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STRENGTHENING OF THE COORDINATION OF HUMANITARIAN AND DISASTER RELIEF ASSISTANCE OF THE UNITED NATIONS, INCLUDING SPECIAL ECONOMIC ASSISTANCE: SPECIAL ECONOMIC ASSISTANCE TO INDIVIDUAL COUNTRIES OR REGIONS

Economic assistance to States affected by the implementation of the Security Council resolutions imposing sanctions against the Federal Republic of Yugoslavia (Serbia and Montenegro)

Report of the Secretary-General

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I. INTRODUCTION

1. In its resolution 48/210 of 21 December 1993, the General Assembly commended the States bordering on the Federal Republic of Yugoslavia (Serbia and Montenegro), the other Danube riparian States and all other States for the measures they had taken to comply with Security Council resolutions 713 (1991), 724 (1991), 757 (1992), 760 (1992), 787 (1992) and 820 (1993), and urged all States to continue to observe those resolutions strictly. At the same time, the Assembly recognized the urgent need to assist States in coping with their special economic problems arising from the implementation of sanctions against the Federal Republic of Yugoslavia (Serbia and Montenegro).

2. In the same resolution, the General Assembly in particular supported the recommendations of the Security Council Committee established pursuant to resolution 724 (1991) concerning Yugoslavia, in response to requests for assistance received by the Security Council from certain States confronting special economic problems under the provisions of Article 50 of the Charter of the United Nations, in which the Committee had, inter alia: (a) appealed to all States on an urgent basis to provide immediate technical, financial and material assistance to the affected States to mitigate the adverse impact on their economies of the application by those States of sanctions against the Federal Republic of Yugoslavia (Serbia and Montenegro) pursuant to Security Council resolutions 757 (1992), 787 (1992) and 820 (1993); and (b) invited the competent organs and specialized agencies of the United Nations system, including the international financial institutions and the regional development banks, to consider how their assistance programmes and facilities might be helpful to the affected States in that regard.

3. Moreover, the General Assembly, in the same resolution, requested the Secretary-General to seek on a regular basis information from States and the concerned organs and agencies of the United Nations system on action taken to alleviate the special economic problems of the affected States and to report thereon to the Security Council, as well as to submit a report on the implementation of the resolution to the Assembly at its forty-ninth session. The present report was prepared in response to that request.

II. BACKGROUND: ACTION BY THE SECURITY COUNCIL

4. A comprehensive report of the Secretary-General prepared pursuant to the note by the President of the Security Council (S/25036) regarding the question of special economic problems of States as a result of sanctions imposed under Chapter VII of the Charter of the United Nations (A/48/573-S/26705), dealing with the application of Article 50 of the Charter of the United Nations (see paras. 39-46) was made available to the General Assembly at its forty-eighth session under agenda item 169, entitled "Economic assistance to States affected by the implementation of the Security Council resolutions imposing sanctions against the Federal Republic of Yugoslavia (Serbia and Montenegro)". For the benefit of this report, the relevant background information is updated below.

5. By its resolutions 757 (1992) of 30 May 1992, 787 (1992) of 16 November 1992 and 820 (1993) of 17 April 1993, the Security Council, acting under Chapter VII of the Charter of the United Nations, imposed a comprehensive set of sanctions against the Federal Republic of Yugoslavia (Serbia and Montenegro). 1/ In its resolution 757 (1992), the Security Council recalled the right of States, under Article 50 of the Charter, to consult the Council where they found themselves confronted with special economic problems arising from the carrying out of preventive or enforcement measures.

6. Subsequently, eight States, namely, Albania, Bulgaria, Hungary, Romania, Slovakia, the former Yugoslav Republic of Macedonia, Uganda and Ukraine requested, in accordance with Article 50 of the Charter, consultations with the Security Council. In their communications addressed to the Council, those States provided information regarding the special economic problems with which they had been confronted as a result of the implementation of the measures contained in the relevant Council resolutions concerning Yugoslavia, and applied for international assistance with regard to a solution of those problems. Issues and estimates of the sanctions-related effects are discussed in section III below.

7. In response to the requests for assistance, the Security Council initiated in April 1993 a process of consultations. In the process, the Council, in its resolution 843 (1993) of 18 June 1993, confirmed that the Committee established pursuant to resolution 724 (1991) had been entrusted with the task of examining requests for assistance under the provisions of Article 50 of the Charter of the United Nations; and welcomed the establishment by the Committee of its working group and invited the Committee, as it completed the examination of each request, to make recommendations to the President of the Council for appropriate action.

8. At a series of meetings, held in the second half of 1993, the Committee adopted without objection as recommendations to the President of the Security Council the draft decisions submitted by the Working Group with regard to Bulgaria, Hungary, Romania, Uganda and Ukraine (S/26040), Albania (S/26040/Add.1) and Slovakia and the former Yugoslav Republic of Macedonia (S/26040/Add.2), and thus completed the examination of all the requests submitted to it. The Committee also decided to attach to the relevant recommendation, with the concurrence of the applicant State, the text of its memorandum and any additional explanatory material provided in support of the application.

9. Under each recommendation, the Committee recognized the urgent need to assist the affected country in coping with its special economic problems resulting from the severance of its economic relations with the Federal Republic of Yugoslavia, especially the commercial and financial losses incurred by that country; appealed to all States on an urgent basis to provide immediate technical, financial and material assistance to the country concerned to mitigate the adverse impact on its economy of the application by it of sanctions against the Federal Republic of Yugoslavia; invited the competent organs and specialized agencies of the United Nations system, including the international financial institutions, and the regional development banks, to consider how their assistance programmes and facilities might be helpful to the country in

question, with a view to alleviating its special economic problems arising from the application of the sanctions; and requested the Secretary-General on a regular basis to seek information from States and the concerned organs and agencies of the United Nations system on action taken to alleviate the special economic problems of the affected country and to report thereon to the Security Council.

10. By letters dated 6 July, 9 August and 20 December 1993 (S/26056, S/26282 and S/26905, respectively), the President of the Security Council informed the Secretary-General, by agreement of all the members of the Council, of the above-mentioned recommendations and requested him to implement the actions contained therein as appropriate. Accordingly, the Secretary-General addressed, on 21 July and 13 September 1993 and 13 January 1994, formal letters to the Foreign Ministers of all States, as well as to the executive heads of the competent organs and specialized agencies of the United Nations system, including the international financial institutions and the regional development banks, expressing his strong support for the recommendations of the Committee regarding the follow-up action. In those communications, he also requested the States and the organizations concerned to provide him, on a regular basis, with information on action taken by them to alleviate the special economic problems of the affected States.

11. As of 1 August 1994, the Secretary-General had received replies from a total of 19 States and 23 international organizations concerned. Copies of those communications were made available to the members of the Security Council and were transmitted to its Committee established pursuant to resolution 724 (1991) and from there to its Working Group on Article 50, for consideration. The Working Group, at its meetings held on 30 November 1993 and 22 July 1994, considered the information provided to the Secretary-General. The Working Group has, upon review, taken note of the communications received to date and decided to remain seized of the matter. A summary of the information submitted to the Secretary-General is set out in section IV below.

III. IDENTIFYING AND ASSESSING THE NATURE AND SCOPE OF SPECIAL ECONOMIC PROBLEMS OF THE AFFECTED STATES

12. Despite several instances of past and current application of Article 50 of the United Nations Charter (in connection with sanctions against Southern Rhodesia, Iraq, Yugoslavia and the Libyan Arab Jamahiriya), there is no uniform and internationally recognized methodology for identifying and assessing the nature and magnitude of the special economic problems of non-target States as a result of mandatory economic sanctions. Most recently, methodological issues were addressed in two United Nations publications: the comprehensive report of the Secretary-General on Article 50 of the United Nations Charter (A/48/573-S/26705, paras. 70-86), and World Economic and Social Survey, 1994. 2/ At the same time, those matters have been an integral part of the ongoing assessment efforts by the International Monetary Fund (IMF) and the United Nations Development Programme (UNDP) as referred to in section IV below. Yet, no substantive intergovernmental or inter-agency discussion on methodology of impact assessment has taken place. Thus, both the affected countries and the funding agencies have been performing their own quantitative assessments, often

applying different standards and criteria. As a result, the range of assistance activities have also been viewed differently by the affected countries and the donors.

A. General issues of impact analysis

13. In general terms, the nature of the economic problems experienced by the neighbouring States and other States in the region was outlined under cover of a letter dated 18 October 1993 from the Permanent Representatives of Albania, Bulgaria, Croatia, the Czech Republic, the Republic of Moldova, Romania, Slovakia, the former Yugoslav Republic of Macedonia and Ukraine to the United Nations addressed to the Secretary-General (A/48/239). In the explanatory memorandum attached to their letter, the Permanent Representatives of these countries stated, inter alia, that the application of such a comprehensive and strict set of trade and economic sanctions had placed an extraordinary burden on the States concerned, given the combination of the following factors: (a) the specific key geographical situation of the area under sanctions in terms of the existing transport infrastructure and communication links of eastern and south-eastern Europe with the rest of the continent; (b) the precarious economic situation of most of those States in a period of major political, economic and social transition to democracy and a market economy, which had been seriously affected by the heavy economic losses sustained as a result of the implementation of the sanctions; and (c) the considerable direct financial expense incurred as a result of putting into operation and maintaining an elaborate administrative system of monitoring and control over the strict implementation of the sanctions.

14. However, the available estimates, including those submitted by the affected countries themselves, of the losses and costs resulting from the implementation of the sanctions differ substantially in timing, coverage and scope. Naturally, the actual magnitude of the impact of the sanctions vary according to the specific situation of the affected country, including the intensity of its economic ties with the former Yugoslavia, the commodity composition of its trade, and the proximity and costs of alternative trade routes. Nevertheless, it is essential to identify a set of general issues (principles or criteria) for the purpose of impact analysis and assessment on a more standardized basis. In turn, an accurate impact assessment is necessary both to design the appropriate domestic policy response and to seek the corresponding external - financial and technical - assistance.

15. In the first instance, assessing the impact of the application of the sanctions requires making a clear distinction between the narrow effects of the sanctions, namely, the imposition of restrictions on economic relations with the target State, and the broader effects of the economic disruption caused by the disintegration of and the ongoing conflict in the former Yugoslavia. Moreover, many of the affected countries are undergoing systemic transformation, with all its difficult implications and policy-induced adjustments, as a result of the transition from centrally planned to market-based economies. Under the circumstances, it is difficult to disentangle the impact of the sanctions from the broader effect of the structural transformation. In any event, all the

relevant considerations should be taken into account in assessing individual country situations.

16. In most of the neighbouring States, the application of the sanctions have affected adversely both the country's external accounts and a variety of largely domestic variables, including output, investment, employment and fiscal budget. Accordingly, these countries amalgamate, in their estimates of the total losses resulting from the sanctions, both types of effects as direct losses. However, under the traditional methodology applied by major international financial institutions, usually only the impact on external accounts is considered to constitute "direct effects" which are evaluated as the income forgone and losses incurred as a direct result of the cancellation of contracts and/or suspension of other economic relations with the sanctioned country. Accordingly, the balance-of-payments impact can be ascribed to (a) the loss of direct exports to Serbia and Montenegro; (b) the loss of exports to other countries owing to the difficulties in shipping goods that had previously transited through Yugoslavia; (c) the higher transportation costs incurred for imports; and (d) other effects due to the blocking of the Federal Republic of Yugoslavia assets and the attendant cessation of payments on projects already executed and for other debt obligations.

17. On the other hand, the impact on domestic variables falls under the category of "indirect effects" which are, in fact, the induced effects of the former, such as disrupted production due to the absence or higher cost of sanctioned supplies, suspended financial services, lost jobs, the negative fiscal effects of forgone profit tax or tariff revenues and the need to increase social benefits. Hence, focus on the balance-of-payments impact is intended to avoid counting the same item several times. In practice, however, double counting of exports and enterprise losses is likely when estimates are based on the enterprise surveys.

18. Moreover, all the affected countries reported as losses the full first-round impact of the sanctions, without taking into account redirected exports and/or without netting out the import component of lost production and exports. Some affected countries included as a loss in their estimates the entire value of imports from the Federal Republic of Yugoslavia rather than counting only the incremental costs of obtaining those imports from other sources. Partly, this can be explained by technical difficulties, for example, the absence of net accounting and/or the lack of reliable statistics and baseline estimates. More important, however, is the fact that in several cases the loss of certain imports could not be easily replaced and the lack of those imports, owing to their critical significance, led to serious disruptions in productive activities.

19. Furthermore, a specific feature of the Yugoslav sanctions is the unusually high cost of their "secondary side-effects". Indeed, the bulk of the trade losses reported by the affected countries stem from additional costs as a result of the disruption of transportation across the Federal Republic of Yugoslavia. However, losses of this type are most difficult as regards an independent assessment. They are likely to be more significant for such countries as Bulgaria, Romania and the former Yugoslav Republic of Macedonia. In addition to

the increased transportation costs, current account losses reflect reductions in transportation receipts, transit fees, and revenues from communications.

20. On the whole (see annex I), the official estimates by the seven neighbouring countries (Albania, Bulgaria, Hungary, Romania, Slovakia, the former Yugoslav Republic of Macedonia, and Ukraine) of the total impact of the sanctions on their economies - covering effects on both the balance of payments and domestic variables - range from 1.9 per cent of gross domestic product (GDP) (Slovakia) to 115.4 per cent of GDP (the former Yugoslav Republic of Macedonia) and amount to $18.7 billion. Estimates of external current account losses range from 1.9 per cent of exports (Slovakia) to 52.2 per cent of exports (the former Yugoslav Republic of Macedonia) and total $7 billion for these seven countries. While for the reasons outlined above, an upward bias has in most cases been imparted to those estimates, there should be no doubt that the application of the sanctions against the Federal Republic of Yugoslavia has caused highly significant losses to neighbouring countries and other countries in the region.

B. Estimates of country situations

21. Eight States that had invoked Article 50 of the Charter of the United Nations, provided the Security Council with their own quantitative estimates of the losses and costs incurred by them as a result of the implementation of the sanctions. A summary of those estimates, which should be viewed against the backdrop of the above-mentioned general considerations, is given below.

Albania

22. In its Memorandum of 25 June 1993 (S/26040/Add.1, annex), the Albanian Government stated, inter alia, that the former Yugoslavia had traditionally been one of Albania's principal trading partners. Enforcement of sanctions had not only cut off one of Albania's key export markets but also destroyed or disrupted important supply channels for essential imports to the Albanian economy. As a result, the Albanian authorities estimated the total (direct and indirect) annual losses to the economy at $300-400 million. The direct losses ($82.6 million) included the loss of exports to Yugoslavia ($47 million), the export losses to non-Yugoslav markets ($10.2 million), the loss from higher import costs ($3.4 million), the losses to domestic production associated with the disruption of import supplies from Yugoslavia ($20 million) and higher transportation costs as a result of using alternative transportation routes ($1.7 million). In addition, the Albanian authorities estimated indirect losses arising from a reduction in economic activity caused by the sanctions as well as the war in Bosnia and Herzegovina. These included forgone foreign investment ($120 million) and other indirect ("dynamic") effects ($100-110 million).

Bulgaria

23. In its communications (S/24963 and S/25743), the Bulgarian Government estimated the total direct losses to the country's economy as a result of the sanctions at $1.8 billion for the period July 1992-April 1993 and at $1.9 billion for the period May-December 1993. In explanation, it stated, inter alia, that the sanctions against the Federal Republic of Yugoslavia

(Serbia and Montenegro) had practically cut off the Republic of Bulgaria from the European markets which were of vital importance to the advance of the ongoing complex process of economic reforms (over 60 per cent of the Bulgarian exports to the European markets were affected through the zone affected by the sanctions regime). The disruption of traditional transportation links and the necessity of using detour routes with heavy traffic raised the cost of Bulgarian exports to Central and Western Europe. The great share of perishable goods in these exports had an additional adverse effect on their realization on the above markets. The rise in the cost of imported goods from Central and Western Europe, on its part, would inevitably speed up the process of inflation and would aggravate the financial situation of the country. The difficulties in transport and communications would eventually have an extremely negative effect on the attracting of foreign investment to Bulgaria as well. According to the Government's estimates, the total losses (by main sector) for the period July 1992-December 1993 had amounted to $1.6 billion in foreign trade, $1.9 billion in industry, $192.4 million in transport and $22 million in communications.

Hungary

24. Hungary's submission (S/26040) contained an estimate of the losses as a result of the sanctions, particularly the restrictions on navigation on the Danube, as equivalent to $800 million for the period May 1992-June 1993. That total figure broke down as follows: (a) losses of trade earnings amounted to $355 million; (b) bad debts of firms (outstanding claims on Serbia, incurred prior to the imposition of the sanctions) totalled $80 million, most of which consisted of fees owed by the Yugoslav railways and unpaid transit fees for natural gas shipments from the former Union of Soviet Socialist Republics; (c) losses of transport and transit revenues, including lost pipeline transit fees, were estimated at $110 million; (d) additional transport costs and losses amounted to $180 million; and (e) other losses were of the order of $70 million. Subsequently, the annual impact of the sanctions for 1993 was estimated at $790 million.

Romania

25. In a series of communications (S/24142 and Add.1, and S/25207), the Romanian Government presented its estimates of the losses and costs incurred as a result of the implementation of the sanctions. The initial estimate for June-December 1992 projected direct effects to be in the amount of $550 million and indirect effects $2.5 billion. By the end of 1992, total direct and indirect losses and damages to the Romanian economy were estimated at $7 billion. The breakdown by major branches was as follows: (a) industry, $3 billion, as a result of disrupted production links, cancelled shipments of commodities and raw materials and unsold goods; (b) transport, $0.1 billion, owing to the cancellation and detour of airline flights, disruption of railroad transportation of cargoes and passengers and difficulties in navigation along the Danube; (c) agriculture and food industry, $2.7 billion; (d) tourism, $0.6 billion; and (e) unreceived custom taxes and other losses, $0.6 billion. With the addition of losses incurred during January-May 1993, the revised estimates for June 1992-May 1993 came to $9 billion.

Slovakia

26. In its submission (S/26648), Slovakia provided details on the nature and extent of the economic difficulties confronting the country as a result of the sanctions. The total direct and indirect losses incurred in 1992-1993 were estimated at $246 million, with the bulk of the damages ($192 million) registered in 1992. Those losses resulted, inter alia, from cancelled contracts for export/import or related transactions ($103 million), suspension and delay of transport ($50 million), dead capital from unrealized exports ($9.5 million) and profit loss from goods contracted but not produced for the Federal Republic of Yugoslavia ($22 million). In breakdown by economic sector, the most affected branches were foreign trade ($64.3 million), metallurgy ($28.2 million), food production ($23.2 million), water transport on the Danube ($18.9 million) and machine industries ($16.5 million). The above assessment was carried out on the basis of the "losses incurred methodology" proposed by UNDP.

The former Yugoslav Republic of Macedonia

27. In its appeal to the Security Council (S/26040/Add.2, annex II), the former Yugoslav Republic of Macedonia presented its unique case - an extremely difficult situation stemming from its geographical location, the integral closeness of economic, infrastructural and other ties with Serbia within the framework of the former single State and the political and economic situation on its borders. As a result, the official estimates of the total economic damages from the sanctions in 1993 were $2.3 billion, including $1.8 billion attributable to direct effects. The summary of the losses projected for 1993 included, inter alia, the following items: (a) output losses - loss of revenue resulting from reduced production and marketing of industrial and mining products ($902 million), and of agricultural products, forestry and water resources ($182 million); (b) costs and losses in services - increased transport costs resulting from the use of alternate transport routes ($208 million), loss of revenue resulting from unrealized transport services ($222 million), and reduced tourism ($35 million); (c) trade losses ($58 million); and (d) increased budgetary expenditures for the social safety net ($113 million). The Government arrived at these estimates as a result of the survey that had been carried out on the basis of the UNDP methodology and had covered some 170 enterprises accounting for 80 per cent of the country’s trade and 80 per cent of its workforce. In addition, a special survey of the transported quantities and increased expenses owing to the use of alternate routes underscored the country’s severe transport situation.

Uganda

28. Uganda’s request for assistance (S/26040, annex IV) related to the interruption of a contract that had been concluded in 1987 between the Government of Uganda and a private Yugoslav firm (Energoprojekt) for the construction of Mityana-Fort Portal Road in western Uganda. At the time of the imposition of the sanctions, the road construction project had been halfway completed at Mubende, where it was stalled due to non-payment under the sanctions regime. Given the vital importance of the road for Uganda’s economy, the interruption of the project had caused construction delay and possible additional costs associated with the change to a new contractor, as well as with

the maintenance of idle machinery, consultancy services and litigation expenses. No quantitative estimate of these costs has been made.

Ukraine

29. Ukraine addressed the issue of its economic losses arising from the application of the sanctions in several communications (S/25630, S/25636 and S/25682). In terms of quantitative analysis, Ukraine initially reported a loss of $350 million estimated to have been incurred by the end of 1993 by the Ukrainian Danube Shipping Company alone as a result of the sharp decline in its activity leading to the bankruptcy of the company, unemployment and the loss of livelihood for its 250,000 employees and the 100,000 members of their families. In a subsequent presentation, the total direct losses to the Ukrainian economy were estimated at $2.35 billion for the period May 1992-May 1993, including the losses of $2.2 billion in foreign trade and of $150 million in the transport sector, primarily on the Danube. Additional losses of $1.5 billion were projected for the rest of 1993.

C. Impact on other affected countries

30. The group of countries having invoked Article 50 of the Charter of the United Nations does not include all the neighbouring (or "front-line") States and other affected States in the region, such as Austria, Bosnia and Herzegovina itself, Croatia, the Czech Republic, Greece, Slovenia, the Republic of Moldova, the Russian Federation and Turkey. However, some of these States have referred, on various occasions, to their economic difficulties resulting from the application of the sanctions as illustrated below.

31. In his statement of 16 November 1993 to the Economic and Financial Committee (Second Committee) of the General Assembly at its forty-eighth session, the representative of Austria stated that for his country the embargo had entailed, *inter alia*, disturbed trade links with traditional suppliers of coal and iron ore due to delays, and increased transport risks as well as costs; higher transport costs, incalculable as well as extended delivery periods resulting in penalties and/or market losses for manufacturing industries (for example, steel, paper) already facing a difficult competitive situation; serious damages to the (Danube) transport industry. However, no quantitative assessment of Austria’s losses was presented. At the same time, Austria’s firm commitment to the unwavering implementation of the sanctions was reiterated.

32. In his letter of 15 October 1993 addressed to the Secretary-General, the Minister of Foreign Affairs of the Czech Republic stated, *inter alia*, that by applying the above sanctions, the Czech Republic, too, has suffered extensive economic losses - the loss of its traditional trade partner and problematic transport of a large part of its exports, particularly metallurgical products, down the Danube - the extent of which was currently being calculated. However, no quantitative estimates of the losses had been received.

33. In his letter of 17 August 1993 addressed to the Secretary-General, the Minister of Foreign Affairs of the Republic of Turkey stated, *inter alia*, that according to the calculations made by the relevant Turkish authorities, from the

date that those economic sanctions had first entered into force in 1991 till the present, the Minister's country's financial losses in the overall transport sector alone had attained the amount of nearly $1 billion. The letter went on to say that when they had compared Turkey's export figures of 1992 to European Community (EC) and the European Free Trade Agreement (EFTA) countries with those of 1991, they saw that owing to the higher cost of transportation, Turkey had a loss of around $188 million. The losses in her overall exportation were not less than $400 million if not more.

IV. COLLECTING AND EVALUATING INFORMATION ON ECONOMIC ASSISTANCE PROVIDED TO THE AFFECTED STATES

34. The reporting procedure on information regarding economic assistance provided by the international community to States adversely affected by the implementation of sanctions imposed on the Federal Republic of Yugoslavia has been established by the Secretary-General pursuant to the recommendations of the Security Council, as indicated in paragraph 10 above. Substantive features of the replies received from all concerned to the Secretary-General's appeals for assistance on behalf of the affected countries are outlined below.

A. Assistance provided by States

35. As of 1 August 1994, the Secretary-General HAD received replies from 19 States, namely, Antigua and Barbuda, Argentina, Belgium, Bulgaria, the Czech Republic, Denmark, Ecuador, Hungary, Italy, Liechtenstein, Malawi, Malaysia, the Netherlands, Nigeria, Norway, Togo, Turkey, Switzerland and the United Kingdom of Great Britain and Northern Ireland. All States that had replied to the letters of the Secretary-General recognized the special economic problems of countries adversely affected by the sanctions imposed on the Federal Republic of Yugoslavia and supported, in general, the relevant recommendations of the Security Council addressed to the international community at large. However, some States (Italy and Switzerland) introduced a note of caution, in suggesting that a comprehensive debate at the multilateral level should be further required, in order to arrive at a carefully-thought-out-and-agreed-upon solution, because of the political, economic and judicial complexity of the subject.

36. Most of the developed countries (Belgium, Denmark, Liechtenstein, the Netherlands, Norway, Switzerland and the United Kingdom) referred, in general terms, to the existing mechanisms and ongoing programmes of technical and financial assistance, at the bilateral and/or multilateral levels, on behalf of the affected countries. In particular, the critical role of the international financial institutions and regional development banks, as well as regional economic arrangements, especially in support of the transition economies of central and eastern Europe (for example, the Pologne-Hongrie: Assistance à la restructuration économique (PHARE) programme and Group of 24 aid coordination of the European Union), was highlighted and welcomed in several communications. Additional efforts to promote trade with the affected countries, under the generalized system of preferences for certain imports, both on a bilateral basis and through EFTA, were also reported. However, some developed countries (for

example, Belgium) alluded to their domestic budgetary constraints and increased contributions to peace-keeping operations as factors not allowing them to envisage, in the short term, further specific actions, at the bilateral level, in support of the affected countries.

37. Several donor States (the Netherlands, Norway and Switzerland) communicated specific information on their financial assistance to the countries in question. Although a large part of the reported projects were not initially intended as special assistance measures directly aimed at mitigating the negative consequences of the sanctions, they should, none the less, have indirect positive effects for the domestic economies of the affected countries.

38. The Netherlands reported that it had provided in 1993 bilateral aid, including emergency aid, to Albania (4.75 million Netherlands guilders (NGL 4.75 million)), Bulgaria (NGL 5.5 million), Hungary (NGL 9 million), Romania (NGL 8 million) and Ukraine (NGL 12 million). In addition, a grant of NGL 3.8 million had been allocated for the agricultural sector in Albania, to be disbursed through co-financing with the World Bank. The Netherlands also stated its willingness, within the framework of the World Bank Consultative Groups on Bulgaria and Romania, to earmark the sum of NGL 15 million as balance-of-payments support for each of those countries in 1994. Finally, it pointed to its technical and financial support extended to the Sanctions Assistance Missions (SAMs) in the States bordering on the Federal Republic of Yugoslavia.

39. Norway recounted the allocation by its Government of NKr 3.5 million (3.5 million Norwegian kroner) to alleviate the special economic problems of Albania. These contributions, allocated mainly through various non-governmental organizations, had been directed to relief supplies, emergency preparedness, political prisoners, children, students, elderly people and hospitals.

40. Switzerland reported that its Government had earmarked a sum of Sw F 15 million (15 million Swiss francs) to finance, by means of grants, a number of projects of the European Bank for Reconstruction and Development (EBRD) and the World Bank in Albania, mainly in the energy and telecommunications sectors. In another communication, Switzerland referred to its grant of Sw F 30 million earmarked for financing infrastructure projects and to an export credit of Sw F 20 million, both provided to Slovakia. It further expressed its willingness to participate, in collaboration with other countries, in sharing the debts contracted by the former Yugoslav Republic of Macedonia with the World Bank, and to conclude a consolidated bilateral agreement on its public debts if a settlement was reached within the Paris Club between creditor States and the former Yugoslav Republic of Macedonia.

41. Some developing countries (Argentina and Malaysia) also pointed to existing and prospective technical cooperation projects, areas of bilateral cooperation and their national assistance facilities. For example, the Argentine Fund for Horizontal Cooperation had processed a number of requests for projects in Bulgaria in such sectors as hydrogeology, foreign trade, debt renegotiation, macroeconomics and nuclear cooperation for peaceful purposes. Malaysia had undertaken measures to assist Albania in the areas of education and training, health, employment and trade and economic cooperation, including privatization and investment.

42. Other developing countries (Antigua and Barbuda, Ecuador, Malawi, Nigeria and Togo) indicated that, owing to their economic conditions, they were not in a position to provide assistance, although some of them pledged to do so in the future, if circumstances permitted.

43. On the other hand, the countries affected by the sanctions in varying degrees (Bulgaria, the Czech Republic, Hungary, Turkey) - whether they invoked Article 50 of the Charter of the United Nations or not - reiterated their claims of economic losses and additional costs as a result of the implementation of the sanctions. They expressed their appreciation for the ongoing efforts and renewed their appeals for further international assistance which should be specifically focused on alleviating their sanctions-related hardships. Additional proposals in that regard were put forward by Bulgaria and Hungary. Moreover, Turkey referred to its Eximbank export and investment credits and to the technical assistance provided to the other affected States.

B. Response of the United Nations system

44. A total of 23 organizations of the United Nations system had responded, as of 1 August 1994, to the letters of the Secretary-General. Replies were received from the following specialized agencies: the International Labour Organization (ILO), the Food and Agriculture Organization of the United Nations (FAO), the United Nations Educational, Scientific and Cultural Organization (UNESCO), the World Health Organization (WHO), the World Bank, IMF, the World Meteorological Organization (WMO), the International Maritime Organization (IMO), the International Fund for Agricultural Development (IFAD) and the United Nations Industrial Development Organization (UNIDO), as well as the General Agreement on Tariffs and Trade (GATT). United Nations programmes and funds, including the United Nations Children's Fund (UNICEF), the United Nations Conference on Trade and Development (UNCTAD), UNDP, the United Nations Environment Programme/the United Nations Centre for Human Settlements (Habitat) (UNEP/UNCHS), the United Nations Population Fund (UNFPA) and the World Food Programme (WFP), also responded. In addition, replies came from the regional commissions (the Economic Commission for Africa (ECA), the Economic Commission for Europe (ECE) and the Economic and Social Commission for Western Asia (ESCWA)) and the regional development banks (the African Development Bank, the Asian Development Bank and the Inter-American Development Bank).

45. On the whole, the replies received from the relevant entities of the United Nations system indicated that all of them share the concern about the special economic problems of the eight affected countries that had invoked Article 50 of the Charter of the United Nations, and have taken due note of the recommendations of the Security Council Committee and the follow-up appeals for assistance. Accordingly, most of them contemplate intensifying, within their respective mandates and available financial resources, their ongoing assistance activities and technical cooperation programmes in the countries concerned, as specifically outlined in their replies.

46. As regards additional measures or special assistance projects in response to the immediate hardships encountered and urgent needs faced by those affected countries, the information received is largely of a preliminary nature. In the

first instance, the international financial institutions (IMF, in cooperation with the World Bank) and UNDP endeavoured, at the request or with the concurrence, of the affected countries, to assess the extent of the negative impact of sanctions on their economies, in order to assist them in developing appropriate policy responses and in preparing financial requirements for remedial measures. ECA and ECE indicated their willingness to contribute, as appropriate, to the process. In most cases, efforts to overcome the severe problems being encountered in collecting the necessary data continue.

47. In follow-up, certain agencies and bodies of the United Nations system (for example, ILO, FAO, UNESCO and WHO, as well as ECA, ECE, UNCTAD and UNDP) expressed their willingness to identify and implement, within their competence and to the extent resources permitted, additional assistance activities on behalf of the affected countries and to report thereon to the Secretary-General at a later date. In early 1994, several agencies and programmes of the United Nations system (World Bank, IMF, UNIDO, UNDP and ECE) participated in the Special Ad Hoc Meeting of Senior Officials, organized under the auspices of the Conference on Security and Cooperation in Europe (CSCE), to identify international projects to assist affected States in the region to better cope with the effects of the sanctions against the Federal Republic of Yugoslavia, as described in subsection C below.

48. In terms of direct financial assistance, the central role belongs to the international financial institutions, regional development banks and the United Nations funding agencies. However, in the absence of clearly defined financial mechanisms or instruments for the implementation of the provisions of Article 50 of the Charter of the United Nations in general and in the case of sanctions against the Federal Republic of Yugoslavia in particular, it has not always been possible to separate distinctly and estimate fully the assistance provided thus far by the individual agencies and programmes involved, in compensation for the actual losses and costs incurred by the affected countries. Nor has it been possible to aggregate the data and assess the effectiveness of the collective response of the United Nations system to the appeals launched pursuant to the Security Council recommendations regarding the countries concerned. In illustration, a summary of the reported information on the activities of the international financial institutions, regional development banks and UNDP is given below.

World Bank

49. The World Bank’s financial assistance to the affected countries consists of balance-of-payments support and project financing. In fiscal year 1993, the total lending by the World Bank to the five countries concerned - Bulgaria, Hungary, Romania, Uganda and Ukraine - amounted to $961 million, comprising $738 million in International Bank for Reconstruction and Development (IBRD) loans to the four Eastern European States and $223.8 million in International Development Association (IDA) credits to Uganda. On the IBRD side, Hungary ($413 million) accounted for more than half of the total, and was followed by Bulgaria ($178 million), Romania ($120 million) and Ukraine ($27 million).

50. In addition, the Bank has sought, in a variety of forums, to foster approaches that would lead to the mobilization of additional resources for the

affected countries. In particular, such efforts had been initiated through May 1993 Consultative Group (CG) meetings for Bulgaria and Romania and were pursued in the context of CG meetings organized by the Bank in 1994 for Albania, Bulgaria, Romania and the former Yugoslav Republic of Macedonia. According to the preliminary data for fiscal year 1994, the overall level of the Bank’s commitments to the countries of the region has increased.

51. The Bank has undertaken a review of its programme of financial and technical assistance to the affected countries to determine how it could be revised, within the Bank’s exposure limits, in order to address more directly the adverse effects of the sanctions. Within the priorities of the investment programmes of the countries concerned, a number of projects have been redesigned to take into account the impact of the sanctions. For example, several transport-related projects may address directly or indirectly the need to upgrade and diversify alternate trading routes, which may require additional co-financing. The Bank has also contemplated some reallocation of unused amounts under ongoing operations but those amounts do not of course result in any additional transfer of resources and are in any case very limited in relation to the increased needs.

52. In Albania, the Bank has provided critical support to reforms with a number of operations (amounting to $41 million) that initially addressed the shortages and the main supply-side constraints, and later supported the stabilization of the economy and stimulation of the supply response. The Bank has also approved a transport loan ($18 million) which is mainly aimed at rehabilitating existing roads and should directly contribute to the improvement of the East-West corridor from Bulgaria to the Adriatic. A follow-up feeder-roads project should further strengthen Albania’s transport network.

53. In Bulgaria, the Bank has been providing balance-of-payments support through adjustment lending ($250 million). A new transport project would support the Government’s initial policy measures in the railway subsector restructuring process. The tentative loan amount is estimated at $100 million.

54. In Hungary, the Bank has provided considerable balance-of-payments support, and a further tranche is available under the structural adjustment loan (SAL-III) in the amount of $90 million. In addition, there are two investment projects under execution. A Roads Project (loan amount $90 million) is focused on improving the efficiency of public expenditure on roads. The Transport II project is designed to reduce transport costs, increase system-wide operational efficiency and raise foreign exchange earnings. Some funding in these two projects could possibly be reallocated for improvement of alternative border crossings.

55. In Romania, the Bank has been providing balance-of-payments support through adjustment lending (total loan amount $400 million). It has also approved a first transport sector loan (in the amount of $120 million) for which the principal objectives are the rehabilitation and maintenance of roads. While not designed to deal with the effects of the sanctions, the project seeks to ameliorate traffic conditions in the East-West corridor that has experienced the greatest increases in passenger and freight traffic. The project is a sector loan, and as such, opens possibilities for appropriate subprojects that may

address the problems caused by the sanctions and may be financed under this loan.

56. In Slovakia, the Bank has disbursed a total amount of $120 million under a structural adjustment loan for the former Czechoslovakia and an economic recovery loan approved in November 1993. A telecommunications loan ($55 million) is under implementation. A further operation in support of the banking reform, and several infrastructure projects (power transmission, gas distribution and railways) aimed at removing communications and transport bottlenecks, are under preparation.

57. In the former Yugoslav Republic of Macedonia, the Bank has recently approved an economic recovery loan in the amount of $80 million, half of which would be on IDA terms, which is expected to be fully disbursed in 1994. An additional quick-disbursing and policy-based operation ($60 million), supporting reforms in the enterprise and banking sectors, is planned. A highway project (estimated cost $60 million), which is intended to address directly the problems caused by the sanctions, through the modernization of the East-West transportation corridor, in conjunction with the upgrading of the port facilities at Durrës in Albania, is under preparation.

International Monetary Fund

58. IMF has been assisting the affected countries through policy advice, including a full assessment of the member's economic situation and the development of an appropriate policy response. The Fund has also been helping the authorities of those countries prepare estimates of the financing requirements arising from the application of the sanctions for presentation to donor and creditor groups.

59. For the affected countries experiencing balance-of-payments difficulties, financial assistance can be made available under the Fund's existing facilities open to all member countries in support of appropriate policies aimed at addressing those difficulties. At present, seven of the eight countries invoking Article 50 of the Charter of the United Nations - Albania, Bulgaria, Hungary, Romania, Slovakia, the former Yugoslav Republic of Macedonia and Uganda - receive financial support from the Fund. As of the end of June 1994, the IMF's total commitments to the seven countries concerned amounted to $1.67 billion, while cumulative disbursements drawn by those countries were at the level of $1 billion.

60. In its recent financial arrangements with the affected countries and the ongoing negotiations on their new requests for further financing, the Fund has been taking into account the balance-of-payments impact of the sanctions. The higher-than-usual financing need of those seven countries is reflected in the fact that their level of access to the Fund's resources is higher than average. 3/ However, in several of those countries, resources have been provided under the Fund's new special facilities, largely in recognition of the longer-term, systemic nature of the disruptions and particular difficulties related to their transition to a market-based economy.

61. From 1992 to mid-1994, the Fund approved new stand-by arrangements (SBA) with Albania ($18.6 million), Bulgaria ($97.6 million), Hungary ($482 million) and Romania ($184.7 million), on which a total of $184.3 million was drawn. In addition, under the enhanced structural adjustment facility (ESAF), access was approved, and drawings were made, for the first annual arrangement with Albania ($60.1 million and $24 million, respectively) and the fourth annual arrangement with Uganda ($310.8 million and $282.5 million, respectively). Particularly important were the first purchases under the newly established systemic transformation facility (STF) made by Bulgaria ($162.7 million), Romania ($263.6 million), Slovakia ($91.3 million) and the former Yugoslav Republic of Macedonia ($17.5 million).

62. In the near future, Albania could enter into the second annual arrangement under ESAF. Bulgaria could be eligible for a second STF purchase of $162.7 million, and additional resources in support of debt and debt service reduction operations. Romania could be also eligible for the second STF purchase of $263.6 million. A new programme for Slovakia, submitted for the approval of the Fund's Executive Board in July 1994, would involve a 20-month SBA of $164.3 million and a second STF purchase of $91.3 million. Negotiations on the follow-up SBA and second STF purchase were initiated for the former Yugoslav Republic of Macedonia.

Regional development banks

63. The African Development Bank reported that it was closely involved in financing Uganda's Economic Recovery Programme. In that context, the Bank programmed for 1994 a fast-disbursing balance-of-payments loan totalling over $40 million. In addition, in recognition of some negative effects of the adjustment measures, it had approved in August 1993 a poverty alleviation loan amounting to $14 million for Uganda.

United Nations Development Programme

64. In 1993, UNDP received a series of requests from certain affected countries (initially from Romania and subsequently from Bulgaria, Slovakia, the former Yugoslav Republic of Macedonia and Albania) to assist them in the preparation and verification of data related to the economic impact on their economies of the application of the sanctions imposed on the Federal Republic of Yugoslavia. In response, UNDP commissioned the services of a consultant, who undertook in 1993-1994 several missions to the countries concerned. 4/ As a result, the consultant submitted a status report dated 15 April 1994 on the economic effects of the sanctions on those countries. The consultant also briefed the Working Group (on Article 50) of the Security Council Committee established pursuant to resolution 724 (1991), at its meetings held on 11 June 1993 and 22 July 1994, on the methodology developed and applied for the purpose and on the main findings of his missions to the affected countries, respectively.

65. As stated in his report, the consultant's primary focus was to establish and put into practice a rational claims collection system which could give the maximum credibility to the loss figures provided by the affected nations. That system was based on the "incurred losses methodology" (that is, the cost differential analysis of data related only to direct losses incurred during a

limited time-frame) and was accepted by the Governments concerned. The practical application of that system/methodology involved, in the first instance, the dissemination, through the respective Government, to all concerned economic entities (public and private) in each participating country, of a uniform questionnaire, with explanations and instructions, on the accounting of the losses directly attributable to the sanctions. When the data had been collected and sampled, the UNDP consultant undertook to carry out, in consultation with the Government concerned, a comparative analysis (that is, a macroeconomic check) of the results achieved through the above micro-economic method, in order to ensure that the aggregate figures at the country level bore a reasonable resemblance to the trade realities of the country and reflected the losses directly caused by the sanctions and not by other economic factors. The process of consultations between UNDP and the respective Governments continues, although with varying degrees of success.

66. Finally, the consultant's report elaborated some ideas for alternative compensation, other than direct monetary compensation, to the affected States. These included, inter alia: (a) a set-aside programme, under which a portion of the future reconstruction and development projects in the Republic of Bosnia and Herzegovina could be set aside or subcontracted to the affected countries to help them develop their businesses; (b) trade concessions (for example, some of the quotas had that previously belonged to the Federal Republic of Yugoslavia could be made available to the affected countries); (c) financial concessions (for example, international financial institutions might consider additional lending or a separate trust or a new window for the affected countries); (d) "doable programmes" in the affected countries (for example, small-scale facilities and uniform procedures to expedite border crossing between those countries); and (e) promotion of foreign investment to the affected countries. These proposals had been intended for consideration by all concerned.

67. In the mean time, UNDP has been proceeding with the implementation of its respective regional and country programmes in support of transition economies. In addition, UNDP has undertaken efforts to mobilize additional financial resources on behalf of the affected countries. In 1993, UNDP negotiated with the Government of the United States of America a possible cost-sharing contribution of $850,000 for assistance to Bulgaria and Romania. In April 1994, UNDP received from the United States Government a contribution of $3.5 million in support of improving border-crossing facilities and procedures primarily at selected locations in Bulgaria, the former Yugoslav Republic of Macedonia, Albania and possibly Romania.

C. Regional initiatives and follow-up arrangements

68. Pursuant to a decision of the CSCE Council of Ministers, 5/ a Special Ad Hoc Meeting of Senior Officials was held in Vienna from 31 January to 1 February 1994, under the chairmanship of Italy, to identify priorities for various international projects to assist affected States in the region to better cope with effects of the sanctions against the Federal Republic of Yugoslavia (Serbia and Montenegro). 6/ The meeting was attended by representatives of the CSCE member States, in particular, States bordering the Danube and/or States whose traditional trading routes to Western and south-eastern Europe had been

disrupted by the sanctions, as well as the European Union, the European Commission and Japan. Along with the competent agencies and programmes of the United Nations system referred to in paragraph 47 above, several regional and international organizations concerned, namely, the Council of Europe, the Danube Commission, the European Investment Bank (EIB), the International Union of Railways (UIC), the Organisation for Economic Cooperation and Development (OECD), the Central European Initiative (CEI) and Black Sea Economic Cooperation, also participated in the meeting.

69. The meeting underscored the importance attached to the maintenance of stringent sanctions against the Federal Republic of Yugoslavia. At the same time, the participants affirmed that without the appropriate attention of the international community, the burden placed by the sanctions on the States in the region, particularly those hardships associated with transportation dislocations, would remain disproportionately heavy. In that context, they reiterated their commitment to assist the affected States to better cope with the effects of the sanctions.

70. During the meeting, the neighbouring States hosting an EU/CSCE Sanctions Assistance Mission (SAM) - Albania, Bulgaria, Croatia, Hungary, Romania, the former Yugoslav Republic of Macedonia and Ukraine - presented the list of their priorities in terms of infrastructure projects on a short-, medium- and long-term basis, taking into account not only their national interest but also the regional interest in the development and better integration of the region into Europe. Several other States affected by the sanctions (Austria, the Czech Republic, Greece, Poland, Slovakia, Slovenia, Turkey, and the Russian Federation) also made presentations.

71. Drawing particular attention to the need for immediate relief of certain critical bottlenecks in the smooth flow of commercial traffic around the territory of the Federal Republic of Yugoslavia, most of which occurred at border crossings and on the Danube River, the meeting examined the project proposals presented by the affected States in light of several specific criteria. As a result, eight short-term projects designed to alleviate customs/border bottlenecks, for which financing was already foreseen, were identified and a list was included in the "Chairman’s conclusions" of the meeting (as summarized in annex II below). It was also agreed that all the projects and proposals submitted by the affected countries would be transmitted by the CSCE Chairman-in-Office to the competent international organizations and other bodies for consideration and appropriate action as a matter of urgency. Moreover, in light of the presentation of the European Commission outlining its contributions, including the intention to devote in 1994 some 100 million European currency units (ECUs) to the development of the infrastructure network in the region, it was noted that a particularly important follow-up could be assured in the framework of Group of 24 coordination and especially of its Transport Group.

72. Accordingly, the Group of 24 Transport Group of the European Commission organized in the first half of 1994 a series of meetings in order to integrate the short-term priorities identified at Vienna into the ongoing activities and longer-term projects included in the trans-European networks. Thus, the Commission organized in early March 1994 at Thessaloniki, Greece, a meeting of

all the countries and agencies concerned on the establishment in the Balkans, early in the summer of 1994, of two customs corridors designed to accelerate the transit of goods through the selected border-crossing points. 7/ Given the high degree of convergence of the two approaches, the Pan-European Conference of Ministers of Transport, held in Crete in mid-March 1994, included in the customs corridors that it approved for the Balkans the infrastructure projects proposed by the countries concerned at the Vienna meeting.

73. In April 1994, the European Commission convened a Group of 24 Transport Group expanded to include customs questions in order to study the impact of the proposals adopted in Crete on the ongoing projects. At the meeting, the Commission made available to the Group of 24 countries, the Balkan countries and the international organizations concerned the results of the study carried out for PHARE on the elimination of main bottlenecks at the border-crossing points in the region, as well as a detailed plan for the north-south and east-west customs corridors, which were intended to assist the various parties in coordinating and accelerating their action on the most urgent problems.

74. On this basis, the Commission has proceeded with the implementation of the various projects, within the total budgetary allocations of 13 million ECUs in the 1993 budget and 100 million ECUs in the 1994 budget. The 1994 tentative budget for the PHARE transport infrastructure activities includes (in millions of ECUs): (a) Copenhagen co-financing of road rehabilitation projects in Bulgaria (10.6), Hungary (15.0) and Romania (22.0); and (b) border-crossing modernization, comprising a multi-country project for infrastructure upgrading and modernization of customs facilities in the Balkans (12.3) and country projects for Albania (20.0), Bulgaria (10.0), Hungary (8.0) and Romania (1.0). In the second half of 1994, the European Commission will focus on the actual establishment of customs corridors, their evaluation and the infrastructure work to be completed. A special meeting of the Group of 24 Transport Group, tentatively scheduled to be held in October 1994, probably in Sofia, Bulgaria, would be devoted to the Balkan region.

75. In the mean time, the follow-up CSCE meeting, held under the chairmanship of the EC/CSCE Sanctions Coordinator 8/ at Vienna on 14 July 1994, took stock of the progress made and difficulties encountered in the implementation of the infrastructure projects aimed at facilitating the re-routing of trade around the Federal Republic of Yugoslavia. It was noted that the implementation of short-term infrastructure projects, in particular with regard to the border crossings and customs corridors, was well under way. It was also noted, however, that financing for some important longer-term infrastructure projects (for example, construction of a bridge on the Danube, and certain autoroute and railway projects in Hungary, Bulgaria and the former Yugoslav Republic of Macedonia) was not yet available and that additional resources were therefore needed to carry out those projects.

V. CONCLUSIONS

76. In the absence of a well-established methodology for the assessment of the economic impact of sanctions, the affected countries' estimates of their losses resulting from the sanctions against the Federal Republic of Yugoslavia differ

substantially in coverage, timing and scope. As a result, it is not possible, at this point, to provide a comprehensive economic analysis of the situation in all its aspects. While a precise quantification of those losses is difficult for a variety of reasons, relating mainly to conceptual difficulties and unavailability of data, there is no doubt about the fact that all the neighbouring countries and several other States in the region have been substantially affected as a result of the sanctions. While the specific side-effects of the sanctions may vary from one affected country to another, the total adverse impact of the sanctions is such that it requires a concerted and multifaceted response from the international community.

77. The international financial institutions, in particular the World Bank and IMF, have substantial programmes of financial and technical assistance to most of the affected countries, in the context of their support of the process of economic transition. In view of the recent appeals for special economic assistance, these programmes have been under continuous review to make them as responsive as possible to the particular problems of the countries concerned. However, no special mechanism has been established to directly address the adverse spillover effects of the sanctions imposed on the Federal Republic of Yugoslavia. While the level of access by the affected countries to the Fund's resources has been higher than average and the drawings have been made on the most favourable terms, no compensatory or contingency financing through the Fund has been involved in this case. While the Bank's projects have been redesigned as warranted, and reallocations under existing loans have been contemplated, overall levels of lending by the Bank are already at the level of or close to the annual exposure limits. Additional financial resources, primarily from bilateral sources and also from the regional banks, are therefore needed in order to adequately respond to the substantial additional requirements resulting from the sanctions regime.

78. The important initiative of CSCE to convene a special meeting to identify international projects to help affected States in the region to better cope with the effects of the sanctions against the Federal Republic of Yugoslavia has resulted, for the first time, in the defining of an approach for supporting regional projects and integrating them within a larger perspective on a long-term basis. One of the most positive results of that meeting was the opportunity it provided to participants from both the affected countries and the prospective donor countries and international financial institutions to correlate the infrastructural needs of the region and the existing possibilities for funding, through a reciprocal exchange of information and data.

79. The follow-up activities, particularly by the European Commission, confirmed the convergence of the two approaches - the one adopted at the CSCE Vienna meeting and the other established in the area of transport by the Group of 24 and financed by the PHARE programme. In several cases, the implementation of the short-term infrastructure projects is well under way and they need to be completed fully and expeditiously. Moreover, as the requirements of the affected countries go beyond the existing possibilities of the PHARE programme, it is essential to proceed to a further stage of mobilizing additional financial resources, through financial institutions and private investments (for example, for railways), to carry out longer-term infrastructure development projects in the region.

80. On the whole, the present survey confirms the main findings of the Secretary-General's comprehensive report on the application of Article 50 of the Charter of the United Nations (A/48/573-S/26705, paras. 150-159). In particular, it confirms the view of the Secretary-General that appeals to deal with the economic impact of sanctions on non-target States have so far depended on the political will of countries in a position to provide assistance or on the capacity of financial institutions to respond. Most important, there is no mechanism in the United Nations to address the spirit of Article 50 effectively and systematically. A number of proposals have been made in this regard; there is, however, a divergence of views among Member States on the issue and the matter remains under intergovernmental discussion.

81. Quite apart from that discussion, there have been various proposals and requests, largely of an exceptional or temporary nature, that specifically address the particular hardships and needs of countries most seriously affected by the sanctions against the Federal Republic of Yugoslavia. For example, a proposal to establish "transit corridors" through Federal Republic of Yugoslavia territory for non-strategic goods, operating under United Nations control, might bring substantial relief to the affected States of the southern part of Europe. In another example, the authorization of requests from several affected countries, supported by the Danube Commission, to ease the transit restrictions on the Danube in general and in particular to resume, on a trial basis and under the proper control, the transshipment of limited quantities of some prohibited, although critical, goods, might be also helpful. Without prejudice to the sanctions regime, such measures of immediate relief and assistance should be considered, when warranted, by the appropriate bodies as a matter of urgency and importance.

Notes

1/ Under its resolution 757 (1992) effective 30 May 1992, the Security Council imposed a complete embargo on commercial and financial transactions with the Federal Republic of Yugoslavia, with the exceptions of the importation by the Federal Republic of Yugoslavia of foodstuffs, and medical and other essential humanitarian supplies, and of the transshipment through the Federal Republic of Yugoslavia of goods, in both cases, notified to, or authorized by, the Security Council Committee established pursuant to resolution 724 (1991) concerning Yugoslavia. Moreover, by its resolution 787 (1992) of 16 November 1992, the Council prohibited the transshipment through the Federal Republic of Yugoslavia of certain products (crude oil, petroleum products, coal, energy-related equipment, iron, steel, other metals, chemicals, rubber, tyres, vehicles, aircraft and motors of all types), unless specifically authorized by the Committee on a case-by-case basis, and reinforced preventive measures (especially, inspection and verification of shipments) in the surrounding countries. Furthermore, the sanctions regime was significantly strengthened, effective 26 April 1993, under Council resolution 820 (1993) which included, *inter alia*, such measures as further tightening of border controls, especially on the Danube; the freezing of Federal Republic of Yugoslavia funds (financial accounts) abroad; a ban on the transport of all goods across Federal Republic of Yugoslavia borders, except for essential humanitarian supplies and strictly limited transshipments, both specifically authorized by the Committee; and prohibition of the provision of most services and of maritime commercial traffic along the Yugoslav coast (Montenegro).

<u>2</u>/ United Nations publication, Sales No. E.94.II.C.1, box IV.2.

<u>3</u>/ The average annual access under the Fund's arrangements, including drawings under the systemic transformation facility (STF), for those users is expected to be equivalent to 58 per cent of their quotas compared with a Fund-wide average of only 32 per cent of quota under stand-by arrangements approved since November 1992. In another example, Albania, which as a new Fund member normally could have qualified for access of up to 60 per cent of its quota under the enhanced structural adjustment facility (ESAF), was granted access to 120 per cent of its quota in support of a three-year programme.

<u>4</u>/ As a consultant for that purpose, UNDP recruited Mr. James H. Grossman, then Chairman, Foreign Claims Settlement Commission of the United States. The cost of the exercise was borne by the individual country's indicative planning figures (IPFs).

<u>5</u>/ Decision I 1.5, adopted at a meeting of the CSCE Council of Ministers held in Rome on 1 and 2 December 1993, read as follows: "The Ministers recognized that States in the region bear a major economic burden of the implementation of the sanctions. In order to help ease the unintended negative consequences of the sanctions for States in the region, the Ministers decided to hold a special ad hoc meeting of senior officials which will focus on identifying priorities for various international projects to assist affected States in the region to better cope with the effects of the sanctions. The EU/CSCE Sanctions Coordinator will invite relevant international organizations to participate and contribute to this meeting. It will be held before the end of January 1994".

<u>6</u>/ At its eleventh meeting, held in Vienna on 7 December 1993, the Sanctions Liaison Group (SLG), expressed, <u>inter alia</u>, the view that the meeting was in no way to be considered as a "compensation meeting", in the terms of Article 50 of the Charter of the United Nations, but purely as one to focus attention on identifying priorities for various international projects.

<u>7</u>/ First customs corridor: Austria-Nickelsdorf/Hungary-Hegyeshalom, Slovenia-Dolga Vas/Hungary-Rédics, Hungary-Artand/Romania-Borş, Romania-Giurgiu/Bulgaria-Ruse, Bulgaria-Kulata/Greece-Promachon, Bulgaria-Kapitan Andreevo/Turkey-Kapikule. Second customs corridor: Albania-Durrës (port), Albania-Qafa e Thanës/the former Yugoslav Republic of Macedonia-Kafasan, the former Yugoslav Republic of Macedonia-Deve Bair/Bulgaria-Gyueshevo.

<u>8</u>/ Ambassador Antonio Napolitano of Italy.

ANNEX I

Official unadjusted estimates by the affected countries of the economic impact of imposing sanctions on the Federal Republic of Yugoslavia (Serbia and Montenegro)

	Total a/		Balance of payments b/			
				Percentage of		
	Millions of US dollars	Percentage of GDP c/	Millions of US dollars	Exports c/	GDP c/	Period covered
Albania	307	46.6	63	33.2	9.6	Annual impact
Bulgaria	3 751	28.1	1 833	47.0	13.7	June 1992-December 1993
Hungary	1 130	2.1	980	5.8	1.8	June 1992-December 1993
Romania	8 973	59.7	1 282	31.3	8.5	June 1992-May 1993
Slovakia	288	1.9	181	1.9	1.2	June 1992-December 1993
The former Yugoslav Republic of Macedonia	1 847	115.4	464	52.2	29.0	Annual impact
Ukraine	2 356	11.1	2 208	19.5	10.4	June 1992-May 1993

Source: Country submissions to the Security Council.

a/ Including effects on output, employment, budget and balance of payments.

b/ Current account items only, based on the official unadjusted claims.

c/ 1992 adjusted for duration of the period covered.

ANNEX II

Short-term projects concerning customs/border bottlenecks

Location	Content	Financing
Nagylak/Nădlac (Hungary/Romania)	Expansion of truck lanes. Relocation of levee on riverside and construction of truck terminal on the Hungarian side. Training to improve procedures.	EU committed 2.8 million ECUs.
Vidin/Calafat (Bulgaria/Romania)	Development of ferry terminal in Calafat and second and third phases of road to post in Vidin. Equipment to customs and police and rehabilitation of the existing ferry boats. Technical assistance in administrative and customs procedures.	EU committed 2.25 million ECUs under PHARE programme.
Giurgiu/Ruse (Romania/Bulgaria)	Construction of parking area, customs clearance facilities and provision of equipment for control.	United States provided $850,000. EU committed 2.25 million ECUs. United Kingdom is providing funding for communications equipment.
Deve Bair/Gyueshevo (the former Yugoslav Republic of Macedonia/Bulgaria)	Relocation/expansion of border crossings. Procedural improvements, especially with immigration processing.	United States will provide initial $1.1 million. Germany will contribute additional 1 million deutsche mark (DM).
Kafasan/Qafa e Thanës (the former Yugoslav Republic of Macedonia/Albania)	Upgrading of current customs facilities. New buildings, parking area, provision of equipment and training.	United States will provide initial $1.1 million.
Durrës (port) (Albania)	Enlarging of parking and processing areas, additional dock space for ferries and temporary buildings.	United States will provide initial $400,000.
Kulata/Promachon (Bulgaria/Greece)	Enlarging and paving of parking areas and processing of lanes, roofing, lighting and some building construction.	EU committed 0.3 million ECUs.
Kakavia (Albania/Greece)	Upgrading of buildings and technical facilities on border crossings.	EU committed 1 million ECUs.

Source: EC/CSCE Sanctions Coordinator’s Office, Brussels.
