



COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMUNICATION FROM THE COMMISSION
**THE EUROPEAN UNION'S FINANCIAL CONTRIBUTION TO
RECONSTRUCTION IN FORMER YUGOSLAVIA**

SUMMARY

This communication from the Commission to the Council concerns financial aspects of the reconstruction of the former Yugoslavia, excluding humanitarian aid.

The communication envisages that the Community budget contributes with an indicative envelope of ECU one thousand million in aid over the period 1996-99 to the reconstruction effort in ex-Yugoslavia.

With the emphasis on operational aspects, the communication envisages the different sources of financing that may be deployed over the period 1996-99.

-PHARE (chapter B7-50, budget nomenclature 1996) could provide ECU 400 million for the reconstruction of war-torn territories and ECU 200 million for national reform and transition programmes; PHARE could cofinance schemes with the EBRD;

-An indicative financial envelope of ECU 400 million could be "earmarked" for the reconstruction effort in ex-Yugoslavia under Chapter B7-54 "Co-operation with the republics of the former Yugoslavia" in line with the actions envisaged by Parliament in its first reading. A large part of the additional flexibility margin under Heading IV of the financial perspectives that was released at the Cannes Summit, compared to the proposal of the Commission, would be allocated for this purpose. This amount would also allow to respect fully the conclusions of the European Council of Cannes concerning the financial envelopes for PHARE, Mediterranean Third Countries, and the contribution to the EDF. Moreover, the necessary interest rate subsidies for loans and the possible macro-financial grants will be included in the amount of ECU 400 million.

-EIB loans and macro-financial assistance could be mobilised after funds are deposited in the Guarantee Fund;

In conclusion, the Commission will take steps to extend PHARE, it will propose a legal basis for the appropriate budget headings under chapter B7-54 "Co-operation with the former republics of Yugoslavia" and will examine any other measures which may be required.

Introduction

The Commission communication on reconstruction in former Yugoslavia, presented to the Council on 2 October, was followed by a non-paper dealing with the relevant financial and coordination aspects and by a wider-ranging working paper covering humanitarian aid and future contractual relations. This communication leaves aside *humanitarian aid* and focuses only on financial aspects, with an essentially operational thrust. It is based on the above documents.

Background

Reconstruction in the broadest sense of the term must cover a range of activities, including:

- emergency rehabilitation of basic services (water, gas, electricity and transport),
- the repair of war damage,
- aid for political and economic reform (democratization, elections, macroeconomic and financial adjustment, the market economy and privatization, etc.).

This will require far more money than any single donor can put up. It must also go hand in hand with macroeconomic assistance programmes, which means a solution has to be found to the problem of the arrears these countries are now in with international financial institutions. In addition, the goals to be achieved are very varied and need their own specially tailored instruments.

Financial sources

The international community is hoping for a substantial contribution to the reconstruction effort from the EU, which should be willing to do as much as it can provided the financial burden is shared equally among all donors. In giving any such contribution, however, the following factors will have to be borne in mind:

- as regards the effective use of funds, certain resources have already been pinpointed, while others would require a Commission initiative and a decision by both branches of the budgetary authority;
- the main sources of potential funding for reconstruction in ex-Yugoslavia for the period 1996-99 are the Phare programme (Chapter B7-50), totalling ECU 600 million, and Chapter B7-54 "Cooperation with the Republics formerly part of Yugoslavia" totalling ECU 400 million. This ECU 400 million represents a large proportion of the additional margin of flexibility (ECU 475 million) made available, on the basis of the Commission's proposals, for the entire period 1996-99 under heading IV of the current Financial Perspectives, following the fixing at the Cannes European Council of the total amounts for cooperation with the Central and Eastern European countries and the Mediterranean non-member countries. In addition, EIB loans and could also be considered;
- forecasts for the commitments and expenditures from the last source show that the room for manoeuvre will be greatest towards the end of the period 1996-99;

The Union therefore, subject to the annual budgetary procedure, proposes a total indicative package of ECU 1 billion for these operations for the period 1996-99.

1. Phare

Yugoslavia has been eligible for Phare assistance since 7 September 1990 (Council Regulation 2698/90). Since fighting broke out, the programme has only become involved in certain emergency activities in Slovenia.

Using Phare's usual criteria, the republics of former Yugoslavia could receive ECU 150 million a year, or ECU 600 million between 1996 and 1999. The programme's multiannual planning allows enough leeway to meet the immediate and longer-term needs of the various republics and can be tailored to the absorption capacity of each.

ECU 400 million of this ECU 600 million could go towards the immediate rebuilding of areas destroyed by the war in Bosnia-Herzegovina and Croatia, with the other ECU 200 million being given over to national reform or market economy programmes in all the republics except Slovenia.

(i) Rehabilitation and reconstruction

In view of the existing budget heading for reconstruction in former Yugoslavia, recent Parliament proposals to create new ones and the need in any case to give them a legal basis, the Commission will examine whether and how (amounts, timetable, etc.) transfers could be made to these headings from the Phare budget.

The rehabilitation and reconstruction work to be funded from these resources will be subject to the specific political conditions set out in the Council conclusions of 30 October.

(ii) Support for reforms

The Commission plans to use the current Phare regulation to finance support for reforms. Such assistance will be covered by the national programmes agreed on with all the former Yugoslav republics eligible for Phare.

Croatia was included in the list of eligible Phare countries this year, but following the military operation in Krajina, the programme was suspended. A Commission proposal to include FYROM in the list is already before the Council and should be dealt with as a matter of urgency. The inclusion of Bosnia-Herzegovina and Serbia-Montenegro and an end to the suspension of the Croatia programme will, following the Council conclusions of 30 October, also be made contingent on political conditions, drawn up on a case-by-case basis in light of any peace agreement. The Commission will then send the Council the relevant proposals. It should be remembered that the inclusion of a new country in the Phare list requires Parliament's opinion prior to any Council decision.

The Commission feels that Phare operations should first and foremost go to support the peace process and, where possible, the return to normal relations between the countries in the region.

2. Chapter B7-54 'Cooperation with the Republics formerly part of Yugoslavia'

The Cannes European Council decided to reduce the allocation for Mediterranean non-member countries by ECU 475 million for the period 1996-99. The Commission proposes to allocate an indicative package of ECU 400 million for that period for reconstruction in ex-Yugoslavia to Chapter B7-54 "Cooperation with the Republics formerly part of Yugoslavia". A large proportion of this additional margin of flexibility under heading IV of the Financial Perspectives, which was made available at Cannes could therefore be used for this purpose. This amount would also enable full compliance with the conclusions of the Cannes European Council concerning the financial packages for Phare, the Mediterranean non-member countries and the contribution to the EDF. In addition, the ECU 400 million will cover the necessary financing for interest rebates on loans and possible macroeconomic aid.

After the first reading of the 1996 Budget, Parliament has proposed allocating a total sum of ECU 98 million to Chapter B7-54, distributed as follows:

- Heading B7-540: Financial Protocols with the Republics formerly part of Yugoslavia: ECU 6 million
The budgetary contribution to the financing of the Third Financial Protocol for the former Yugoslavia, which takes the form of interest rate subsidies for EIB loans, was ECU 77 million. Since this Protocol did not enter into force no appropriations have been allocated, with the exception of ECU 10.5 million for Slovenia in 1995, and ECU 6 million proposed for the Croatia Protocol for 1996. If these Protocols are reactivated, they will also be covered by the ECU 400 million.
- Heading B7-541: measures for reconstruction : ECU 27 million
- Heading B7-542: special aid for refugees: ECU 30 million
- Heading B7-545: Europe for Sarajevo: ECU 35 million

3. Other budget headings for the former Yugoslavia

The other budget headings proposed by the Budgetary Authority for former Yugoslavia are:

- Heading B7-7001: measures to help democracy (including independent media): ECU 5 million
- Heading B8-010: Mostar: ECU 32 million
- Heading B7-7002: application of sanctions: ECU 8.75 million

All these headings will probably remain available, unless an explicit decision is taken to the contrary, even if no peace agreement is concluded. In view of the amounts entered under Chapter B7-54 headings, excluding the Financial Protocols, there must be one single legal basis defining the objectives and procedures for administering reconstruction funds. The Commission will present the appropriate proposals to the Council.

Political developments may mean that not all the amounts entered under headings B7-010 and B7-7002 will have to be committed. In that case the balance could be transferred to the reconstruction headings and the Commission could propose an appropriate transfer to the budgetary authority.

4. EIB loans and macro-economic assistance

As far as EIB loans are concerned, it should be noted that the 1991 Yugoslavia Financial Protocol included a global amount of ECU 730 million guaranteed by the Budget. Since this Protocol did not enter into force, only ECU 150 million has been allocated to Slovenia for a five-year period. A total of ECU 230 million for a three-year period had been considered for Croatia in the negotiations for a trade and cooperation agreement, but these negotiations have now been suspended. If these loans are guaranteed by the Budget, the Guarantee Fund will have to be topped up and a solution found to the problem of the former Yugoslavian Republics' arrears vis-à-vis the EIB. If such a solution involved a contribution from the Budget, it should be covered by the ECU 400 million.

These loans, which will be granted to the countries of the former Yugoslavia in the form of a guarantee for EIB loans, must fall within the limits set by the Guarantee Fund mechanism on external operations. This also applies to any macro-financial assistance provided which will depend largely on the needs identified, in particular by the IMF under these countries' macro-economic programmes, and on the contributions provided by other donors.

5. Relations with the EBRD

PHARE could cofinance economic reconstruction operations with the EBRD, e.g. in the field of telecommunications, energy and the development of small businesses. This would generate two to three times more funds than could be provided by the EBRD alone. For countries of the former Yugoslavia eligible for assistance under Phare the Commission could finance projects to prepare EBRD operations under the arrangements provided for in the Bangkok agreement.

6. Central and Eastern Europe involvement

Central and Eastern European countries have expressed an interest in playing a part in the rebuilding of the former Yugoslavia. The European Union cannot, however, provide any more funds than those already programmed to finance their own programmes. These countries involvement would therefore have to be in the form of triangular operations using the PHARE budget.

Conclusions

- *In the light of the political conditions laid down in the conclusions of the General Affairs Council of 30 October, the Commission will examine the possibility of extending the Phare Programme to all the republics of former Yugoslavia*
- At the end of the 1996 budget procedure, the Commission will examine and propose an appropriate legal basis for the relevant budget headings of Chapter B7-54.
- The Commission will examine ways in which additional funds may be transferred to the abovementioned budget headings, where appropriate.
- The Commission proposes to allocate for the reconstruction of the former Yugoslavia an indicative amount of ECU 400 million to Chapter B7-54 "Cooperation with the Republics formerly part of Yugoslavia" for the period 1996-99. Interest rate subsidies on any loans for macro-financial assistance will be included in the ECU 400 million. A large proportion of the flexibility margin made available at Cannes, on the basis of the Commission's proposals, would be used for this purpose.
- The Union, subject to the annual budgetary procedure, proposes for the reconstruction of former Yugoslavia a sum of ECU 1 billion for the period 1996-99:
 - ECU 600 million for Phare (1996-99), of which ECU 400 million for reconstruction as such and ECU 200 million for economic reconstruction;
 - an indicative package of ECU 400 million to Chapter B7-54 "Cooperation with former Yugoslavia" (1996-99), of which ECU 98 million (according to Parliament's first reading of the 1996 draft Budget), distributed as follows:
 - ECU 6 million (B7-540 Financial Protocols)
 - ECU 27 million (B7-541 Measures for the reconstruction of the Republics formerly part of Yugoslavia)
 - ECU 30 million (B7-542 Special aid for refugees)
 - ECU 35 million (B7-545 Europe for Sarajevo)
 - EIB loans to be arranged.