COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 20.10.1999
COM(1999) 498 final

99/0212 (CNS)

Proposal for a

COUNCIL DECISION

granting a Community guarantee to the European Investment Bank against losses under loans for projects for the reconstruction of the earthquake-stricken areas of Turkey

(presented by the Commission)

EXPLANATORY MEMORANDUM

1. Introduction

On 17 August 1999, a massive earthquake measuring 7.4 to 7.8 on the Richter scale struck the northwestern area of Turkey, mainly affecting the provinces of Kocaeli, Sakarya, Bolu and Yalova. Loss of life was considerable; official casualty figures stand at more than 15 000 persons killed. Assessment of the physical damage is still ongoing; on the basis of the incomplete data available at present, the World Bank estimates the pure wealth loss at $3-6.5 billion (1.5-3.3% of GDP).

In the immediate aftermath of the disaster, the European Commission via ECHO has allocated altogether EUR 4 million in humanitarian emergency relief operations. At the time of writing of this communication, ECHO, based on a needs assessment in the field, is elaborating a new decision for EUR 11 million in further humanitarian aid. At the same time, all Commission services concerned are reviewing further options for additional assistance measures.

Following the devastation caused by the earthquake, a political consensus emerged within both the Informal General Affairs Council in Saariselkä and the informal Ecofin in Turku in favour of rapid and substantial Community action for the reconstruction of Turkey.

The General Affairs Council of 13 September 1999 concluded that "it looks forward to early consideration of new and substantial assistance for rehabilitation and reconstruction to come from EIB lending as well as macrofinancial assistance and MEDA II, from which Turkey should benefit substantially." It also underlined the importance of mobilising assistance as quickly as possible.

Further to the General Affairs Council of 13 September, the Ecofin Council on 8 October 1999 concluded that "the Council invites the Commission to put forward a timely proposal for a Council Decision for a Community guarantee to the EIB against losses under loans for the reconstruction of the earthquake affected areas of Turkey to allow the adoption of the Decision by the Council possibly by the end of November 1999, along the following lines:

– an overall ceiling of EUR 600 million for the credits to be opened for reconstruction in Turkey over three years;

– the above ceiling is to be exclusively available for the financing of investment projects to be carried out for the replacement, rehabilitation or reconstruction of infrastructural or industrial installations damaged by the earthquake of August 1999 in Turkey."

2. The proposal

Following the invitation by Council, the present communication puts forward a Commission proposal for the granting of a Community guarantee to the European Investment Bank against losses under loans for projects for the reconstruction of the earthquake affected areas of Turkey. The guarantee will cover a temporary special EUR 600 million three-year EIB loan facility with the objective of promoting investments related to the replacement, rehabilitation or reconstruction of infrastructural and industrial installations damaged by the earthquake.

The EIB is well placed to extend reconstruction loans in Turkey. It began its lending operations in Turkey in 1965 and since then has provided finance amounting to EUR 1 303 million to Turkish projects. Solely between 1994 and 1999, the EIB signed 14 projects amounting to EUR 556.5 million, of which 44% was for water management, 31% for energy, 14% for communications, and 11% for industry and services. Through its existing operations the Bank has established regular contacts to the relevant Turkish public and private sector bodies as well as to the International Financial Institutions active in Turkey.

The EIB has initiated discussions with the authorities in Ankara after the earthquake and is ready to intervene, subject to the definition and appraisal of the precise reconstruction needs to be financed. The damage assessment by the Turkish authorities is near finalisation.

Loans extended under the special EIB lending facility for the reconstruction of Turkey will be aimed at the reconstruction and rehabilitation of damaged surface and subsurface infrastructure (roads, bridges, railways, ports and electricity, gas, water and telecommunications utilities), industrial installations and SMEs, as well as housing and urban infrastructure.

For all operations under the special facility, the EIB's lending will be subject to its usual criteria and procedures. The individual projects will be identified by the EIB in close consultation with the Turkish authorities. The EIB will also coordinate its investment priorities and its individual operations with the other International Financial Institutions active in the affected areas of Turkey, and where appropriate, will arrange co-financing.

The facility will be separate from and over and above the general EIB lending mandate, the renewal of which was proposed by the Commission on 23 April 1999[1], and which is currently under discussion by Council and Parliament. It will not affect the position of Turkey as one of the twelve Mediterranean countries benefiting from EIB lending under the general external lending mandates.

The facility will benefit from the same global guarantee arrangements as the general EIB external lending mandate laid down in Council Decision 97/256/EC of 14 April 1997[2], as amended by Council Decisions 98/348/EC of 19 May 1998[3] and 98/729/EC of 14 December 1998[4], which it is intended to be renewed by a successor decision, but at the same cover rate as agreed upon by the Ecofin Council of 12 July 1999 for the renewal of the mandate. In view of the special nature of the projects to be financed, however, it will not oblige the EIB to seek non-governmental guarantees, i.e. there will be no risk-sharing element.

3. BUDGETARY IMPLICATIONS

In 1999, the Commission foresees a ceiling for EIB loans for the reconstruction of Turkey of EUR 180 million. On the basis of a blanket guarantee of 65%, this will require a provisioning in the Guarantee Fund for external actions of EUR 16.4 million.

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1. COM(1999) 142 final of 23 April 1999, OJ C 145 , 26.5.1999, p. 10.
2. OJ L 102, 19.4.1997, p. 33.
3. OJ L 155, 29.5.1998, p. 53.
4. OJ L 346, 22.12.1898, p. 54.

The margin remaining in the reserve for the Guarantee Fund for 1999 will then be EUR 28.4 million; this leaves room for other possible external actions such as macro-financial assistance or Euratom lending.

As of the year 2000, when the amended Guarantee Fund regulation[5] comes into force, provisioning required for a ceiling of EUR 200 million of new loans under the special reconstruction facility will be EUR 11.7 million. In light of the reserve available in the Guarantee Fund, this amount appears to be manageable, other things being equal.

5 Council Regulation (EC, Euratom) No 1149/1999 of 25 May 1999, OJ L 139, 2.6.1999, p. 1.

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 308 thereof,

Having regard to the proposal from the Commission[1],

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

Whereas:

(1) The Turkish areas of Kocaeli, Sakarya, Bolu and Yalova were seriously stricken by an earthquake in August 1999.

(2) The General Affairs Council of 13 September 1999 concluded that it looked forward to early consideration of new and substantial assistance for rehabilitation and reconstruction to come from the European Investment Bank (hereinafter "the EIB") lending as well as macrofinancial assistance and MEDA II, from which Turkey should benefit substantially. The Council also underlined the importance of mobilising assistance as quickly as possible.

(3) Further to the General Affairs Council of 13 September 1999, the Ecofin Council of 8 October 1999 concluded by inviting the Commission to put forward a timely proposal for a Council Decision for a Community guarantee to the EIB against losses under loans for the reconstruction of the earthquake-affected areas of Turkey to allow the adoption of the Decision by the Council possibly by the end of November 1999, along the following lines: an overall ceiling of EUR 600 million for the credits was to be opened for reconstruction in Turkey over three years, and the above ceiling was to be exclusively available for the financing of investment projects to be carried out for the replacement, rehabilitation or reconstruction of infrastructural or industrial installations damaged by the earthquake of August 1999 in Turkey.

(4) Accordingly, loans extended under the special EIB lending facility for the reconstruction of Turkey guaranteed by this Decision are exclusively aimed at the replacement, reconstruction or rehabilitation of damaged surface and subsurface infrastructure, industrial installations and SMEs, as well as housing and urban infrastructure affected by the earthquake.

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1 OJ C ...
2 OJ C ...

(5) The action envisaged in this Decision falls within the scope of Council Regulation (EC, Euratom) No 2728/94 of 31 October 1994 establishing a Guarantee Fund for external actions[3], as amended by Regulation (EC, Euratom) No 1149/1999[4].

(6) The EIB is at present completing the loan programmes for Central and Eastern Europe, the Mediterranean region, Asia and Latin America and the Republic of South Africa under the current EIB external lending mandates pursuant to Council Decision 97/256/EC[5], as last amended by Decision 98/729/EC[6]. On 23 April 1999, the Commission put forward its proposal on the renewal of the general EIB external lending mandate for the period following the expiry of the current mandate. Regarding the renewal of the general mandate, the Council on 12 July 1999 agreed, subject to the opinion of the European Parliament, to a guarantee rate of 65%, a guaranteed annual amount of EUR 2 630 million, and a new mandate lasting seven years, with a review on first accession or at the latest after four and a half years, whichever occured earlier.

(7) The EIB has established lending operations in Turkey since 1965, and through its existing operations, has set up regular contacts with the relevant Turkish authorities as well as the international financial institutions active in Turkey.

(8) In June 1996, the Commission, in agreement with the EIB, presented to the Council a proposal for a new guarantee system for EIB lending to third countries[7].

(9) 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. Under the risk-sharing scheme the EIB should secure adequate non-sovereign third-party guarantees for commercial risks, with the budgetary guarantee covering only political risks.

(10) The global guarantee covering the general EIB external lending mandate laid down in Decision 97/256/EC should also apply to the special EIB-lending facility for the reconstruction of Turkey as laid down in this Decision. Credits opened under this Decision should benefit from the global guarantee as governed by the latest relevant decision in force at the time when these credits are opened.

(11) In view of the special nature of the projects to be financed, the EIB under this Decision should not be obliged to seek risk-sharing through non-governmental guarantees.

(12) In selecting the investment projects to be financed, the EIB should consult the appropriate Turkish authorities. The EIB should coordinate its investment priorities and its individual operations with the other international financial institutions active in the affected regions of Turkey. Where appropriate, the EIB should arrange co-financing with other international financial institutions.

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3 OJ L 293, 12.11.1994, p. 1.
4 OJ L 139, 2.6.1999, p. 1.
5 OJ L 102, 19.4.1997, p. 33.
6 OJ L 346, 22.12.1998, p. 54.
7 SEC(96) 1131 of 26 June 1996.

(13) EIB financing under this Decision should be managed in such a way as to support prompt and effective replacement, rehabilitation or reconstruction of infrastructural and industrial installations damaged by the earthquake. There is regular consultation between the EIB and the Commission to ensure coordination of priorities and activities in this part of Turkey and to measure progress towards the fulfilment of the objective of this Decision. The setting and periodic review of the operational objectives and the measurement of their fulfilment are the responsibility of the EIB's Board of Directors.

(14) The EIB and the Commission should adopt the procedures for granting the guarantee.

(15) The Treaty does not provide, for the adoption of this Decision, powers other than those under Article 308,

HAS DECIDED AS FOLLOWS:

Article 1

Objective

The Community shall grant the European Investment Bank (hereinafter referred to as "the EIB") 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 for the replacement, rehabilitation or reconstruction of infrastructural and industrial installations damaged by the earthquake of August 1999 in Turkey.

Article 2

Ceiling and conditions

1. The overall ceiling of the credits opened shall be EUR 600 million.

2. The Community guarantee with respect to credits opened by the EIB under this Decision shall take the form of an extension of the global guarantee granted to the EIB under the general external lending mandate, as laid down in Decision 97/256/EC.

   The guarantee shall be restricted to 65% of the aggregate amount of credits opened under this Decision, plus all related sums.

3. For the purposes of lending under this Decision, there shall be no separation of commercial and political risk. The EIB shall not be obliged to seek non-governmental guarantees to cover the commercial risk for its lending under this Decision.

Article 3

Reporting

The Commission shall inform the European Parliament and the Council each year of the loan operations carried out under this Decision and shall, at the same time, submit an assessment of the implementation of this Decision and of coordination between the international financial institutions involved in the reconstruction effort in Turkey. The Commission information submitted to the European Parliament and the Council shall include an assessment of the contribution of the lending under this Decision to the replacement, rehabilitation or reconstruction of infrastructural and industrial installations damaged by the earthquake, taking into account the operational objectives and appropriate measurements of their fulfilment to be established by the EIB for lending under this Decision. For these purposes, the EIB shall transmit to the Commission the appropriate information.

Article 4

Duration

The guarantee shall cover loans signed during a period of three years from the date of adoption of this Decision. If, on expiry of those three years, the loans signed by the EIB have not attained the overall ceiling referred to in Article 2, the period shall be automatically extended by six months.

Article 5

Application

1. Detailed rules for the application of this Decision shall be laid down in an agreement to be concluded between the Commission and the EIB.

2. Appropriate arrangements shall be made in the agreement referred to in paragraph 1 to allow the Court of Auditors of the European Communities and the European Anti-Fraud Office (OLAF) to pursue their mission in relation to this Decision.

Article 6

Publication and effect

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

Done at Brussels,

For the Council
The President

FINANCIAL STATEMENT

1. TITLE OF OPERATION

European Community guarantee for special European Investment Bank lending facility for projects for the reconstruction of the earthquake-affected areas in Turkey.

2. BUDGET HEADING(S) INVOLVED

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

3. LEGAL BASIS

Article 308 of the Treaty.

4. DESCRIPTION OF OPERATION

4.1 General objective

In line with the conclusions of the General Affairs and Ecofin Councils of 13 September and 8 October, respectively, the action is aimed at promoting investment projects for the reconstruction and the rehabilitation of the regions affected by the earthquake in Turkey in August 1999, through the means of EIB lending. The appropriations are intended to cover guarantees for EIB loans aimed at the replacement, rehabilitation or reconstruction of earthquake-damaged surface and subsurface infrastructure, industrial installations and SMEs, as well as earthquake-damaged housing and urban infrastructure in Turkey.

4.2 Description

The budget entry is intended to provide budgetary back-up for guarantees granted by the European Community to the European Investment Bank to cover EUR 600 million of loans which the EIB shall finance for the reconstruction of Turkey.

4.3 Period covered and arrangements for renewal

The duration of the Decision shall be three years from the date of adoption. If, on expiry of these three years, the loans signed by the EIB have not attained the overall ceiling referred to in Article 2, this period shall be automatically extended by six months. No renewal is foreseen.

5. CLASSIFICATION OF EXPENDITURE OR REVENUE

Compulsory expenditure/Non-differentiated appropriations.

6. TYPE OF EXPENDITURE OR REVENUE

A guarantee to the European Investment Bank.

7. FINANCIAL IMPACT

Only if a call is made on the guarantee.

7.1 Method of calculating total cost of operation (relation between individual and total costs)

A token entry is proposed, given that the amount and timing of any call on this budget heading is fraught with uncertainty and cannot be calculated in advance.

7.2 Itemised breakdown of cost

Not applicable.

7.3 Operational expenditure for studies, experts, etc. included in Part B of the budget

Not applicable.

8. FINANCING OF EXPENDITURE FOR OPERATIONS

In the event of a default, payments would be made directly 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. MEASURES TO VERIFY THAT GUARANTEE ARRANGEMENTS HAVE BEEN IMPLEMENTED

– Appropriate control measures to verify the exclusive use of this facility for infrastructure and industrial projects as well as housing and urban infrastructure in Turkey affected by the earthquake in August 1999 shall be included in the guarantee contract to be agreed between the Commission and the EIB on the current Decision.

– Appropriate arrangements will be made to allow the Court of Auditors of the European Community and the European Anti-fraud Office (OLAF) to exercise their mission in relation to this Decision.

10. ELEMENTS OF COST-EFFECTIVENESS ANALYSIS

10.1 Specific and quantified objectives; target population

– Quantifiable objectives: see point 4 above.

– Target population: Infrastructure and industrial projects as well as housing and urban infrastructure in Turkey affected by the earthquake in August 1999.

10.2 Justification of the operation

– To promote the replacement, rehabilitation or reconstruction of the earthquake affected infrastructural and industrial installations damaged by the earthquake in Turkey.

– Choice of ways and means: the EIB began its lending operations in Turkey in 1965, and to date has reached overall lending amounts of EUR 1 303 million. Through its existing operations it has established regular contacts to the relevant Turkish private and public sector bodies as well as the International Financial Institutions active in Turkey and can start operations as soon as the damage assessment by the Turkish authorities has been finalised.

– Main factors of uncertainty which could affect the specific results of the operation: the start of operations will depend on the timely damage assessment by the Turkish authorities.

10.3 Monitoring of the operation

Performance indicators selected

The Commission information to be submitted to the European Parliament and the Council annually shall include an assessment of the contribution of the lending under the present Decision to the replacement, rehabilitation or reconstruction of the infrastructural and industrial installations damaged by the earthquake in Turkey in August 1999, taking into account the operational objectives and appropriate measurements of their fulfilment to be established by the European Investment Bank for lending under this Decision.

11. ADMINISTRATIVE EXPENDITURE (SECTION III, PART A OF THE BUDGET)

Not applicable. The proposed operation will not involve any increase in the number of Commission staff or administrative expenditure.

12. IMPACT ON THE RESERVE FOR GUARANTEES

12.1 Provisional schedule of loans to be committed while the Decision is in force

Year	1999	2000	2001	2002	TOTAL
Amount (EUR million)	180	200	200	20	600

12.2 Estimated use of the guarantee reserve to provision the Guarantee Fund

The provisioning rate of the Guarantee Fund for external actions is 14% for 1999 and 9% as from 1 January 2000. The rate of the blanket guarantee is 65%.

Year	1999	2000	2001	2002	TOTAL
Amount (EUR million)	16.4	11.7	11.7	1.17	40.97

12.3 Estimated use of the guarantee reserve by the present proposal[1].

Year	1999	2000	2001	2002
Amount in the reserve (financial perspective)	**346**	**203**	**208**	**212**
1. EIB lending				
EIB external lending mandate 1997-2000	229.1	17.2		
Proposed EIB external lending mandate 2000-2007[2]		129.3	153.4	174.8
EIB Croatia Protocol (suspended)	4.9	2.7	2.7	2.7
Use of the reserve by the present proposal	16.4	11.7	11.7	1.17
2. Macro-financial assistance				
Albania III	2.8			
Bosnia II	2.8			
Proposed: Bulgaria IV	14.0			
Proposed: Rumania IV	28.0			
Proposed: Tajikistan	10.5			
Proposed: FYROM	7.0			
Foreseen: Moldova III	2.1			
Margin within the reserve[3]	**28.4**	**42.1***	**40.2***	**33.33***

* Annotation: as regards the year 2000 onwards, this statement does not take into account the assumptions of EUR 200 million per year for Euratom lending[4] and of EUR 400 million per year for macro-financial assistance[5] as indicated in recital 21 of Council Decision 97/256/EC. The full realisation of these assumptions would render the available margin within the reserve negative. The nature of the assumptions, however, as well as the inherent flexibility of the Guarantee Fund mechanism arising from delays in loan signatures suggest that provisioning for the Turkey reconstruction facility can be managed within the limits of the Community's lending and guaranteeing capacity imposed by the Guarantee Fund mechanism as long as the special EUR 750 million EIB special action programme agreed for Turkey in the context of the customs union remains inactive. Actions already foreseen for macro-financial assistance for 2000 are: Albania IV (tentative estimate of provisioning: EUR 2.7 million), Bosnia II (tentative estimate for provisioning: EUR 5.0 million), and FYROM III (tentative estimate of provisioning: EUR 4.5 million).

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1 Situation as of 1 October 1999.

2 On the basis of a blanket guarantee of 65% as agreed by Ecofin of 12 July 1999.

3 Not taking into account the EIB special action programme for Turkey (to be extended over five years starting in 1996) in the framework of financial cooperation under the customs union, which has been vetoed.

4 Assumptions for Euratom based on the Council Decision of 21 March 1994 empowering the Commission to contract Euratom borrowings of EUR 1 100 million (of which EUR 460 million have already been provisioned). No Euratom loans in third countries have been signed as yet.

5 Assumptions for macro-financial assistance based on point 5 of the conclusions of the Ecofin meeting of 27 January 1997 relating to the EIB external lending mandate of 1997.