central and Eastern Europe and Western Balkans, Mediterranean, Asian and Latin American countries and a period beginning on 1 July 2000 and ending on 31 July 2003 for the Republic of South Africa.

At the end of this period, the guarantee shall be automatically extended to cover an additional overall ceiling of euro 9 475 million with the same regional distribution until 31 December 2006 unless the Council decides otherwise on a proposal from the Commission before the beginning of the second lending period on 31 July 2003.

If, on expiry of the two lending periods mentioned respectively in subparagraphs 2 and 3 of this paragraph, the loans granted by the Bank have not attained the overall amounts referred to above, each guaranteed lending period shall be automatically extended once by six months.

2. The countries included above are:

- Central and Eastern Europe/Western Balkans: Albania, Bosnia and Herzegovina, Bulgaria, Czech Republic, Estonia, Former Yugoslav Republic of Macedonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia;

- Mediterranean countries: Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Syria, Tunisia, Turkey, and Gaza-West Bank;

- Latin America: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela;

- Asia: Bangladesh, Brunei, China, India, Indonesia, Laos, Macao, Malaysia, Mongolia, Nepal, Pakistan, Philippines, Singapore, South Korea, Sri Lanka, Thailand, Vietnam and Yemen.

- Republic of South Africa

3. The European Investment Bank is invited to aim to cover the commercial risk on 30% of its lending under this decision from non-sovereign guarantees to be expanded upon whenever possible insofar as the market permits on an individual regional mandate basis.

Article 2

The Commission shall inform the European Parliament and the Council each year of the loan operations and progress made on risk-sharing under Article 1(3) and shall, at the same time, submit an assessment of the operation of the scheme and of coordination between the financial institutions operating in that area. To that end, the Bank shall transmit to the Commission the appropriate information.

Article 3

The Bank and the Commission shall fix the terms on which the guarantee is to be given.

Article 4

This Decision shall take effect on the day of its publication in the *Official Journal of the European Communities*.

Done at Brussels,

For the Council

FINANCIAL STATEMENT

1. TITLE OF THE OPERATION

European Community guarantee for European Investment Bank loans in the following regions:

- **Central and Eastern Europe and Western Balkans** (Albania, Bosnia and Herzegovina, Bulgaria, Czech Republic, Estonia, Former Yugoslav Republic of Macedonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia);
- **Mediterranean countries** (Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Syria, Turkey, Tunisia and Gaza-West Bank);
- **Latin America and Asia** (Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela in Latin America; Bangladesh, Brunei, China, India, Indonesia, Laos, Macao, Malaysia, Mongolia, Nepal, Pakistan, Philippines, Singapore, South Korea, Sri Lanka, Thailand, Vietnam and Yemen in Asia);
- **Republic of South Africa**.

2. BUDGET HEADINGS CONCERNED

- Art. B0-220: European Community guarantee for loans granted by the European Investment Bank to third countries in the Mediterranean Basin;
- Art. B0-221: European Community guarantee for European Investment Bank loans to third countries in central and eastern Europe and Western Balkans;
- Art. B0-222: European Community guarantee for European Investment Bank loans to other third countries;
- Art. B0-224: European Community guarantee for European Investment Bank loans to South Africa.

3. LEGAL BASIS

To be provided by the proposed decision, on the basis of Article 235 of the Treaty.

4. DESCRIPTION OF THE OPERATION

The budget entry is intended to provide budgetary back-up for guarantees granted by the European Community to the European Investment Bank to cover loans which the Bank has been asked to finance, in two lending periods as follows:

(i) a maximum of euro 9 475 million for a period of three and a half years starting on 31 January 2000 (except for the Republic of South Africa, for which a three-year period starting on 1 July 2000 is envisaged), broken down as follows:

- Central and Eastern Europe/Western Balkans	euro 4 725 million
- Mediterranean	euro 3 100 million
- Asia/Latin America	euro 1 225 million
- Republic of South Africa	euro 425 million

(ii) after the above period, the guarantee shall be extended to cover an additional overall ceiling of euro 9 475 million with the same regional distribution until 31 December 2006 unless the Council unless the Council decides otherwise on a proposal from the Commission.

5. CLASSIFICATION OF EXPENDITURE

Compulsory.

6. NATURE OF EXPENDITURE

A guarantee to the European Investment Bank.

7. FINANCIAL IMPACT ON APPROPRIATIONS FOR OPERATIONS

Only if a call is made on the guarantee.

7.1 Method of calculation

A token entry is proposed, given that the amount and timing of any call on this budget heading cannot be calculated in advance and, furthermore, it is to be hoped that this entry will not be called on.

7.2 Cost distribution by elements of the operation

Not applicable.

7.3 Operational expenditure relating to studies, meetings of experts, etc.

Not applicable.

8. FINANCING OF EXPENDITURE FOR OPERATIONS

In the event of a default, payments would be made direct from the Guarantee Fund to the creditor.

If the Guarantee Fund did not contain sufficient resources to cover a default, additional payments would be called up from the budget, with

- any margin remaining in the reserve being the first recourse;

- any margin available under the ceiling of Category 4 of the Financial Perspective or following redeployment within Category 4 being the second recourse;

- a revision of the Financial Perspective in line with the provisions of the Interinstitutional Agreement which might involve redeployment within other categories being the third recourse.

In order to meet its obligations, the Commission may provisionally undertake debt servicing by drawing on its liquid assets. In that event, Article 12 of Council Regulation (EEC, Euratom) No 1552/89 of 29 May 1989 is applicable.

9. COST-EFFECTIVENESS ANALYSIS

9.1 (i) Quantifiable objectives: See point 4 above.

(ii) Population: Mediterranean countries, Central and Eastern European countries and Western Balkans, Latin American and Asian countries, and the Republic of South Africa.

9.2 Justification of operations

To support the major political and social reforms and the fundamental restructuring of the economies in Central and Eastern European countries and Western Balkans; to support the establishment of a free-trade area and the success of the Euro-Mediterranean partnership; to foster the economic development of countries in Latin America and Asia; to support the emerging democracy and to contribute to the reconstruction and economic development of the Republic of South Africa.

9.3 Follow-up and evaluation of the action

Not applicable.

10. FINANCIAL IMPACT ON STAFF COST AND OPERATIONS

Not applicable.

11. IMPACT ON THE RESERVE FOR GUARANTEES

11.1 Provisional schedule of loans to be signed while the decision is in force (in euro m)

(i) First lending period 2000-2003 (July)

REGION	2000	2001	2002	2003 (July)	TOTAL
Central and Eastern Europe / / Western Balkans	1175	1350	1500	700	4725
Mediterranean	725	900	1000	475	3100
Asia/Latin America	300	350	400	175	1225
Republic of South Africa	75	100	175	75	425
TOTAL	2275	2700	3075	1425	9475

(ii) Second lending period 2003(July)-2006

Similar provisional schedule, i.e. euro 2 707 million per year on average.

11.2 Estimated use of the guarantee reserve to provision the Guarantee Fund: rate of provisioning: 6%;[7] assumed guarantee cover: 60 %.

(i) Lending period 2000-2003 (July)

Year	2000	2001	2002	2003	TOTAL
Amount (in euro m)	81.90	97.20	110.70	51.30	341.10

(ii) Lending period 2003 (July)-2006

Year	2003	2004	2005	2006	TOTAL
Amount (in euro m)	48.73	97.46	97.46	97.46	341.10

11.3 Estimated use of the guarantee reserve by the present proposal.[8]

(i) Lending period 2000-2003 (July)

Year	2000	2001	2002	2003
Amount in the reserve[9]	204	208	212	216
Margin within the reserve	122.10	110.80	101.30	164.70

(ii) Lending period 2003 (July)-2006

Year	2003	2004	2005	2006
Amount in the reserve [9]	216	221	225	230
Margin within the reserve	115.97	123.54	127.54	132.54

7 COM(1998)168 final of 18 March 1998. On 1.12.1998 ECOFIN reached political agreement on a 9% provisioning rate. Also, the Berlin European Council agreed that the provision for the loan guarantee reserve "should not exceed euro 200 million" per year. On this basis the estimated use of the guarantee reserve by the present proposal (Point 11.3 above) would be

(i) Lending period 2000-2003 (July)

Year	2000	2001	2002	2003
Amount in the reserve	204	208	212	216
Margin within the reserve	81.15	62.20	45.95	139.05

(ii) Lending period 2003(July) -2006

Year	2003	2004	2005	2006
Amount in the reserve	216	221	225	230
Margin within the reserve	65.96	74.81	78.81	83.81

8 Situation as at 28 February 1999.

9 Berlin European Council: Conclusions.

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