




Procedure file

Basic information		
CNS - Consultation procedure Decision	2005/0224(CNS)	Procedure completed
Georgia: macro-financial assistance, supporting the government's economic reform programme and helping the country reduce external indebtedness		
Subject 6.20.07 Macro-financial assistance to third countries		
Geographical area Georgia		

Key players			
European Parliament	Committee responsible	Rapporteur	Appointed
	 International Trade		
	Committee for opinion	Rapporteur for opinion	Appointed
	 Foreign Affairs	The committee decided not to give an opinion.	
	 Budgets		
Council of the European Union	Council configuration	Meeting	Date
	Economic and Financial Affairs ECOFIN	2704	24/01/2006
European Commission	Commission DG Economic and Financial Affairs	Commissioner	

Key events			
13/11/2005	Legislative proposal published	COM(2005)0571	Summary
01/12/2005	Committee referral announced in Parliament		
13/12/2005	Debate in Parliament		
15/12/2005	Decision by Parliament	T6-0523/2005	Summary
24/01/2006	Act adopted by Council after consultation of Parliament		
24/01/2006	End of procedure in Parliament		
28/01/2006	Final act published in Official Journal		

Technical information	
Procedure reference	2005/0224(CNS)

Procedure type	CNS - Consultation procedure
Procedure subtype	Legislation
Legislative instrument	Decision
Legal basis	Rules of Procedure EP 163; EC Treaty (after Amsterdam) EC 308
Stage reached in procedure	Procedure completed
Committee dossier	INTA/6/31815

Documentation gateway

Legislative proposal	COM(2005)0571	14/11/2005	EC	Summary
Document attached to the procedure	SEC(2005)1449	14/11/2005	EC	Summary
Text adopted by Parliament, 1st reading/single reading	T6-0523/2005	15/12/2005	EP	Summary

Additional information

European Commission	EUR-Lex
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Final act

Decision 2006/41 OJ L 025 28.01.2006, p. 0016-0016 Summary

Georgia: macro-financial assistance, supporting the government's economic reform programme and helping the country reduce external indebtedness

COMMISSION'S EX ANTE EVALUATION STATEMENT

For further information regarding the context of this issue, please refer to the summary of the Commission's initial proposal for a Council Decision providing macro-financial assistance (MFA) to Georgia (COM(2005)0571 (see summary of 14/11/2005).

1- OBJECTIVES AND RELATED INDICATORS OF THE MFA OPERATION

Among the instruments presently at the disposal of the European Community, the exceptional macro-financial assistance would provide a real opportunity for Georgia to further improve its external financial situation by substantially reducing its outstanding debt obligations vis-à-vis the Community, thereby improving its debt profile and debt sustainability in the medium-term.

By providing further macro-financial assistance in the form of grants, the Community will continue supporting Georgia's economic reform efforts. The Community will in particular target medium term external sustainability and will thus aim at completing the objectives of the EFA programme.

In this context, the following *general objectives* of the proposed programme have been identified:

? Foster external and fiscal sustainability by encouraging the authorities to implement appropriate macro-economic and structural policies

? Help the authorities to improve the external financial position of Georgia through a reduction in the country's net debtor position towards the Community.

Linked to the general objectives of the programme, *specific objectives* in terms of financial and structural reforms, as well as in terms of the reduction in the net debtor position of the beneficiary country, will be detailed during the implementation of the programme and will be laid down in the Memorandum of Understanding that the Commission will negotiate with the authorities of Georgia. The EC's Country Strategy Paper on Georgia (2003-2006) pays particular attention to the issue of governance at different levels, including through the use of conditionalities. The Strategy envisages that the EC Macro-Financial Assistance, together with the EC Food Security Programme, can directly address the domain of good governance in public finance and public expenditure management and the related administrative reforms. Financial sector strengthening is another area which can be addressed in particular through this Community instrument given the direct contacts with the central bank (National Bank of Georgia). Detailed objectives related to structural reforms relevant for the objectives of the programme may therefore include specific measures in these two areas:

The specific objectives of the programme will be consistent with those of the adjustment and reform programme implemented by Georgia with financial support from the IMF and the World Bank that will constitute the operational framework for the implementation of the assistance.

The *operational objectives* of the programme will be set in terms of both grant disbursements and early debt repayments and, like for the specific objectives in terms of economic reforms, will be laid down in the Memorandum of Understanding.

INDICATORS

Several types of indicators will be used in the implementation of the programme, depending on the category of the objectives referred to.

The fulfilment of the general objectives of the programme will be assessed in the context of the ex post evaluation of the programme. The standard *impact indicators* of external and fiscal sustainability, in particular indicators on the debt stock and debt service, will be used.

The fulfilment of the specific objectives of the programme will be monitored throughout the implementation period of the assistance and evaluated together with the general objectives. To monitor the programme, the Commission will use two types of *result indicators*:

? Adherence to IMF-supported programmes; it will be a sine qua non for the implementation of the assistance;

? Specific indicators in the areas of relevant structural reforms; those indicators linked to specific structural policy conditionality will be specified in the Memorandum of Understanding, to be agreed with the Georgian authorities.

Specific impact indicators related to particular structural reforms will be defined in the context of the programme's evaluation.

Lastly, the operational objectives of the programme will be reflected in the actual repayments of the debt owed by Georgia to the Community and in the grant disbursements by the Community. These will be monitored through the *indicators of the programme's outputs*.

NOTE: It has become clear that the overall quality of the policy and institutional environment, which is largely determined (i) by the political commitment of the authorities towards reforms and (ii) by the availability of adequate financial and technical support from the donor community, is a key condition for the success of macro-financial assistance operations. To help improve the policy environment, a better articulation between the EC and the IFI conditionality is required. For a higher impact, there is also a need to focus the policy conditionality of the Community assistance on a more limited number of key reforms, where adequate monitoring and a closer policy dialogue with the authorities can be maintained by Commission services. Synergy between macro-financial assistance and other types of Community support (notably, food security and technical assistance programmes) also needs to be further developed.

2- FOLLOW UP

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

The monitoring system is ensured by the provision of reports and data by the authorities as set out in the Memorandum of Understanding and by the organization of review missions by Commission staff. Although this assistance is centrally managed, where appropriate, the Commission delegation in Tbilisi may also be called to provide additional reporting.

The monitoring of the action by the Commission services will take place on the basis of macro-economic and structural policy indicators to be agreed with the authorities of the beneficiary country. In this process, the Commission services may also monitor key areas identified in the above-mentioned Operational Assessments on public finance management. Finally, close contacts and coordination will be maintained with the IMF and World Bank throughout the implementation period.

An annual report to the European Parliament and to the Council is foreseen in the proposed Council Decision.

An independent ex-post evaluation of the assistance will be carried out by the Commission or duly authorised representatives one to two years after the assistance has been implemented. A provision foreseeing the evaluation will be included in the Memorandum of Understanding.

Georgia: macro-financial assistance, supporting the government's economic reform programme and helping the country reduce external indebtedness

PURPOSE : to provide macro-financial assistance to Georgia in the form of a grant

PROPOSED ACT : Council Decision

CONTENT: [The Commission proposes that the Community will make available to](#) Georgia macro-financial assistance in the form of grants over a two-year period. The assistance will be made available in at least two instalments over the period 2006-2007 conditional on:

-the implementation of a set of measures to be jointly agreed with the government and

-a satisfactory implementation by Georgia of the IMF-supported economic programme. The grant payments are also linked to early debt repayments by Georgia of its outstanding debt towards the Community. The grant instalments would be released only insofar as Georgia has made early debt repayments on its outstanding debt to the Community. The exact amounts of debt repayments, to be agreed with the authorities in a Memorandum of Understanding, would, as a rule, be at least the same as the amounts of the grant instalments. The assistance is managed by the Commission which shall agree with the authorities the specific economic policy and financial conditions attached to the payment of the grant instalments. Specific provisions on the prevention of fraud and other irregularities, consistent with the Financial Regulation, will be duly taken into account.

The proposed macro-financial assistance will be limited in time, complement support from the Bretton Woods Institutions, bilateral donors and the Paris Club, and will be conditional, in particular, on progress in the implementation of the IMF-supported PRGF arrangement. This operation will take place at a time when EU-Georgia relations are entering a phase of deeper integration through the inclusion of Georgia in the European Neighbourhood Policy.

The Commission recalls that financial assistance consisting of a loan of EUR 110 million (disbursed in July 1998 after Georgia had settled arrears of EUR 131 million to the Community) and a total grant of EUR 65 million (of which only EUR 31.5 million was committed and paid by end-2004). For most of this period the Georgian authorities did not have a working financing arrangement with the IMF or they did not meet all specific EC conditions on structural reforms when the IMF-supported program was on track. The political situation remained unfavourable to reforms until the Rose Revolution of November 2003. As a result, the Commission was not in a position to release the grant component of the assistance as planned and, accordingly, Georgia's outstanding debt towards the Community (EUR 85.5 million) remains well above the targets set at the time of the preparation of the exceptional financial assistance.

Following the political regime change in late 2003, the new government embarked on a strong adjustment and reform programme. Macroeconomic stability has been maintained with robust growth and subdued inflation. This reform drive bodes well for the implementation of the poverty reduction strategy. Given some commendable improvements in the overall economic policy environment, the Commission deems appropriate to make available to Georgia macro-financial assistance in the form of grants through re-programming of the uncommitted grant amount of EUR 33.5 million.

This entails reprogramming of the uncommitted and undisbursed grant amount of EUR 33.5 million out of EUR 65 million which had been earmarked for Georgia under the total ceiling of EUR 130 million (Article 1(3) as amended by Decision 2000/244/EC).

It is envisaged that from 2007 onwards the European Neighbourhood and Partnership Instrument will become available to Georgia, allowing assistance also in the form of budget support, whereas the macro-financial assistance instrument will be deployed in the interim period, aiming at improving medium-term debt sustainability and supporting the government's reform programme.

FINANCIAL IMPLICATIONS :

Budget line: 01 03 02 01 ?Macroeconomic assistance for the partner countries of eastern Europe and central Asia?

Total allocation for action: EUR 42.050 million (2005); this amount includes the initial budget (EUR 24.200 million) and an internal transfer which is under preparation (EUR 17.850 million)

Period of application: Start year: 2005, expiry year: 2007

Overall estimate of expenditure: total commitment appropriations/payment appropriations (financial intervention): EUR 33.500 million

Technical and administrative assistance and support expenditure: total EUR 0.100 million

Overall financial impact of human resources and other administrative expenditure: EUR 0.330 million Total staff : 0.33

Overall financial impact of human resources: EUR 30,500 per annum

Other administrative expenditure deriving from the action: 135,000 per annum for missions and meetings.

Georgia: macro-financial assistance, supporting the government's economic reform programme and helping the country reduce external indebtedness

The European Parliament adopted a resolution drafted by Jonas Sjöstedt (GUE, Sweden) and approved the Commission's proposal.

Georgia: macro-financial assistance, supporting the government's economic reform programme and helping the country reduce external indebtedness

PURPOSE : to provide macro-financial assistance to Georgia in the form of a grant.

LEGISLATIVE ACT : Council Decision 2006/41/EC providing macro-financial assistance to Georgia.

CONTENT : This Decision provides that the Community will make available to Georgia macrofinancial assistance in the form of straight grants up to a maximum amount of EUR 33.5 million with a view to supporting economic reforms and helping the country improve debt sustainability.

The assistance will be made available for two years starting from the first day after the entry into force of this Decision, and the availability may be extended by one year if circumstances so require.

The assistance is conditional on the following:

- the economic policy and financial conditions to be laid down in a Memorandum of Understanding, and consistent with the agreements reached between the IMF and Georgia. The Memorandum will provide for appropriate measures by Georgia in relation to the prevention of and the fight against fraud, corruption and any other irregularities linked to this assistance. It will also provide for controls by the Commission, including the European Anti- Fraud Office (OLAF), with the right to perform on-the-spot checks and inspections, and for audits by the Court of Auditors, where appropriate, to be carried out on the spot;
- the Commission will verify at regular intervals that the government's economic policies are in accordance with the objectives of this assistance and that the agreed economic policy and financial conditions are being fulfilled;
- the grant amount shall be made available to Georgia in at least two instalments insofar as its net debtor position towards the Community has been reduced, as a rule, by at least a similar amount;

The first grant instalment will be released on the basis of a satisfactory implementation of the economic programme supported by the IMF under the Poverty Reduction and Growth Facility.

The second and any further instalments will be released on the basis of a satisfactory implementation of the IMF-supported economic programme and any other measures laid down in the Memorandum of Understanding.

Finally, at least once a year, before September, the Commission will report to the European Parliament and to the Council with an evaluation of the implementation of this Decision in the previous year.