



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 18.05.1998
COM(1998) 315 final

98/0175 (CNS)

**Proposal for a
COUNCIL DECISION**

amending Decision 97/256/EC so as to extend the Community guarantee
granted to the European Investment Bank to cover loans
for projects in Bosnia and Herzegovina

(presented by the Commission)

EXPLANATORY MEMORANDUM

1. The attached proposal has been drawn up at the request of the Ecofin Council on 9 March 1998. It deals with the granting of a Community guarantee to the European Investment Bank (EIB) for lending in Bosnia and Herzegovina, out of its own resources, by means of amending the framework Council Decision 97/256/EC of 14 April 1997.
2. The proposal follows the guidelines outlined in the report to the Council addressing the possibility of a special and exceptional Community action in Bosnia and Herzegovina based on EIB lending in this country and which was presented by the Commission at the request of the Ecofin Council on 16 February 1998 (COM(98) 95 of 4 March 1998).

In particular, the proposal recommends that an amount of ECU 100 million in EIB loans for a two-year period, as from the date the Decision takes effect, be underwritten by the Community. EIB loans will be granted out of the Bank's own resources and according to the Bank's lending criteria.

3. Given the low GDP of Bosnia and Herzegovina, for the EIB to intervene effectively in this country, Bank loans would need to be combined with a substantial grant element from the Community budget which could take the form of a 2% interest-rate subsidy and/or outright grants as project co-financing and to be determined on a case-by-case basis by the Commission and the Bank. The level of the proposed interest-rate subsidy is the same as that already granted to other ex-Yugoslav republics, and most recently the Former Yugoslav Republic of Macedonia (1998-2000).
4. The procedures for the granting of interest-rate subsidies for loans made by the Bank in Bosnia and Herzegovina and/or outright grants intended as project co-financing are those laid down under Regulation (EC) No 1628/96 of 25 July 1996 relating to financial assistance for Bosnia and Herzegovina, Croatia, the Federal Republic of Yugoslavia and the former Yugoslav Republic of Macedonia. These procedures ensure that the Committee referred to in Article 12 of the Regulation is duly consulted by the Commission on every project on which it is proposed to grant an interest subsidy and/or to provide co-financing.
5. In the absence of a protocol on financial cooperation between Bosnia and Herzegovina and the Community, which usually provides the framework for Bank activity in countries outside the Community, Bank involvement should be consistent with the policy of the Union in this country. In this respect, the Bank will operate within the framework of the reconstruction programme agreed at the various donors' conferences and will work in close cooperation with the Commission. The reconstruction programme covers a wide range of sectors including the traditional sectors for Bank intervention. The particular sectors that could benefit from possible Bank financing are general infrastructure, including transport, energy and the environment, with the focus on water, waste-water and sanitation projects.

6. As with all EIB external lending guaranteed by the Community budget, the proposed lending in Bosnia and Herzegovina is subject to the arrangements set out in Council Regulation (EC, Euratom) No 2728/94 of 31 October 1994 establishing a Guarantee Fund for the Community's external lending activities.

The corresponding amendments shall be made to the agreement concluded between the Commission and the EIB referred to in Article 5 of Council Decision 97/256/EC.

The financial impact of any commitment on the reserve for loans and loan guarantees as well as on appropriations for operations corresponding to the interest-rate subsidies is given in the attached financial statement.

7. The Community guarantee for the Bank's activities in Bosnia and Herzegovina is subject to the clearance of arrears owed to the Bank, which amounted to the equivalent of some ECU 6 million (including penalties) at the end of 1997. The settlement of arrears is expected to be dealt within the framework of the IMF-supported programme.

8. In view of the above, the Commission requests the Council:

- (i) to amend Council Decision 97/256/EC so as to extend the Community guarantee to the European Investment Bank to cover an additional ECU 100 million for lending out of its own resources in Bosnia and Herzegovina for a period of two years;
- (ii) to set the level of the interest-rate subsidy at 2% for loans for projects granted by the EIB in those cases in which Community financing takes the form of interest-rate subsidies;
- (iii) to adopt the attached proposal.

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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 proposal from the Commission¹,

Having regard to the opinion of the European Parliament²,

Whereas it is necessary to increase efforts to ensure a stable political environment in Bosnia and Herzegovina; whereas, within the regional approach defined by the Council, it is desirable to consider an exceptional action aimed at rebuilding infrastructure in Bosnia and Herzegovina; whereas, in order to finance this action, it is appropriate to call on the European Investment Bank, hereinafter referred to as "the EIB"; whereas the Council has invited the Commission to present a proposal concerning the extension to Bank lending in Bosnia and Herzegovina of the arrangements laid down by Council Decision 97/256/EC of 14 April 1997 granting a Community guarantee to the European Investment Bank against losses under loans for projects outside the Community (Central and Eastern Europe countries, Mediterranean countries, Latin American and Asian countries and South Africa)³;

Whereas the involvement of the EIB in Bosnia and Herzegovina should be consistent with the policy of the Community in this country; whereas the EIB should operate within the framework of the reconstruction programme agreed at the various donors' conferences and should finance projects which are of interest to the Community and to Bosnia and Herzegovina;

Whereas the loans granted by the EIB, from its own resources under conditions laid down by it in accordance with its Statute, would need to be combined with a grant element from the Community budget for the EIB to intervene effectively; whereas, on a case-by-case basis, this grant could take the form of interest-rate subsidies and/or outright grants as project co-financing; whereas, in the case of interest-rate subsidies, it is appropriate that the subsidy rate should be the same as that already granted under the protocols on financial cooperation to other ex-Yugoslav republics;

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3 OJ L 102, 19.4.1997, p. 33.

Whereas Council Regulation (EC) No 1628/96 of 25 July 1996 relating to aid for Bosnia and Herzegovina, Croatia, the Federal Republic of Yugoslavia and the former Yugoslav Republic of Macedonia⁴, as last amended by Regulation (EC) No 851/98⁵, provides for aid measures; whereas Article 8 of that Regulation states that operations referred to in it may cover expenditure relating to interest-rate subsidies for loans granted by the EIB; whereas the procedures of that Regulation for the financing decisions relating to operations covered by it should apply to these new arrangements;

Whereas the provision of interest-rate subsidies is of an exceptional nature and should not set a precedent for Community financial assistance to Bosnia and Herzegovina;

Whereas the capacity of Bosnia and Herzegovina to service its external financial obligations should be secured by the implementation of macroeconomic reform programmes supported by the international financial institutions;

Whereas EIB lending should be conditional upon the discharge of all due and outstanding financial obligations of all public entities in Bosnia and Herzegovina towards the EIB and the Community and upon the acceptance by Bosnia and Herzegovina of responsibility by way of guarantee for such of those obligations as are not yet due;

Whereas Decision 97/256/EC should therefore be amended accordingly;

Whereas, the Treaty does not provide, for the adoption of this Decision, powers other than those set out in Article 235,

HAS DECIDED AS FOLLOWS:

Article 1

Council Decision 97/256/EC is hereby amended as follows:

1. In the title, "... Asian countries and South Africa" is replaced by "... Asian countries, South Africa and Bosnia and Herzegovina".
2. Article 1 is replaced by the following:
 - (a) paragraph 1 is replaced by the following:

"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 Europe countries, in the Mediterranean countries, in the Latin American and Asian countries, in the Republic of South Africa and in Bosnia and Herzegovina.

⁴ OJ L 204, 14.8.1996, p. 1.

⁵ OJ L 122, 24.4.1998, p. 1.

This guarantee shall be restricted to 70% of the guarantee amount of the credits opened, plus all related sums. The overall ceiling of the credits opened shall be equivalent to ECU 7 205 million, broken down as follows:

- Central and Eastern Europe countries ECU 3 520 million,
- Mediterranean countries ECU 2 310 million,
- Latin American and Asian countries ECU 900 million,
- Republic of South Africa ECU 375 million,
- Bosnia and Herzegovina ECU 100 million

That ceiling shall cover a period of three years beginning on 31 January 1997 for Central and Eastern Europe, Mediterranean and Latin American and Asian countries, and on 1 July 1997 for the Republic of South Africa. For Bosnia and Herzegovina it shall cover a period of two years beginning on [... (date of publication of amending decision) ...]. If, on the expiry of each of these periods, the loans granted by the EIB have not attained the overall amounts referred to above, the relevant period shall be automatically extended by six months.”

(b) the following sixth indent is added to paragraph 2:

- Bosnia and Herzegovina.”

3. The following Article 1a is inserted:

“Article 1a

1. The provisions of paragraphs 2 to 7 shall apply to EIB lending in Bosnia and Herzegovina.
2. The Community guarantee shall be conditional upon clearance in full by Bosnia and Herzegovina of its outstanding financial obligations towards the EIB and the Community and upon the acceptance by Bosnia and Herzegovina of responsibility by way of guarantee for such of those obligations as are not yet due.
3. EIB lending in Bosnia and Herzegovina shall be consistent with the policy of the Community in this country. The Bank shall operate within the framework of the reconstruction programme agreed at the various donors’ conferences and shall finance projects of mutual interest in general infrastructure, including transport, energy and the environment, with the focus on the water, waste-water and sanitation projects designed to speed up the reconstruction process.
4. The Commission shall ensure appropriate coordination and consistency between operations undertaken pursuant to this Decision and those undertaken pursuant to Council Regulation (EC) No 1628/96*.

5. Contributions from the Community budget for projects in Bosnia and Herzegovina covered by this Decision shall also take the form of interest-rate subsidies for loans granted by the Bank and/or outright grants intended as project co-financing. The subsidy rate shall be 2%.

Financial decisions relating to interest-rate subsidies on EIB loans and/or project co-financing shall be adopted in accordance with the procedures laid down in the Regulation (EC) No 1628/96.

6. Article 1(3) shall not apply.
7. The Commission and the EIB shall cooperate whenever appropriate with all international financial institutions active in fields similar to its own in Bosnia and Herzegovina.

* OJ L 204, 14.8.1996, p. 1.”

4. The following paragraph is added to Article 2:

“The Commission shall submit to the Council and the European Parliament, at the latest by the end of 1999, a report on the implementation of this Decision. This report shall in particular take into account the evolution of the economic and financial situation in Bosnia and Herzegovina and the commitment level of EIB loans and shall make appropriate recommendations. To this end, the EIB shall transmit to the Commission the appropriate information.”

Article 2

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
The President

FINANCIAL STATEMENT

1. TITLE OF OPERATION

Community guarantee granted to the European Investment Bank to cover loans for projects in Bosnia and Herzegovina

2. BUDGET HEADING INVOLVED

Article B0-220: European Community guarantee for loans granted by the European Investment Bank to third countries in the Mediterranean Basin.

These loans will receive an interest-rate subsidy covered by Article B7-541, which corresponds to aid for Bosnia and Herzegovina, Croatia, the Federal Republic of Yugoslavia and the former Yugoslav Republic of Macedonia (Council Regulation (EC) No 1628 of 25 July 1996).

3. LEGAL BASIS

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

4. DESCRIPTION OF OPERATION

The budget entry B0-220 is intended to provide budgetary back-up for guarantees offered by the European Community to the European Investment Bank to cover loans of up to ECU 100 million which the EIB has been asked to finance in Bosnia and Herzegovina for a two-year period. The involvement of the EIB should be consistent with the policy of the Community in this country. In particular, the EIB will finance infrastructure projects that are of interest to the Community and to Bosnia and Herzegovina.

The loans granted by the EIB would need to be combined with a grant element from the Community budget for the EIB to intervene effectively. This grant could take the form of a 2% interest-rate subsidy and/or outright grants intended as project co-financing. Appropriations will be entered in B7-541.

In the case of *interest-rate subsidies*, the indicative schedule is given below (in ECU million):

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Maximum commitment appropriations	1.9	11.5	5.7
Payment appropriations	---	1.4	2

Appropriations for *outright grants* for project co-financing are as yet not foreseeable given that they depend on the identification of appropriate projects.

5. CLASSIFICATION OF EXPENDITURE

Compulsory

6. TYPE OF EXPENDITURE

A Community budget guarantee to the European Investment Bank.

7. FINANCIAL IMPACT ON APPROPRIATIONS FOR OPERATIONS

Only if the guarantee is called.

7.1 Method of calculation

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

7.2 Cost distribution by elements of the operation

Not applicable.

7.3 Operational expenditure relating to studies, expert meetings, 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 there are insufficient resources in the Guarantee Fund to cover a default, additional resources may be released by drawing on the budget:

- any margin remaining in the reserve would be the first resort;
- any margin available beneath the ceiling of heading 4 of the Financial Perspective or following redeployment therein would be the second resort;
- in the last resort the Financial Perspective may be adjusted in accordance with the Interinstitutional Agreement; this may involve redeployment within the other headings.
- In order to honour its obligations, the Commission may draw on its cash resources to service the debt provisionally. In this case, Article 12 of Council Regulation (EEC, Euratom) No 1552/89 of 29 May 1989 will apply.

9. ANTI-FRAUD PROVISIONS PROVIDED FOR IN THE PROPOSAL

Normal controls of the Commission

10. COST-EFFECTIVENESS ANALYSIS

- 10.1 (i) Quantifiable objectives: See point 4 above.
(ii) Population: Bosnia and Herzegovina

10.2 Grounds for the operation:

To support the economic development of Bosnia and Herzegovina, to reinforce the relationship between that country and the Community and to contribute to regional cooperation.

10.3 Monitoring and evaluation of the operation

An evaluation report will be submitted to the Council and to the European Parliament before the end of 1999.

11. FINANCIAL IMPACT ON STAFF COST AND OPERATIONS

Not applicable.

12. IMPACT ON THE GUARANTEE RESERVE

- 12.1 Estimated schedule of loans to be signed while the Decision is in force (in ECU million)

<u>1998</u>	<u>1999</u>	<u>2000</u>
10	60	30

- 12.2 Estimated use of the guarantee reserve to provision the Guarantee Fund (in ECU million): rate of provisioning: 14%; extent of guarantee: 70%.

<u>1998</u>	<u>1999</u>	<u>2000</u>
0.98	5.88	2.94

- 12.3 Estimated use of the guarantee reserve including the loans already approved by Council and the present proposal (in ECU million).⁶

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Amount in the reserve	338	346	n.a. ⁷
Margin within the reserve	91.51	90.82	---

⁶ Situation as at 27 March 1998.

⁷ To be decided in the Financial Perspective 2000-2006.

ISSN 0254-1475

COM(98) 315 final

DOCUMENTS

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Catalogue number : CB-CO-98-318-EN-C

ISBN 92-78-36131-3

Office for Official Publications of the European Communities

L-2985 Luxembourg