EIB loans for Turkey: EC guarantee against losses, reconstruction of the regions stricken by the earthquake

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PURPOSE: to provide a bank guarantee for the EIB for loans granted by the Bank in favour of reconstruction and rehabilitation projects in regions of Turkey affected by the earthquake. CONTENT: Upon the request of the ECOFIN Council meeting on 08.10.1999, the Commission is presenting this proposal according a Community guarantee to the European Investment Bank (EIB) for any losses rresulting from loans granted in favour of projects aimed at the reconstruction of Turkish regions affected by the earthquake in August 1999. The guarantee would cover a special temporary loan of 3 years, of an amount of 600 million euros granted by the EIB in order to encourage investments relating to the replacement, rehabilitation or the reconstruction of infrastructures and industrial installations damaged by the earthquake. It will mainly involve reconstruction or the rehabilitation of surface and underground infrastructures (roads, bridges, railways, ports and electricity, gas, water and telecommunication services), industrial installations and SMEs, as well as housing and urban infrastructure. For all the operations depending on this facility, the loan agreed by the Bank will have to undergo the usual criteria and procedures. The various projects will be identified by the EIB in close consultation with the Turkish authorities. The EIB will also coordinate its investment priorities and its various operations with the other international financial institutions working in those regions of Turkey affected by the earthquake, and, where required, will organise co-financing. The facility will benefit from the same globalised guarantee as for other EIB loans granted in third countries (in line with Decision 97/256/EC). In the case of Turkey, however, the EIB will not be required to seek non-governmental guarantees (in other words, there will be no sharing of risk). With respect to budgetary implications, the Commission foresees in 1999 a ceiling of 180 million euros for EIB loans in favour of reconstruction in Turkey. Taking into account a globalised guarantee of 65%, it will be necessary to transfer a provision of 16.4 million euros to the Guarantee Fund for external actions. From 2000 onwards, when the regulation governing the new Guarantee Fund enters into force, the necessary provisioning for loans granted in the context of the special reconstruction facility for a ceiling of 200 million euros in 2000 and 2001 will amount to 11.7 million euros per year. It should be noted that there is provision for an annual report to inform the Parliament and the Council of the lending operations undertaken as a result of this proposal. This report will need to demonstrate how the loans have effectively contributed to the reconstruction and rehabilitation of the regions affected by the earthquake.