



COMMISSION OF THE EUROPEAN COMMUNITIES

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98/0311 (CNS)

Proposal for a

COUNCIL DECISION

**providing macro-financial assistance
to Bosnia and Herzegovina**

(presented by the Commission)

EXPLANATORY MEMORANDUM

1. INTRODUCTION

In April 1998, after more than two years of discussions, the authorities of Bosnia and Herzegovina reached an understanding with the IMF on an economic and structural reforms programme to be supported by a one-year Stand-By Arrangement (SBA). This agreement constituted a big step forward to regenerate confidence and stability in Bosnia and Herzegovina. In the context of this programme, the World Bank has also been negotiating two structural adjustment operations in the areas of public finance reform, and enterprise and banking privatization.

On March 19, 1998, at a G-24 Meeting in Brussels, the IMF and the WB outlined a macro-economic programme for Bosnia and Herzegovina. The IMF presented the country's external financing needs and called for complementary financial support from bilateral donors.

On May 7-8, 1998, at the fourth Donors' Pledging Conference for Bosnia and Herzegovina, the international community unanimously welcomed the agreements with the Bretton Woods institutions, which pave the way for more self-sustainable economic growth, and decided to continue to strongly support the economic reform and reconstruction programmes of Bosnia and Herzegovina. Following positive indications from the ECOFIN Council of April 21, 1998, the Commission announced at this Conference its intention to propose Community macro-financial assistance of up to ECU 60 million in favour of Bosnia and Herzegovina. The initiative of the Commission and the Council was supported by a representative of the European Parliament. At this Conference, other bilateral donors gave also preliminary indications of support.

2. RECENT ECONOMIC DEVELOPMENTS

Bosnia and Herzegovina's declaration of independence at the end of 1991 was followed by three and a half years of civil war, which shattered the economy and devastated human and capital resources. By 1995, GDP had shrunk to less than a third of its pre-war level and per capita GDP had fallen to US\$500. The population was 23% smaller than in 1991, over 50 % of the population had been displaced, and more than 1.2 million inhabitants were forced to flee abroad, mainly to the EU. In financial terms, virtually no debt service was paid during the war leading to an accumulation of external arrears of US\$2 billion.

To consolidate the Dayton peace agreement that was signed in Paris on December 14, 1995, the international community endorsed a medium-term Priority Reconstruction and Recovery Programme amounting to US\$ 5.1 billion for the period 1996-99. The implementation of the reconstruction programme has remained broadly on track with the exception of a few areas, like telecommunications and railways, where, until recently, political disagreements among the parties has resulted in slow progress. Following the first three Donors' Pledging Conferences, co-hosted by the Commission and the World Bank and involving more than 50 donor countries, about US\$ 3 billion of aid has been firmly committed for reconstruction and peace implementation activities; US\$ 1.8 billion

hereof has already been disbursed, of which about 45% originated from the Community and the Member States.

External assistance fuelled a strong economic recovery in 1995-97, though fast economic growth compensated only very partially for the huge loss in output that occurred during the war. Real GDP growth for the country as a whole was estimated at 30% and 50% in 1995 and 1996, respectively. In 1997, growth decelerated to 30% also as a result of delays in external financing. Unemployment is reported high (at about 40%) in both the Federation and the RS. Following a period of hyperinflation during the war, inflation decelerated rapidly and remained modest in all parts of the country in 1996-97, although it varied among regions, reflecting the use of four different currencies (Croatian kuna, Yugoslav dinar, the Bosnia and Herzegovina dinar, and the DM).

Owing to its self-imposed isolation from the internationally-sponsored reconstruction programme, the economic recovery in the RS has been much weaker than in the Federation. The RS suffered a major setback in August 1994 when the Federal Republic of Yugoslavia (FRY) joined other nations in imposing UN-mandated international sanctions. Following the lifting of the sanctions in March 1996, the RS's economy started to pick up, though at a slower pace than in the Federation, as it benefited only marginally from the international financial assistance to Bosnia and Herzegovina. In 1997, the economic situation in the RS deteriorated sharply as the international community strictly enforced its conditionality for financial assistance and the political crisis among the authorities of this Entity paralysed the functioning of the administration.

On the fiscal front, State and Entity budgets were kept broadly in balance on a cash basis in 1996-97, but at the expense of a further accumulation of external and domestic arrears. In particular, in the RS, revenue fell short of the estimates as a result of the political turmoil and the absence of external assistance outside humanitarian aid. The EU tax and customs assistance office (CAFAO) reported on the existence of widespread fraud and corruption in revenue administration in both Entities. As a consequence, in early 1998, the international community endorsed the anti-fraud strategy put forward by the High Representative, including: (i) the formation of an Anti-Fraud Unit to identify illegal activities and coordinate international technical assistance; (ii) the extension of the European Community tax and customs assistance programme to cover all indirect taxes levied by the Entities; (iii) and the dissemination of information on all extra-budgetary accounts and accounts related to public companies and corporations.

In both Entities, progress has been slow in implementing open and market-oriented economic policies, establishing a modern institutional and policy framework, and ensuring good governance, transparency, and accountability in the use of donor funds. As a result, the implementation of the reconstruction programme has proved increasingly difficult to sustain in the absence of a coherent and consistent policy framework for macroeconomic and structural reforms.

3. THE ECONOMIC REFORM PROGRAMME OF BOSNIA AND HERZEGOVINA

The IMF-supported programme covers a range of macroeconomic and institutional policy commitments, involving both the common institutions of Bosnia and Herzegovina and those of the two Entities. It aims at promoting self-sustainable economic growth, fostering economic integration and consolidating central institutions with a view to

implementing a country-wide economic strategy. It will be based on the following key principles: (i) a fixed exchange rate administered through a currency board arrangement; (ii) a fiscal policy as supportive as possible of social and reconstruction needs, while avoiding domestic borrowing; (iii) the mobilization of external financial assistance; and (iv) structural reforms to accelerate the transition to a market economy. The 12-month SBA is expected to be followed, or even replaced before one year, by an ESAF Arrangement when a set of comprehensive structural reforms is identified with the authorities, the World Bank, and other agencies.

Owing to the exceptional circumstances prevailing in Bosnia and Herzegovina, the adoption of the IMF-supported programme relied heavily on prior actions. Accordingly, important elements of the programme are already in place, in particular as regards the framework for macro-economic management. The post-war Central Bank of Bosnia and Herzegovina, which will operate as a currency board for its first six years, was established; the designs of the new Bosnia and Herzegovina domestic currency coupons--the convertible marka (KM) were adopted; and important legislation establishing common foreign trade and debt policies (external debt law, foreign trade law, customs policy law, and customs tariff policy law) were introduced. More recently, the budgets for the Entities and the State in 1998 were adopted, the operations of the Central Bank were extended throughout the territory of Bosnia and Herzegovina, a clearing arrangement to avoid credit to the former central bank (the National Bank of Bosnia and Herzegovina) was accepted, and a revised Federation pension law was submitted to Parliament. Concerning the Entity budgets, a number of administrative measures was taken to improve tax and customs tariff collections, to eliminate exemptions, and to start rationalize expenditure, in particular social expenditure, so as to avoid any domestic borrowings while honouring obligations to the State budget to service external debt payments.

Under the programme, the authorities hope to continue investment-led real GDP growth in the range of 20-30%. Inflation is expected to average 10% or less for the country as a whole during 1998, mainly as a result of changes in administered prices. The fiscal strategy is to avoid any further accumulation of domestic arrears, which, in the RS, implies the need to rapidly restore the revenue base. On the basis of the projected consolidated fiscal revenues, total fiscal expenditures are expected to increase from an estimated 33% of GDP in 1997 to about 35% of GDP in 1998, mainly due to an increase in budgetary expenditure in the RS for the first time in several years. The authorities' fiscal policy will also have to cope in an effective and transparent manner with the extensive decentralization that is called for by the Dayton agreement at the State level, Entity, and lower-level governing bodies.

The authorities intend to continue to rebuild public administration and infrastructure and continue the transition to a market economy. The highest priority structural measures for 1998-99 will include banking reform, enterprise privatization and restructuring, pension and health system reform, the implementation of simplified customs tariff system, exchange and trade liberalization, and initial steps in the strengthening of economic statistics.

Finally, it is worth noting that the programme also provides for the reduction in external payment arrears, including the clearance of all the outstanding arrears to the EIB and the Community on account of past EIB lending (about ECU 6 million at end-1997).

4. BALANCE-OF-PAYMENTS DEVELOPMENTS AND FINANCING NEEDS

In 1997, the trade deficit for the country as a whole was tentatively estimated by the IMF at US\$ 1.6 billion, with imports as high as US\$ 2.2 billion. The current account deficit reached about US\$ 1.5 billion in 1997 or the equivalent of 33% of GDP and was mainly financed by the reconstruction programme, but also with a further accumulation of external payments arrears. Despite these difficulties, the authorities have tried to normalize relations with external creditors, on terms consistent with the country's economic circumstances. Arrears to the IMF and the World Bank were cleared in December 1995 and June 1996, respectively. The authorities signed an agreement with the London Club of creditors in December 1997 on the consolidation of about US\$ 400 million of debt and were granted very generous terms. The authorities also intend to request as soon as possible debt rescheduling on highly concessional terms from the Paris Club of creditors.

In 1998-99, in a scenario based on sound economic and structural policies and inter-Entity cooperation, the IMF projects that exports would increase by an annual average of 40%. However, despite this projected export performance, the deficit of the external current account (excluding official transfers) would widen to reach US\$ 2 billion in 1998, reflecting an increase in reconstruction-related imports. Taking into account the debt service obligations (US\$ 117 million), the need to eliminate arrears vis-à-vis the Paris and London Clubs of creditors, multilateral creditors and the Community (US\$ 1.5 billion), and the increase in official reserves associated with the start-up requirements for the currency board arrangement (US\$ 175 million), Bosnia and Herzegovina's gross external financing needs is estimated at US\$ 3.8 billion in 1998.

Part of these needs will be covered by the resources made available by the international community for reconstruction and peace implementation activities (US\$ 1.6 billion) and other external inflows such as private and public transfers (US\$ 190 million), foreign direct investment (US\$ 100 million), as well as the London Club rescheduling (US\$ 810 million). In particular, on May 7-8, 1998, the fourth Donors' Pledging Conference for Bosnia and Herzegovina pledged US\$ 1.25 billion to support the reconstruction programme, peace implementation activities, and the macro-economic reform programme in 1998.

On May 29, 1998, the IMF approved a one-year Stand-by Arrangement for Bosnia and Herzegovina in the amount of about US\$ 81 million. In addition, the World Bank has committed two Structural Adjustment Loans and Credits of some US\$ 114 million focusing on public finance and privatization. Taking into account the contributions of these institutions for 1998 (some US\$ 129 million), the residual financing gap of Bosnia and Herzegovina is estimated at US\$ 965 million. After an estimated additional debt relief of some US\$ 839 million yet to be agreed by the Paris Club creditors, the remaining financing gap for 1998 is estimated at US\$ 125 million.

At the fourth Donors' Pledging Conference, total pledges in support of the macro-economic programme in 1998 fell somewhat short of this target, although the total amount pledged at the Conference, including for reconstruction and peace implementation activities, exceeded the initial objective of US\$ 1.1 billion set for 1998. Bilateral donors were thus urged to re-examine the composition of their aid programmes to ensure a full and timely support of the macro-economic programme, taking into account that about 47% of total pledges was already made by the Community and the

Member States. The need for additional balance-of-payments assistance from other bilateral donors was again stressed at the IMF Executive Board discussion on May 29, 1998.

Unless this remaining gap can be closed, Bosnia and Herzegovina's ability to support the minimum social needs of the population, to ensure the proper functioning of the administration, and to meet its external financial obligations would be put into question. Hence, the success of the whole stabilization and economic integration programme to which the different authorities of Bosnia and Herzegovina parties are now committed could be undermined before its expected economic positive effects could be realized.

5. PROPOSED MACRO-FINANCIAL ASSISTANCE AND MAIN FEATURES OF THE LOAN

The Commission is proposing that the Community would make available to Bosnia and Herzegovina a macro-financial assistance in the amount of up to ECU 60 million, corresponding to around 50% of the estimated remaining financing gap for 1998. Taking into account the low level of income in Bosnia and Herzegovina and the country's eligibility to the concessional resources of the World Bank (IDA), the Community's assistance should include a substantial grant element. It is thus proposed that the loan component of this assistance would amount to a maximum of ECU 30 million, to be complemented by a grant of up to ECU 30 million. The proposed duration of the loan component is of fifteen years. It takes into account the medium- and long-term balance-of-payments outlook for Bosnia and Herzegovina, which is expected to face substantial financing needs for the years to come.

The assistance would be granted in the context of the present SBA and would complement resources made available by the International Financial Institutions and bilateral donors.

The assistance would be released in at least two tranches subject to a satisfactory track record of the country's macro-economic programme agreed with the IMF and the observance of specific economic policy conditions. Its effective implementation would take place only after Bosnia and Herzegovina has fully discharged its outstanding financial obligations towards the Community and the EIB, stemming from previous EIB loans. The tranches are expected to be made available in late 1998 and early 1999.

As in the case of similar operations in favour of other partner countries, the Community would provide the loan element through market borrowing with a guarantee by the general budget. Bosnia and Herzegovina 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 a loan of up to ECU 30 million to Bosnia and Herzegovina would imply an ECU 4.2 million provisioning of the Fund to be drawn from the 1998 reserve for guarantees relating to external actions.

As for the grant component of this assistance and without prejudice to the competence of the budgetary authority, the Commission considers that given the constraints established by the present financial perspective, this part of the assistance could not be entirely financed in 1998 and would have to be implemented in at least two instalments of

maximum ECU 15 million each, respectively in late 1998 and early 1999. The necessary budgetary resources to this end would be found by redeployment, within the existing limits of Category 4 of the financial perspective for the 1995-1999 period.

Proposal for a
COUNCIL DECISION

providing macro-financial assistance
to Bosnia and Herzegovina

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 of the Commission,

Having regard to the opinion of the European Parliament¹,

Whereas the Commission has consulted the Monetary Committee before submitting its proposal;

Whereas Bosnia and Herzegovina is undertaking fundamental institutional and political reforms to establish common institutions and policies; whereas Bosnia and Herzegovina is making substantial efforts to promote economic reform and establish an open market economy;

Whereas within the Regional Approach defined by the Council, it is desirable to support efforts made to ensure a stable political and economic environment in Bosnia and Herzegovina, with a view to evolving towards the development of a full co-operation relationship with the Community;

Whereas financial assistance from the Community shall be instrumental in supporting the implementation of common institutions and policies in Bosnia and Herzegovina consistent with the Dayton peace agreement, while strengthening mutual confidence and bringing Bosnia and Herzegovina closer to the Community;

Whereas Bosnia and Herzegovina has agreed with the International Monetary Fund (IMF) on a comprehensive set of economic and institutional policy reform measures to be supported by a 12-month upper credit tranche Stand-By Arrangement (SBA); whereas the SBA shall be followed or replaced by an Enhanced Structural Adjustment Facility (ESAF);

Whereas Bosnia and Herzegovina has agreed with the World Bank on a set of structural adjustment measures to be backed by two highly concessional Structural Adjustment Loans and Credits in the areas of public finance reform, and enterprise and banking privatization;

Whereas the authorities of Bosnia and Herzegovina have requested financial assistance from the international financial institutions, the Community, and other bilateral donors;

whereas, over and above the estimated financing which could be provided by the IMF and the World Bank, an important residual financing gap remains to be covered in the coming months in order to strengthen the country's reserve position and support the policy objectives attached to the authorities' reform effort;

Whereas at the fourth Donors' Pledging Conference on Bosnia and Herzegovina on May 7-8, 1998, the international community welcomed the agreements reached with the Bretton Woods institutions and decided to strongly support the economic reform and reconstruction programmes of Bosnia and Herzegovina in the form of firm financial pledges;

Whereas the authorities of Bosnia and Herzegovina have committed to fully discharge all outstanding financial obligations of all public entities of Bosnia and Herzegovina towards the European Community and the European Investment Bank, and to accept the responsibility by way of guarantee of those obligations that are not yet due;

Whereas a Community macro-financial assistance to Bosnia and Herzegovina is an appropriate measure to help ease the country's external financial constraints, supporting the balance of payments and strengthening the reserve position;

Whereas Bosnia and Herzegovina being a low-income country eligible to highly concessional loans and facilities from the World Bank and the IMF, the Community macro-financial assistance shall require substantial elements of concessionality;

Whereas the inclusion of a grant component in this assistance is without prejudice to the powers of the budgetary authority;

Whereas this assistance should be managed by the Commission;

Whereas the Treaty does not provide, for the adoption of this decision, powers other than those of Article 235,

HAS DECIDED AS FOLLOWS:

Article 1

1. The Community shall make available to Bosnia and Herzegovina a macro-financial assistance in the form of a long-term loan and a straight grant with a view to ensuring a sustainable balance-of-payments situation and strengthening the country's reserve position.
2. The loan component of this assistance shall amount to a maximum principal of ECU 30 million with a maximum maturity of fifteen years. To this end, the Commission is empowered to borrow, on behalf of the European Community, the necessary resources that will be placed at the disposal of Bosnia and Herzegovina in the form of a loan.
3. The grant component of this assistance shall amount to a maximum of ECU 30 million for the 1998-99 period.

4. The Community financial assistance shall be managed by the Commission in close consultation with the Monetary Committee and in a manner consistent with any agreement reached between the IMF and Bosnia and Herzegovina.
5. The implementation of this assistance is conditional upon clearance in full by Bosnia and Herzegovina of outstanding due financial obligations of all public entities towards the Community and the European Investment Bank and upon the acceptance by Bosnia and Herzegovina of responsibility by way of guarantee of those obligations that are not yet due.

Article 2

1. The Commission is empowered to agree with the authorities of Bosnia and Herzegovina, after consultation with the Monetary Committee, the economic and institutional policy conditions attached to the Community macro-financial assistance. These conditions shall be consistent with the agreements referred to in Article 1(4).
2. The Commission shall verify at regular intervals, in collaboration with the Monetary Committee and in co-ordination with the IMF, that the economic and institutional policy in Bosnia and Herzegovina is in accordance with the objectives of this macro-financial assistance and that its conditions are being fulfilled.

Article 3

1. The loan and grant components of this assistance shall be made available to Bosnia and Herzegovina in at least two successive tranches. Subject to the provisions of Article 2, the first tranche shall be released on the basis of a successful completion of the first review of the 12-month SBA between the IMF and Bosnia and Herzegovina, subject to the provisions of Article 1 (5).
2. Subject to the provisions of Article 2, the second tranche shall be released on the basis of a satisfactory track record in the implementation of the SBA with the IMF and not before three months after the release of the first tranche.
3. The funds shall be paid to the Central Bank of Bosnia and Herzegovina.

Article 4

1. The borrowing and lending operations referred to in Article 1 (2) shall be carried out using the same value date and must not involve the Community in the transformation of maturities, in any exchange or interest rate risks, or in any other commercial risk.
2. The Commission shall take the necessary steps, if Bosnia and Herzegovina so requests, to ensure that an early repayment clause is included in the loan terms and conditions and that it may be exercised.
3. At the request of Bosnia and Herzegovina, and where circumstances permit an improvement in the interest rate on the loan, the Commission may refinance all or part of its initial borrowings or restructure the corresponding financial conditions. Refinancing or restructuring operations shall be carried out in accordance with the

conditions set out in paragraph 1 and shall not have the effect of extending the average maturity of the borrowing concerned or increasing the amount, expressed at the current exchange rate, of capital outstanding at the date of the refinancing or restructuring.

4. All related costs incurred by the Community in concluding and carrying out the operation under this Decision shall be borne by Bosnia and Herzegovina.
5. The Monetary Committee shall be kept informed of developments in the operations referred to in paragraph 2 and 3 at least once a year.

Article 5

At least once a year the Commission shall address to the European Parliament and to the Council a report, which will include an evaluation on the implementation of this Decision.

Done at

**For the Council
The President**

FINANCIAL STATEMENT

1. Title of Operation

Macro-financial assistance to Bosnia and Herzegovina.

2. Budget heading involved

a) *Grant component of the assistance*

Budget Heading; B7-5320. "Macro-financial assistance to Bosnia and Herzegovina" to be created through the ASB n° 1/98.

b) *Loan component of the assistance*

Heading B0-210 reflecting the European Community guarantee for borrowing programmes contracted by the Community to provide financial assistance for Mediterranean non-member countries.

3. Legal basis

Draft proposal presented by the Commission for a Council Decision providing macro-financial assistance to Bosnia and Herzegovina in accordance with **Article 235 of the Treaty**.

4. Description and justification of the action

a) *Description of the action*

Provision of a Community loan (to be financed by Community borrowings in the international capital markets) in the amount of up to ECU 30 million and a Community grant of up to ECU 30 million.

b) *Justification of the action*

The action is in support of Bosnia and Herzegovina's reform efforts and the implementation of common institutions and policies, consistent with the Dayton peace agreement. The sustainability of the beneficiary country's macro-economic stabilisation efforts and economic and institutional reforms heavily depends on external financial assistance from official sources, at concessional terms.

5. Classification of the expenditure

a) *Grant component* : non compulsory expenditure, differentiated.

b) *Loan component* : obligatory.

6. Nature of the expenditure

- a) Straight grant (100% subsidy), which would be released in at least two successive instalments.
- b) Potential activation of budget guarantee for the Community borrowing aimed to fund the loan.

7. Financial impact

a) *Method of calculation*

The evaluation of the amount of the assistance deemed necessary is based on the present estimates of the beneficiary country residual external financing needs (see point 4 in the proposal).

For the loan component of the assistance, a token entry is proposed given that the amount and timing of any call on this budget line cannot be calculated in advance and because it is expected that the budget guarantee will not be called.

b) *Effect of the action on intervention credits*

The budget entry corresponding to the grant component of the assistance will be activated subject to compliance with a number of policy conditions to be agreed with the authorities of the beneficiary country.

The budget entry reflecting the budget guarantee for the loan component of the assistance will be activated only in the case of an effective call on the guarantee.

c) *Financing of intervention*

(i) *Grant*

Budget line B7-532, initially established with a p.m., will be provisioned through a transfer of appropriations from budget lines B7-541 and B7-543 devoted to ex-Yugoslavia. However, if necessary and on an exceptional basis, an amount of appropriations for commitments of about ECU 15 millions could be mobilised by the end of 1998 within the existing limits of category 4.

The following schedule of appropriations is proposed (in current ECU):

	1998	1999
Commitment appropriations	15	15
Payment appropriations	0	30

(ii) *Eventual call on the budget guarantee*

- Recourse to the Guarantee Fund established by Council Regulation (EC, EURATOM) n° 2728 of 31 October 1994
- In case the Guarantee Fund did not contain sufficient resources, additional payments would be called up from the budget by transfer:
 - Of any margin remaining in the Reserve for guarantees;
 - Of any late payments to the budget for which the budget guarantee has been activated (under Article 27(3) of the Financial Regulation);
 - Of any margin available under the ceiling of category 4 of the financial perspectives or redeployment therein.
- In order to fulfil its obligations, the Commission can provisionally ensure the debt service with funds from its treasury. In that case, Article 12 of the Council Regulation (EC, EURATOM) n°1552/89 of 29 May 1989 will apply.

8. Fraud prevention measures

The funds will be paid directly to the Central Bank of the beneficiary country only after verification by the Commission services, in consultation with the Monetary Committee and in liaison with the IMF services, that the macro-economic policies implemented in these countries are satisfactory and that the specific conditions attached to this assistance are fulfilled (see article 2 of the decision)

9. Elements of cost-effectiveness analysis

a) *Grounds for the operation and specific objectives*

By supporting Bosnia-Herzegovina's macro-economic reform efforts and complementing financing by the International Community provided to this country in the context of the IMF-supported programme, this assistance would underpin its transition towards a market economy.

The present assistance will only be mobilized on the proviso that the beneficiary country fully discharges its outstanding due financial obligations towards the Community and the European Investment Bank.

b) *Monitoring and evaluation*

This assistance is of macro-economic nature and its monitoring and evaluation is undertaken in the framework of the IMF-supported adjustment and reform programme that the beneficiary country is implementing.

The monitoring of the action by the Commission services will take place on the basis of a genuine system of macro-economic and structural policy indicators to be agreed with the authorities of the beneficiary country. The Commission services will also remain in close contact with the IMF and World Bank services and to benefit from their assessment of the recipient country's stabilization and reform.

An annual report, which will include an evaluation of the implementation of this operation, to be presented by the Commission to the European Parliament and to the Council is foreseen in the proposed Council decision.

10. Administrative expenditure

Actual mobilization of the necessary administrative resources will depend on the Commission's annual decision on the allocation of resources, taking into account the number of staff and additional amounts authorized by the budgetary authority.

10.1 Effect on the number of posts

Type of post		Staff to be assigned to managing the operation		Source		Duration
		Permanent posts	Temporary posts	Existing resources in the DG or department concerned	Additional resources	
Officials or temporary staff	A	0,5		0,5		1 year
	B					
	C					
Other resources						
Total		0,5				

10.2 Overall financial impact of human resources *

ECU

	Amounts	Method of calculation
Officials	54 000	0.5x 108 000
Temporary staff		
Other resources (indicate budget heading)		
Total	54 000	

* By using existing resources required to manage the operation (calculation based on titles A-1, A-2, A-4, A-5 and A-7)

10.3 Other administrative expenditure as a result of the operation: Nil

ANNEX

**BUDGETARY RESOURCES NECESSARY FOR THE PROVISIONING OF THE
GUARANTEE FUND IN 1998 AND MARGIN UNDER THE RESERVE FOR LOANS
AND LOAN GUARANTEES IN FAVOUR OF THIRD COUNTRIES**

(IN ECU MILLION)

<u>Operations</u>	<u>Basis of the Calculation</u> ¹	<u>Provisioning of the Fund</u> ²	<u>Reserve Margin</u>	<u>Residual lending capacity</u> ⁴
			338,0 ³	2414
<u>Decided operations</u>				
Project-related assistance				
EIB/CEEC	665,7	93,2	244,8	
EIB/PVDALA	190,55	25,46	219,3	
EIB/SOUTH AFR.	17,5	2,45	216,9	
EIB/MED	728,6	102,00	114,9	
Macro-financial assistance				
Algeria (Suspension)	-100	14,00	128,9	
<u>Proposed operations</u>				
Project-related assistance				
EIB/FYROM ⁵	42	5,88	123,0	
EIB/Turkey ⁶	105	14,70	108,3	
EIB/ Croatia ⁶	56	7,84	100,5	
EIB/Bosnia ^{6,7}	7	0,98	99,5	
EURATOM ⁶	260	36,40	63,1	
Macro-financial assistance				
Ukraine-III ⁵	150	21,00	42,1	301
Albania ⁵	20	2,80	39,3	281
Bosnia ⁵	30	4,20	35,1	251

¹ The basis of calculation represents 70% of the nominal amount of the EIB loans and 100% of the macro-financial assistance loans.

² According to the provisioning rules provided in the Council regulation (EC, Euratom) n° 2728/94 of 31 October 1994. The Fund having reached its target amount in 1997, the rate of provisioning for new operations has been decreased from 15 % to 14%.

³ Reserve amount in 1998 under the financial perspective

⁴ For 100% guarantee loans.

⁵ Commission proposal.

⁶ Tentative estimates.

⁷ On the basis of loans to be signed in 1998.

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DOCUMENTS

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