

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

2005/0224(CNS) - 14/11/2005 - Document attached to the procedure

## 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.