Community guarantee to the European Investment Bank against losses under loans for projects outside the Community: enlargement and new neighbourhood policy

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PURPOSE : report from the Commission comprising a mid-term review of EIB external lending mandate pursuant to Council Decision 2000/24/EC and proposal to amend the Decision to take account of enlargement and cover a new South Eastern Neighbours envelope and redefine the lending envelope for MED. PROPOSED ACT : Council Decision. CONTENT : This report is submitted to the European Parliament and the Council in accordance with Council Decision 2000/24/EC. The report, which covers the period from the beginning of the mandate to 31 December 2002, includes: - information on the loan operations and progress made on risk-sharing; - an assessment of the operation of the scheme and of co-ordination between the financial institutions operating in the areas concerned; - an assessment of the contribution of the lending under the Decision to the fulfilment of the Community's relevant external policy objectives. In parallel with this mid-term review report, the Commission is submitting a comprehensive report on the Guarantee Fund for external operations. The mid-term report is presented in four sections: - the first section lists the legal bases and describes the guarantee system as foreseen in the Decision, - the second provides an overview of the Bank's operations under the mandate as at 31 December 2002; - the third section describes the operating environment and constraints under which the Bank operates, and - the fourth section addresses the outlook and the proposed changes for the remainder of the mandate period. The annexes provide details and assessment of the Bank's operations by region (Central and Eastern Europe, Mediterranean countries, Latin America and Asia, Republic of South Africa). The accompanying proposal for revision of the Council Decision reflects the proposed changes for the remainder of the mandate period. The current overall ceiling of the credits opened is equivalent to EUR 19 460 million. In addition, the Community guarantee covering the special earthquake facility for Turkey under Decision 1999/786/EC (TERRA) has taken the form of an extension of the global guarantee under the Decision 2000/24/EC. The ceiling of credits for TERRA amounts to EUR 600 million. The current ceiling amounts therefore to EUR 20 060 million. The projected utilisation of the different regional envelopes for the remaining period of the mandate points to a total volume of guaranteed lending that is slightly above the overall ceiling of the mandate. Taking into account these projections and the evolution of Community external policy priorities, the Commission proposes the following amendments: 1) A new geographical distribution of the current mandate volume within the resent ceiling of EUR 19 460. Specifically, it is proposed: i) to restructure the current Central and Eastern Countries envelope to cover Bulgaria, Romania, Turkey and the Western Balkans (a new South Eastern Neighbours envelope), in accordance with the agreement in Copenhagen to finance pre-accession supportfor Turkey from 2004 from the heading "pre-accession strategy" of the Financial Perspective. An amount of EUR 2 085 million would be transferred to this new envelope from the Mediterranean envelope. This amount is consistent with Turkey's share in the MED mandate up to end 2002. The ceiling for this new envelope would amount to EUR 9 185 million. ii) to redefine the new lending envelope for MED to take into account the foreseen lending under FEMIP in line with the "Wider Europe" initiative. After the transfer of Turkey, the revised ceiling for MED would amount to EUR 6 520 million. 2) A limited geographical extension of the mandate to Russia and the WNIS. Extending EIB's activities to these areas would be designed to reward reform efforts undertaken by the new neighbours. The extension would reflect the political importance of the region to the EU, as well as the need for enhanced investment in infrastructure that could be fostered by EIB projects. In the case of Russia, lending would as well build on the experience gained from the present lending mandate in support to environmental projects in the Baltic Sea basin of Russia. EIB lending would be activated on a country-by-country basis, subject to appropriate reform efforts in each of the countries

concerned as demonstrated by the endorsement of jointly agreed Action Plans. Nevertheless, concerning Russia, the extension would apply as such to projects currently eligible under Council Decision 2001/777 /EC, as soon as the EUR 100 million ceiling of the Decision has been reached. Given the time needed for implementation, the Commission foresees a small amount for the period up to 2006. The initial lending envelope would amount to EUR 300 million in total for the countries concerned. This EUR 300 million for the new group of countries would be additional to the overall ceiling established by Council Decision 2000/24/EC for the current set of regions. But it should be subject to the same rules as the general mandate and fall within the blanket guarantee coverage of 65% applied to the whole mandate. FINANCIAL IMPLICATIONS : - Budget heading : Art. B0-220: European Community guarantee for loans granted by the European Investment Bank to non member countries in the Mediterranean Basin; Art. B0-221: European Community guarantee for European Investment Bank loans to non member countries in central and eastern Europe and the western Balkans; Art. B0-222: European Community guarantee for European Investment Bank loans to other third countries. - Period of application : 2004-2006. - Method of application : The direct budgetary impact of the extension is linked to the mechanism of the Guarantee Fund and affects the use of the Reserve for the Guarantee Fund. It is calculated according to the current rules of the Fund: amount of the guaranteed loan * blanket guarantee rate* provisioning rate = EUR 300 million * 65% * 9% = EUR 17.55 million. The loans are planned to be signed in 2004 for EUR 50 million, in 2005 for EUR 100 million and in 2006 for EUR 150 million.