

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

2005/0224(CNS) - 14/11/2005 - Legislative proposal

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.