


# Procedure file

Basic information		
CNS - Consultation procedure Decision	<a href="#">2008/0067(CNS)</a>	Procedure completed
EIB loans: eligibility of Central Asian countries granting a Community guarantee to the EIB against losses under loans and loan guarantees for projects outside the Community		
Subject 6.30.04 Loans to third-countries, Guarantee Fund 6.40.04.06 Relations with central Asian countries		
Geographical area Tajikistan Turkmenistan Uzbekistan Kazakhstan Kyrgyzstan		

Key players			
European Parliament	Committee responsible	Rapporteur	Appointed
	<b>BUDG</b> Budgets		
	Committee for opinion	Rapporteur for opinion	Appointed
	<b>AFET</b> Foreign Affairs	The committee decided not to give an opinion.	
	<b>INTA</b> International Trade		05/05/2008
		Vers/ALE <a href="#">LIPIETZ Alain</a>	
Council of the European Union	Council configuration	Meeting	Date
	<a href="#">Economic and Financial Affairs ECOFIN</a>	<a href="#">2901</a>	04/11/2008
European Commission	Commission DG	Commissioner	
	<a href="#">Economic and Financial Affairs</a>	ALMUNIA Joaquín	

Key events			
07/04/2008	Legislative proposal published	<a href="#">COM(2008)0172</a>	Summary
08/05/2008	Committee referral announced in Parliament		
16/07/2008	Vote in committee		Summary
18/07/2008	Committee report tabled for plenary, 1st reading/single reading	<a href="#">A6-0317/2008</a>	
04/09/2008	Results of vote in Parliament		

04/09/2008	Decision by Parliament	<a href="#">T6-0403/2008</a>	Summary
04/11/2008	Act adopted by Council after consultation of Parliament		
04/11/2008	End of procedure in Parliament		
12/11/2008	Final act published in Official Journal		

#### Technical information

Procedure reference	2008/0067(CNS)
Procedure type	CNS - Consultation procedure
Procedure subtype	Legislation
Legislative instrument	Decision
Legal basis	EC Treaty (after Amsterdam) EC 181A
Stage reached in procedure	Procedure completed
Committee dossier	BUDG/6/61557

#### Documentation gateway

Legislative proposal		<a href="#">COM(2008)0172</a>	07/04/2008	EC	Summary
Document attached to the procedure		<a href="#">SEC(2008)0417</a>	07/04/2008	EC	Summary
Committee draft report		<a href="#">PE407.683</a>	03/06/2008	EP	
Amendments tabled in committee		<a href="#">PE409.492</a>	01/07/2008	EP	
Committee opinion	INTA	<a href="#">PE407.774</a>	15/07/2008	EP	
Committee report tabled for plenary, 1st reading/single reading		<a href="#">A6-0317/2008</a>	18/07/2008	EP	
Text adopted by Parliament, 1st reading/single reading		<a href="#">T6-0403/2008</a>	04/09/2008	EP	Summary
Commission response to text adopted in plenary		<a href="#">SP(2008)6073</a>	17/10/2008	EC	

#### Additional information

National parliaments	<a href="#">IPEX</a>
European Commission	<a href="#">EUR-Lex</a>

#### Final act

[Decision 2008/847](#)  
[OJ L 301 12.11.2008, p. 0013](#) Summary

## EIB loans: eligibility of Central Asian countries granting a Community guarantee to the EIB against losses under loans and loan guarantees for projects outside the Community

This Commission Staff Working Paper is an annex to the proposal for a Council Decision on the eligibility of Central Asian countries under Council Decision 2006/1016/EC granting a Community guarantee to the European Investment Bank against losses under loans and loan

guarantees for projects outside the Community. It provides background information on the economic situation of five Central Asian countries, namely Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, thus supporting the Commission's proposal for the establishment of the eligibility for European Investment Bank ("EIB") financing under Community guarantee in accordance with Council Decision 2006/1016/EC.

#### Kazakhstan:

The Kazakh economy is increasingly driven by the hydrocarbon sector. In 2006, hydrocarbon activity (including transport and other related sectors) accounted for more than 30% of nominal GDP. About 30% of total government revenues were derived from the hydrocarbon sector, compared to 6% in 1999. The share of crude oil and natural gas output in industrial production has almost tripled since 1998, reaching 45%. Oil and gas exports accounted for over 55% of total export earnings. Investment in the hydrocarbon sector constituted about a third of total investment and one half of FDI. However, outside the petroleum sector, the business climate remains difficult, notably for small and medium-scale enterprises and foreign investors. A major impediment to private sector development is lack of transparency in law enforcement, customs and tax levy.

#### Kyrgyzstan:

Following strong real GDP growth in 2004, the new government has managed to maintain political stability. Economic activity in 2005, however, slowed down following the political upheaval and output growth fell short of expectations. Real GDP in 2005 contracted slightly by 0.2%. In 2006, notwithstanding a serious accident in the Kumtor gold mine which limited its output by an estimated 40%, the real economy still rebounded with a GDP growth of 2.7%, mainly due to a recovery in agricultural output and manufacturing. For the year 2007 growth estimate is much higher, at 7.5%. Progress is lagging in a number of areas though. In particular, slow improvements in the business environment, insufficient regulatory and tax reform, and the still limited size of the financial sector continue to hamper entrepreneurship and investment. Key challenges are to improve tax administration, adopt concrete measures against corruption, enhance effectiveness of courts and reduce bureaucracy. Infrastructure is characterised by a generally low quality of services and inefficiency, requiring extensive investment which the public sector has been unable to upgrade due to fiscal constraints. The tax levels for companies are high and related procedures are burdensome.

#### Tajikistan:

Tajikistan's GDP growth accelerated from 6.7% in 2005 to 7.0% in 2006 and to an estimated 7.5% in 2007, mainly due to major foreign-investment projects and strong domestic demand. Cotton and aluminium remain the traditional pillars of the economy. However, diversification of the economy continued (though slowly), enlarging the share of the services sector, with trade, construction, communications and financial activities being the fastest growing sectors. The share of agriculture has declined between 1991 and 2005 from 36% of GDP to 22%. Domestic demand is driven essentially by higher private consumption spending, in turn mainly financed by strong growth in workers' remittances and, to a lesser degree, by public sector wage rises. Remittances are estimated in the 2006 balance of payments to have increased to about \$900 million, or about one-third of GDP. Tajikistan's business climate, however, continues to be difficult. Tajikistan ranks 158 out of 178 countries in the World Bank's Doing Business Report for 2008 and corruption remains an important obstacle, both to business and reform.

#### Turkmenistan:

With large gas reserves and a small population, Turkmenistan's export potential is huge, though substantial investments are needed to increase production. Although its 4.5 million people receive free gas, electricity and water, incomes are among the lowest in Central Asia and health and education services are declining. The Government's economic policy is still determined by central planning. It continues to rely on production targets, mandatory state procurement, directed bank credits and foreign exchange restrictions. Key sectors of the economy, including the energy sector and the banking system, remain in state hands. The availability and accuracy of data and information continue to be major constraints in the analysis of economic developments in Turkmenistan. According to official statistics, real GDP growth in the last years was about 20%. The Turkmen authorities have recently expressed a willingness to engage more actively with international donors such as the World Bank (WB), and they have taken positive steps to address long-standing issues that hindered development of a WB program in Turkmenistan. The sustainability of the government's economic policies will depend mainly on its ability to earn hard currency from commodity exports. In view of the current development of the oil-refining, gas and cotton processing sectors, it seems likely that export revenue will hold up sufficiently to preclude the need for the government to make any progress towards introducing economic reform. The restrictive business environment will continue to deter most western foreign investors, dampening inflows of FDI.

#### Uzbekistan:

Developments strongly suggest that the economy, despite the above-trend growth of the last three years, is underperforming relative to its potential, largely because of the reform backlog in structural policies. GDP grew by an average of 7.4% in 2005-2007, as compared to an average of 4.2% in 1999-2003. Agriculture's contribution was helped by a record cotton crop in 2005. Industrial performance has improved over the last, with significant contributions from machinery, chemicals, and metals, in good part based on larger export sales. Also noncommodity export recorded strong growth. In September 2007, the Government of Uzbekistan formally adopted its first Welfare Improvement Strategy (WIS), covering the period 2008-10, and transmitted the document to the World Bank (International Development Association ? IDA) and the International Monetary Fund (IMF). The strategy accords a somewhat greater role to market principles and describes measures to undertake structural reforms. There is a particular emphasis on improving the business environment; it also provides a more candid assessment of economic and social challenges facing the country. Trade policy remains restrictive. Effective rates of protection against consumer imports are significant and excise tax rates on a wide range of consumer imports are higher than on domestic goods. Other regulatory ?behind-the-border? barriers to trade include the regulation of wholesale and retail trade affecting the domestic marketing of imports. This regime imposes a heavy regulatory burden on individual entrepreneurs, in particular cross-border shuttle traders, who are an important source of supply for the private sector and contributes to the adverse investment environment. The poor business climate is reflected by the limited amount of FDI inflows estimated at \$ 200 million in 2005 (1.5% of GDP). Future FDI inflows however will be buoyed through hydrocarbons investments from the People's Republic of China and the Russian Federation.

## EIB loans: eligibility of Central Asian countries granting a Community guarantee to the EIB against losses under loans and loan guarantees for projects outside the Community

European Investment Bank (EIB) guarantee.

PROPOSED ACT: Council Decisions.

BACKGROUND: in June 2007, the European Council requested the development of a new EU Central Asia strategy to serve as an overall framework for EU relations with Central Asia. The Strategy, based upon common interests, defines the EU's priorities for its cooperation with the region as a whole, with implementation tailored to the specific requirements and performance of each Central Asian country. In order to intensify cooperation with the Central Asian countries, the Strategy requires that interaction between the EU and the Central Asian countries be strengthened vis-à-vis the international financial institutions, including the World Bank and the European Bank for Reconstruction and Development (EBRD). The European Investment Bank (EIB) should play an important role in the financing projects of interest to the EU in Central Asia. Existing EU legislation specifies that EIB activity in Central Asia should focus on major energy supply and energy transport projects with cross-border implications. Central Asia, with its significant hydrocarbon resources and favourable geographical location for transport routes to European markets, has the potential to play an important role in ensuring the EU's energy supplies.

In 2006, the EU adopted [Council Decision 2006/1016/EC](#) granting a Community guarantee to the European Investment Bank against losses under loans and loan guarantees for projects outside the Community. Under the terms of this Decision, countries which have been marked with an asterisk (\*) in Annex I can only become eligible for EIB financing under the Community following a decision by the Council on a case by case basis and in accordance with the procedure provided for in Article 181a (2) of the Treaty. All five of the Central Asian countries to whom this proposal is addressed fall under this category.

CONTENT: bearing the above in mind, the purpose of this proposal is to establish the eligibility of five Central Asian countries, namely Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, for EIB financing under Council Decision 2006/1016/EC. Any future EIB activity in the five Central Asian countries will be fully compatible with EBRD activities as well as activities under the remit of: the Black Sea Trade and Development Bank, the International Bank for Reconstruction and Development, the International Finance cooperation; and the Nordic Investment Bank, thanks to a number of Memorandums of Understanding that have been signed.

The Commission, in spite of Parliamentary attempts to nullify this choice before the European Court of Justice, has decided to maintain Article 181a of the Treaty establishing the European Community as the sole legal basis of this legislative initiative and not to share the legal basis of the proposal with Article 179 (an instrument of development policy) as requested by Parliament. This is fully in line with Article 2 of Council Decision 2006/1016/EC. The Parliament has asked the European Court of Justice - should it decide in favour of an annulment - to uphold the effects of Council Decision 2006/1016/EC until a new Decision has been adopted.

## EIB loans: eligibility of Central Asian countries granting a Community guarantee to the EIB against losses under loans and loan guarantees for projects outside the Community

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The Committee on Budgets adopted a report drafted by Esko SEPPANEN (GUE/NGL, FI) and made some amendments to the proposal for a Council decision on the eligibility of Central Asian countries under Council Decision 2006/1016/EC granting a Community guarantee to the European Investment Bank against losses under loans and loan guarantees for projects outside the Community.

The main amendments ? adopted in the framework of the consultation procedure ? are as follows :

- the guarantee agreement between the Commission and the EIB, as foreseen in Article 8 of Council Decision 2006/1016/EC, shall lay down the detailed provisions and procedures relating to the Community guarantee and shall contain conditions with clear benchmarks regarding respect for human rights. The Committee specified that it must be stated that EU policy goals with regard to human rights must not be undermined by Community guarantees for loans by the EIB in countries. An interim agreement of the EU with Turkmenistan on trade and trade-related matters is pending since 2006, due to accusations of systemic violations of fundamental rights by this country. EBRD operations in this country are focused on the promotion of private sector activities, particularly in the SME and micro-finance area, provided that it can be shown that the proposed investments are not effectively controlled by the state. EIB loans should be based on the same principles;
- on the basis of the information received from the EIB, the Commission shall produce an assessment and a report, on an annual basis, to be forwarded to the European Parliament and the Council, on the EIB financing operations carried out under this Decision. The report should include an assessment of the contribution of the EIB financing operations to the achievement of the external policy objectives of the EU and especially the contribution to the general objective of developing and consolidating democracy and the rule of law, the objective of respecting human rights and fundamental freedoms, and the observance of international environmental agreements to which the European Community or its Member States are parties;
- the EIB shall ensure that framework agreements between the Bank and the countries concerned are made available to the public and that adequate and timely objective information is made available to enable them to play a full part in the decision making process.

## EIB loans: eligibility of Central Asian countries granting a Community guarantee to the EIB against losses under loans and loan guarantees for projects outside the Community

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The European Parliament adopted by 614 votes to 3, with 8 abstentions, a legislative resolution amending the proposal for a Council decision on the eligibility of Central Asian countries under Council Decision 2006/1016/EC granting a Community guarantee to the European Investment Bank against losses under loans and loan guarantees for projects outside the Community. The report had been tabled for consideration in plenary by Esko SEPPANEN (GUE/NGL, FI) on behalf of the Committee on Budgets.

The main amendments - adopted under the consultation procedure - were as follows:

- the guarantee agreement between the Commission and the EIB, as foreseen in Article 8 of Council Decision 2006/1016/EC, shall lay down the detailed provisions and procedures relating to the Community guarantee and shall contain conditions with clear benchmarks regarding respect for human rights;
- on the basis of the information received from the EIB, the Commission shall produce an assessment and a report, on an annual basis, to be forwarded to the European Parliament and the Council, on the EIB financing operations carried out under this Decision. The

report should include an assessment of the contribution of the EIB financing operations to the achievement of the external policy objectives of the EU and especially the contribution to the general objective of developing and consolidating democracy and the rule of law, the objective of respecting human rights and fundamental freedoms, and the observance of international environmental agreements to which the European Community or its Member States are parties;

- the EIB shall ensure that framework agreements between the Bank and the countries concerned are made available to the public and that adequate and timely objective information is made available to enable them to play a full part in the decision making process.

Parliament noted in an amended recital that the macro-economic conditions prevailing in the Central Asian countries, and in particular the situation of external finances and debt sustainability, have improved in the recent years as a result of strong economic growth and prudent macroeconomic policies, and they should therefore be allowed access to financing from the EIB. There should nevertheless be pre-conditions for their eligibility for EIB loans: these countries must show clear progress in establishing the rule of law, freedom of speech and the media and freedom of NGOs, and in achieving the Millennium Development Goals as specified in the EU Partnership and Cooperation Agreements. They should not be subject to EU sanctions for human rights violations and they should have made real progress in terms of the human rights situation.

## EIB loans: eligibility of Central Asian countries granting a Community guarantee to the EIB against losses under loans and loan guarantees for projects outside the Community

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**PURPOSE:** to establish the eligibility of five Central Asian countries for EIB financing.

**LEGISLATIVE ACT:** Council Decision 2008/847/EC on the eligibility of central Asian countries under Decision 2006/1016/EC granting a Community guarantee to the European Investment Bank against losses under loans and loan guarantees for projects outside the Community.

**CONTENT:** the Council adopted this Decision which makes Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan eligible for EIB financing under Community guarantee.

**ENTRY INTO FORCE:** 15/11/2008.