Financial aid: extension to Tajikistan of the exceptional assistance for Armenia and Georgia

1999/0172(CNS) - 26/07/1999 - Legislative proposal

PURPOSE: to grant exceptional financial assistance to Tajikistan. CONTENT: Council Decision 97/787 /EC grants exceptional financial assistance to Armenia and Georgia in the form of long-term loans and straight grants. The Commission is proposing that this assistance should be extended to Tajikistan because, like Armenia and Georgia, Tajikistan was severely hit by the economic collapse resulting from the break-up of the command economy and the disintegration of the former Soviet Union. Tajikistan is the poorest country among the CIS and one of the least developed countries in the world, with most of the population living below the poverty line. The civil war had caused poverty to intensify and to become widespread and had confronted the government with the difficult challenge of dealing with refugees, internally displaced persons (700,000) and demobilised soldiers. Since August 1998, in addition to local political problems, the Russian financial crisis has been deeply affecting the population, a large share of which is unable to meet its basic needs. In order to cover basic needs in recent years, Tajikistan, as Armenia and Georgia, has had recourse to international humanitarian assistance, out of which the Community has provided a substantial share. However, technical assistance through Tacis and Food Security assistance already granted have been delayed for security reasons while, in Novemebr 1997, the Council postponed decision on an exceptional financial assistance in favour of Tajikistan, pending implementation by the country of an IMF supported macroeconomic stabilisation and structural reform programme. The Commission considers Tajikistan's macro-economic programme as being strong and comprehensive. This programme, if fully implemented, should ensure the necessary macro-economic stabilisation and, by the means of structural reforms, establish the core frame of a market economy. However, without additional external assistance, the reform process would be put in jeopardy and the country would be faced with substantial external imbalances in 1999 and, in the medium term, would not be able to meet its international financial obligations. Owing to the exceptionally harsh social and economic conditions presently faced by Tajikistan and, in particular, to its extreme vulnerability to external shocks, the Commission considers that this country should be supported with concessional assistance and that exceptional support in the form of a mix of loan and straight grants is required. It is proposed that the existing Regulation covering Armenia and Georgia be adjusted to make room for exceptional assistance to Tajikistan as follows: - the loans ceiling would be increased by a maximum amount of EUR 75 million; and - the grants ceiling would be increased by a maximum amount of EUR 35 million to be financed by the general budget. The amounts envisaged are, of course, maxima, and effective disbursements would depend on negotiations to be held between the Tajik authorities and the Commission. The loan component of this assistance would be funded throughCommunity market borrowing with a guarantee by the general budget. The beneficiary country would subsequently borrow from the Community. The borrowing and lending operations would be perfectly matched and without any commercial risk for the Community. In accordance with the Guarantee Fund mechanism, the budgetary implications of a decision to make available loans of up to EUR 75 million to the beneficiary country would be a maximum of EUR 10.5 million provisioning of the Fund to be drawn from the 1999 reserve for guarantees relating to external actions. As for the grant component, and withour prejudice to the competencies of the budgetary authority, the Commission considers that this part of the exceptional assistance would have to be implemented in five equal annual installments of up to EUR 7 million from 2000 to 2004, within the limits of Category 4 of the financial perspective for the 2000-2006 period. In order to ensure coherence with the EC's general policy towards Tajikistan, a decision would be taken after the adoption of this Decision as to whether sufficient progress has been made in the peace process, and in particular the holding of the elections, as to justify the immediate implementation of the exceptional financial assistance to Tajikistan. Before 31 December 2004 at the latest, the Council shall examine the application of this Decision to that date on the basis of a comprehensive report prepared by the Commission.