COMMISSION OF THE EUROPEAN COMMUNITIES

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99/0166 (CNS)

Proposal for a

# COUNCIL DECISION

## providing supplementary macro-financial assistance to the former Yugoslav Republic of Macedonia

(presented by the Commission)

# EXPLANATORY MEMORANDUM

## 1. INTRODUCTION

After the break-up of the former Yugoslav Federation and the imposition of trade and transit sanctions, the former Yugoslav Republic of Macedonia faced a severe economic and financial crisis. Reacting to this situation, the authorities took, especially from 1994 onwards, strong stabilisation measures and engaged in structural reforms. These efforts were supported by the IMF and by the World Bank through a series of arrangements.

In April 1997, the authorities agreed with the IMF on a medium-term economic programme (1997-1999) to be supported under the Enhanced Structural Adjustment Facility (ESAF), with a maximum amount of US$ 75 million. The first annual arrangement was fully implemented and also supported by the World Bank through a Structural Adjustment Loan approved in May 1997.

The European Community supported the reform efforts of the former Yugoslav Republic of Macedonia under this programme, in particular by a macro-financial loan of up to ECU 40 million (Council decision 97/471/EC of 22 July 1997). This loan carried a maturity of 15 years. Following the normalisation of the financial relations between the former Yugoslav Republic of Macedonia and the Community and the EIB, the first instalment of ECU 25 million was released in September 1997. The second instalment of ECU 15 million was paid out in early 1998 when broadly satisfactory process had been made with respect to economic policy conditions attached to the loan.

Moreover, the bilateral relations between the EC and the former Yugoslav Republic of Macedonia have been continuously improving. This is reflected in the Cooperation and Transport Agreements concluded in 1997. It is also demonstrated by the recent invitation of the Council to the Commission to provide as a matter of urgency a feasibility study for a stabilisation and association agreement that would upgrade EU relations with the former Yugoslav Republic of Macedonia.

In June 1998, the IMF Board approved the request for the second annual ESAF arrangement in support of a revised policy framework (1998-2000). Against the background of the Kosovo crisis which severely affected the former Yugoslav Republic of Macedonia and in the light of difficulties to agree on an appropriate medium-term structural reform agenda, it is now envisaged to replace the country’s medium-term economic programme by a 12-month economic programme that would be supported by a stand-by arrangement. Moreover, this programme is to be supported by the World Bank through a second, US$ 40 million, Financial and Enterprise Structural Adjustment Loan (FESAL) to back structural reforms, in particular in the banking sector.

In this context, the authorities of the former Yugoslav Republic of Macedonia wrote to Commissioner de Silguy on 1 May 1999 to request new complementary macro-financial assistance from the European Community. On 5 May 1999, on the occasion of the emergency joint G-24/Consultative Group meeting on the former Yugoslav Republic of Macedonia, the Community pledged € 25 million of exceptional budgetary support to help the country to cope with the costs related to the inflow of refugees form the Kosovo and indicated its willingness to also consider further macro-financial assistance.

## 2. RECENT ECONOMIC DEVELOPMENTS AND REFORM PROGRESS

### 2.1. Macroeconomic performance

Following the successful stabilisation of the economy in 1995, largely linked to the decision to peg the local currency to the Deutsche Mark, growth resumed in 1996. However, low level of investment, including foreign direct investment, and insufficient progress in structural reforms in the enterprise and financial sectors resulted in a fragile balance of payments situation. In July 1997, the denar was devalued by 14 per cent in consultation with the IMF. This was accompanied by a programme adjustment providing a tightening of fiscal policy and a step-up of efforts to address structural problems.

This strategy worked well. In 1998, export growth picked up, stimulating industrial production. Real GDP growth increased to 2.9 per cent, helping to reduce the large level of unemployment to 34.5 per cent of the labour force, from 36 per cent in 1997. At the same time, the authorities maintained their tight fiscal and monetary policies, in support of the need to increase export competitiveness, maintain the exchange rate anchor and attract more FDI. The already low inflation was eliminated.

Despite export growth surpassing import growth in 1998 for the first time, the current account deficit increased again both in dollar terms (to US$ 290 million) and in proportion to GDP. At the beginning of 1999, the improvement in competitiveness (notably because of moderate wage developments and very low inflation) was expected to continue and to contribute to a reduction in the current account deficit.

### 2.2. Structural reforms

Upon independence, the former Yugoslav Republic of Macedonia was confronted with very fragile enterprise, agricultural and financial sectors, as well as with weak – if not non-existent – institutions supporting the functioning of a market economy. Important new laws were introduced in recent years focusing on property rights and the basic institutions of the market economy (Law on public enterprises and a new Commercial Code in 1996, Law on Bankruptcy and Law on Movable Collaterals in 1998).

Progress in the area of privatisation has been mixed. Although more than 80 per cent of companies are controlled by the private sector as a result of an ambitious privatisation programme implemented starting from 1995, corporate governance has not improved sufficiently due to the methods of privatisation that have been used (essentially management and employee buy-outs). Moreover, progress has been slow in tackling the problems of the core loss-making enterprises.

The financial sector remains fragile, although important restructuring measures have been undertaken, including in the context of the ESAF-supported programme. In 1995, the authorities carried out a massive recapitalisation operation, transferring the bad assets of the 25 most indebted enterprises to a bank rehabilitation agency. Non-performing assets still account for a large share of banks' balance sheets, notably because of the importance of connected lending and exposure to large customers. The surveillance capacities of the central bank have been strengthened, but further progress is still needed.

In 1996, the authorities dismantled most import surcharge and fees, export and import quotas and lowered tariffs resulting in a quite liberal trade regime. Nevertheless, in the wake of the crisis in Kosovo, the authorities introduced temporary safeguard measures and an import licence system to overcome the crisis situation. In line with the IMF agreement, they have set a dismantling schedule, which provides for the complete removal of almost all the safeguard measures before the end of September.

### 2.3. Impact of the Kosovo crisis

While estimates of the economic impact of the crisis in Kosovo are fraught with uncertainty, it is clear that the crisis has had a negative impact on the economy of the former Yugoslav Republic of Macedonia through a number of channels, including the influx of refugees, disruptions of trade relations, and lower investment flows.

It is estimated that by mid-June some 245,000 refugees were hosted in the former Yugoslav Republic of Macedonia, equivalent to about 11 per cent of the total population. In addition, some 87,000 refugees had already been evacuated from the country. Notwithstanding the political consequences on the country's delicate ethnic balance, this very large influx of refugees has had a serious impact on social conditions.

It has had also a very strong impact on trade and investments flows. In 1998, the Federal Republic of Yugoslavia (FRY) was the second most important trade partner, immediately behind Germany. Trade flows with the FRY represented 18.2 per cent of the former Yugoslav Republic of Macedonia's exports (totalling US$ 1.3 billion) and 12.6 per cent of its imports (totalling US$ 1.7 billion). In addition, it is estimated that almost 50 per cent of total exports and 38 per cent of total imports were transiting the FRY. In the context of the Kosovo crisis, trade has been falling sharply. Contracts have been lost, both to the FRY and to other markets due to higher transit cost, increased uncertainty and a temporary shortage of critical imports. Some of the lost contracts may not be regained after the end of the conflict.

Investment flows are likely to have declined sharply, notably because of the impact of higher economic and political risk on investor sentiment and more difficult access to foreign borrowing and trade finance. Lower FDI inflows will negatively affect the modernisation of the economy.

The negative trade and investment impact will lead to a significant increase in the country's external imbalances. Under current circumstances it is very difficult to make precise estimates. The IMF expects that the current account deficit will increase by some US$ 230 million to a level of US$ 520 million in 1999, or 14.5 per cent of GDP (rather than a decline to a US$ 250 million deficit expected before the crisis). The reserve situation remains rather tight, corresponding to 2.3 months of imports.

The abrupt fall in external demand, although it will be compensated partly by a fall in imports, will have a severe negative impact on real GDP growth. The IMF estimates that, even with the required external financing, GDP will contract by at least 8% in 1999 rather than the expected 5% growth.

All these elements will have an important impact on the fiscal situation. Expenditures will increase, notably those linked to the refugees (by 2.5 per cent of GDP, according to the IMF) and the social funds (by 1.5 per cent of GDP). Import duties (17 per cent of total public revenues in 1998) will fall in line with imports while negative real GDP growth will translate into lower tax revenues. Overall, the 1999 fiscal deficit is expected to increase from a planned 0.2 per cent of GDP to 4.9 per cent.

## 3. THE NEW ECONOMIC PROGRAMME AND EXTERNAL FINANCING NEEDS

In the new context created by the consequences of the crisis in Kosovo, the government and the International Financial Institutions have held intense discussions on a new economic programme to be supported by a twelve-month US$ 32.2 million Stand-by arrangement (SBA) from the IMF and a US$ 40 million Financial and Enterprise Structural Adjustment Loan (FESAL) from the World Bank. Both operations still need to be finalised and agreed formally by the respective Executive Boards. In the meantime, to cover the urgent external financing needs resulting from the export shortfall caused by the Kosovo crisis, the country is expected to benefit from a first tranche (US$18.5 million) under the IMF Compensatory and Contingency Financing Facility (CCFF) totalling US$32.3. million.

The new economic programme discussed with the IMF and the World Bank aims at limiting the negative impact of the crisis on macroeconomic stability and preserving the authorities' commitment to structural reforms, in particular in the financial sector. The macroeconomic strategy is based on tight monetary policy and a fiscal policy that will seek to maintain the underlying pre-crisis position, notably through a freeze of the central government wage bill and cutting some expenditures.

The success of the macroeconomic strategy largely relies on substantial progress being made on structural reforms, in particular restructuring of the financial sector and the large public enterprises. The authorities have undertaken to begin preparations for selling or liquidating twelve loss-making enterprises in the second half of 1999. They have also taken important measures to extend privatisation to previously socially-owned agricultural enterprises. Moreover, it is foreseen that the recent measures introducing distortionary trade and payments restrictions be eliminated. At the same time, the SBA-supported programme will carefully monitor the government's policy of support to enterprises, avoiding an increase in tax arrears and other forms of indirect and direct support.

In addition to the FESAL, the World Bank is preparing a US$ 10 million Labour Redeployment and Social Fund loan to help mitigate the social cost linked to the crisis in Kosovo and strengthen the country's social safety net, in support of the authorities' structural reforms.

## 4. POSSIBLE FURTHER COMMUNITY MACRO-FINANCIAL ASSISTANCE AND MAIN CHARACTERISTICS OF THE ASSISTANCE

According to the balance of payments projections of the IMF presented at the emergency joint G-24/CG meeting of 5 May 1999, the former Yugoslav Republic of Macedonia's residual external financing needs for 1999 amount to US$ 372 million, after taking into account the financial support expected for 1999 from the IMF (SBA) and the World Bank (FESAL). At this meeting, the EC announced a € 25 million grant for budgetary support as well as its intention to provide further macro-financial assistance. EU Member States also pledged support amounting to US$ 32.9 million. Moreover, other donors committed assistance on a highly concessional basis, bringing bilateral assistance pledged to a total of $130 million (including the EU budgetary support). Hence, even taking into account IMF support under the CCFF, the programme of the former Yugoslav Republic of Macedonia remains largely under-financed.

There is a risk that if further official financing is not forthcoming, the economy would have to contract even more than currently anticipated, with adverse consequences for the standard of living, the fiscal position and the level of unemployment. In this context, the probability of a policy reversal in structural reforms would also increase significantly, as already indicated by the new measures affecting trade and payments. Against this background, further Community macro-financial assistance would contribute to bolstering the country's economic, social and political stability, as well as preserving its important role as a factor of stability in the region. It would demonstrate the EU support to the former Yugoslav Republic of Macedonia at a very difficult moment, in accordance with the likely reinforcement of contractual links with the country.

The estimated external gap for 1999 is substantial, and it is also expected that there will be further financing needs in the coming year. The Commission therefore considers that a new EC macro-financial assistance of up to € 80 million or some US$ 84 million in support of the stand-by programme would seem appropriate. This would come in addition to the €25 million EC budgetary assistance, which despite its affected character eases balance of payments needs. More pledges from other donors might be made at a later stage and particularly at the next G-24/CG meeting that the Commission and the World Bank intend to organise later in 1999.

The disbursement of the assistance would be implemented in at least two tranches and would, as usual, be subject to the appropriate macroeconomic and structural adjustment conditionality, including in this case an appropriate phasing out of the most distortionary measures introduced recently in the area of external trade and payments.

In the light of the present particular circumstances affecting the former Yugoslav Republic of Macedonia's fiscal and balance of payments situation and taking account of the country's development and debt levels, the proposed Community macro-financial support foresees a grant element of up to € 30 million. However, given the existing budgetary constraints, this could only be envisaged in the context of an appropriate adjustment of the financial means available under Category 4 of the Financial Perspective, which would be necessary to cope with the present situation in the Balkans.

The loan element of this financial support would be modelled on the standard forms and conditions normally applying to macro-financial lending to third countries. The Community would provide the funds through market borrowing with a guarantee by the general budget. The former Yugoslav Republic of Macedonia would subsequently borrow from the Community. The borrowing and lending operations would be perfectly matched and without any commercial risk for the Community.

In accordance with the Guarantee Fund mechanism, the budgetary implications of a decision to make available a loan of up to € 50 million to the former Yugoslav Republic of Macedonia would imply a € 7 million provisioning of the Fund.

The Council is therefore requested to adopt the attached draft Decision providing supplementary macro-financial assistance to the former Yugoslav Republic of Macedonia.

Proposal for a

**COUNCIL DECISION**

**providing supplementary macro-financial assistance to the former Yugoslav Republic of Macedonia**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 308 thereof,

Having regard to the proposal of the Commission[1],

Having regard to the opinion of the European Parliament[2],

(1) Whereas the Commission consulted the Economic and Financial Committee before submitting its proposal;

(2) Whereas the former Yugoslav Republic of Macedonia is undertaking fundamental economic reforms and is making substantial efforts to establish a well-functioning market economy;

(3) Whereas the former Yugoslav Republic of Macedonia has suffered very large economic costs as a direct consequence of the conflict in Kosovo and has made, despite severe social and economic strains, exceptional efforts to host a high number of refugees;

(4) Whereas the former Yugoslav Republic of Macedonia and the European Community have signed on a Cooperation Agreement which entered into force on 1 January 1998;

(5) Whereas the Council, on 26 April 1999, has welcomed the prospect of a feasibility study towards upgrading the contractual relations between the European Community and the former Yugoslav Republic of Macedonia;

(6) Whereas the former Yugoslav Republic of Macedonia has reached a preliminary agreement with the International Monetary Fund (IMF) on an arrangement under the Compensatory and Contingency Financing Facility and discussions are well advanced between the two parties on a stand-by arrangement (SBA) in support of the authorities' adjustment and reform programme;

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1 OJ
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(7) Whereas the World Bank is preparing a new Financial and Enterprise Structural Adjustment Loan, which envisages substantial adjustment and investment financing in support of the former Yugoslav Republic of Macedonia's reform efforts in the enterprise and financial sectors;

(8) Whereas the authorities of the former Yugoslav Republic of Macedonia have requested financial assistance from the international financial institutions, the Community and other bilateral donors; whereas, over and above the estimated financing which could be provided by the IMF and the World Bank, an important residual financing gap remains to be covered in 1999 and 2000 in order to strengthen the country's reserve position and support the policy objectives attached to the government's reform programme;

(9) Whereas financial assistance from the Community in the form of a combination of a long-term loan and a straight grant to the former Yugoslav Republic of Macedonia is an appropriate measure to support the balance of payments and help ease the country's external financial constraints in the current exceptionally difficult circumstances;

(10) Whereas the inclusion of a grant component in this assistance is without prejudice to the powers of the budgetary authority;

(11) Whereas this assistance should be managed by the Commission;

(12) Whereas the Treaty does not provide, for the adoption of this Decision, powers other than those of Article 308,

HAS DECIDED AS FOLLOWS:

*Article 1*

1. The Community shall make available to the former Yugoslav Republic of Macedonia financial assistance in the form of a long-term loan facility and straight grants, with a view to ensuring a sustainable balance of payments situation, comforting the implementation of structural reforms and help alleviating the social consequences of the economic disruptions caused by the conflict in Kosovo.

2. The loan component of this assistance shall amount to a maximum principal of EUR 50 million, with a grace period of 10 years and a maximum maturity of 15 years. To this end, the Commission is empowered to borrow, on behalf of the European Community, the necessary resources that will be placed at the disposal of former Yugoslav Republic of Macedonia in the form of a loan.

3. The grant component of this assistance shall amount to a maximum of EUR 30 million for the 1999-2000 period.

4. The Community financial assistance shall be managed by the Commission in close consultation with the Economic and Financial Committee and in a

manner consistent with any agreement reached between the IMF and the former Yugoslav Republic of Macedonia.

*Article 2*

1. The Commission is empowered to agree with the authorities of the former Yugoslav Republic of Macedonia, after consultation of the Economic and Financial Committee, the economic policy conditions attached to this assistance. These conditions shall be consistent with the agreements referred to in Article 1(4).

2. The Commission shall verify at regular intervals, in collaboration with the Economic and Financial Committee and in co-ordination with the IMF, that the economic policy in the former Yugoslav Republic of Macedonia is in accordance with the objectives of this assistance and that its conditions are being fulfilled.

*Article 3*

1. The loan and grant components of this assistance shall be made available to the former Yugoslav Republic of Macedonia in at least two instalments. Subject to the provisions of Article 2, the first instalment is to be released on the basis of an agreement between the former Yugoslav Republic of Macedonia's and the IMF on a macroeconomic programme that is supported by an upper credit tranche arrangement.

2. Subject to the provisions of Article 2, the second and any further instalments shall be released on the basis of a satisfactory track record in the former Yugoslav Republic of Macedonia's adjustment and reform programme and not before one quarter after the release of the first instalment.

3. The funds shall be paid to the National Bank of the former Yugoslav Republic of Macedonia.

*Article 4*

1. The borrowing and lending operations referred to in Article 1 shall be carried out using the same value date and must not involve the Community in the transformation of maturities, in any exchange or interest rate risk, or in any other commercial risk.

2. The Commission shall take the necessary steps, if the former Yugoslav Republic of Macedonia so requests, to ensure that an early repayment clause is included in the loan terms and conditions and that it may be exercised.

3. At the request of the former Yugoslav Republic of Macedonia, and where circumstances permit an improvement in the interest rate of the loan, the Commission may refinance all or part of its initial borrowings or restructure the corresponding financial conditions. Refinancing or restructuring

operations shall be carried out in accordance with the conditions set out in paragraph 1 and shall not have the effect of extending the average maturity of the borrowing concerned or increasing the amount, expressed at the current exchange rate, of capital outstanding at the date of the refinancing or restructuring.

4. All related costs incurred by the Community in concluding and carrying out the operation under this Decision shall be borne by the former Yugoslav Republic of Macedonia.

5. The Economic and Financial Committee shall be kept informed of developments in the operations referred to in paragraphs 2 and 3 at least once a year.

*Article 5*

At least once a year the Commission shall address to the European Parliament and to the Council a report, which will include an evaluation of the implementation of this Decision.

Done at Brussels,

*For the Council*
*The President*

# ANNEX

## BUDGETARY RESOURCES NECESSARY FOR THE PROVISIONING OF THE GUARANTEE FUND IN 1999 AND MARGIN UNDER THE RESERVE FOR LOANS AND LOAN GUARANTEES IN FAVOUR OF THIRD COUNTRIES

(EUR million)

| Operations | Basis of the calculation[3] | Provisioning of the Fund[4] | Reserve Margin |
|---|---|---|---|
| | | | 346.0 [5] |
| **Operations decided** | | | |
| **EIB/New mandates[6]** | | | |
| CEEC | 872.9 | 122.2 | 223.8 |
| ALA | 218.1 | 30.5 | 193.3 |
| South Africa | 143.5 | 20.1 | 173.2 |
| MED | 351.4 | 49.2 | 124.0 |
| FYROM | 38.5 | 5.4 | 118.6 |
| Bosnia | 4 2.0 | 5.9 | 112.7 |
| **EIB/Old protocols[6]** | | | |
| Syria | -30 | -4.2 | 116.9 |
| **Macro-financial assistance** | | | |
| Albania III | 20 | 2.8 | 114.1 |
| Bosnia I | 20 | 2.8 | 111.3 |
| **Operations proposed** | | | |
| EIB/Turkey[7] | 105 | 14.7 | 96.6 |
| EIB/Croatia [8] | 35 | 4.9 | 91.7 |
| **Macro-financial assistance** | | | |
| Bulgaria IV[9] | 100 | 14.0 | 77.7 |
| Romania IV[9] | 200 | 28.0 | 49.7 |

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3 The provisioning basis is calculated by applying the relevant guarantee cover rate, namely 70% (EIB loans new mandates), 75% (EIB loans old protocols) or 100% (macro-financial assistance loan).

4 In accordance with the provisioning rules in Council Regulation (EC, Euratom) No 2728/94 of 31 October 1994, the Fund having reached its target amount on 31 December 1997, the provisioning rate has been reduced to 14%.

5 Amount of the Reserve for loans and loan guarantees in favour of third countries for 1999 under the financial perspective.

6 Annual amounts of loans scheduled to be signed in 1999 and correction of amounts already provisioned in the Fund to take account of actual signings at the end of 1998: Transfer 5/99 to the Guarantee Fund.

7 Proposal for a Council Regulation on a special financial cooperation measure for Turkey (COM(95) 389/3).

8 EC/Croatia cooperation agreement (SEC(95) 180/final).

9 Commission proposal.

# FINANCIAL STATEMENT

## 1. TITLE OF OPERATION

Further macro-financial assistance to the former Yugoslav Republic of Macedonia.

## 2. BUDGET HEADING INVOLVED

*Grant component of the assistance*

B7-5320: Macro-economic assistance in favour of Western Balkan Countries (to be renamed by SAB in 1999).

*Loan component of the assistance*

Heading B0-211 reflecting the European Community guarantee for borrowing programmes contracted by the Community to provide financial assistance for non-member countries in Central and Eastern Europe.

## 3. LEGAL BASIS

Article 308 of the Treaty.

## 4. DESCRIPTION AND JUSTIFICATION FOR THE ACTION

### a) Description of the action

Provision of a Community loan (to be financed by Community borrowing in the international capital markets), in the amount of up to €50 million, and a grant of up to €30 million (to be financed by the general budget) to the former Yugoslav Republic of Macedonia with a view to supporting the authorities' reform efforts and alleviating the social consequences of the economic disruptions caused by the conflict in Kosovo.

### b) Justification for the action

The viability of the former Yugoslav Republic of Macedonia's external position depends on external financial assistance from official sources.

## 5. CLASSIFICATION OF THE EXPENDITURE

Grant component: non compulsory expenditure, differentiated.

Loan component: compulsory.

## 6. NATURE OF THE EXPENDITURE

Straight grants (100% subsidy), which would be released in at least two successive instalments.

Potential activation of budget guarantee for the Community borrowing aimed to fund the loan to the former Yugoslav Republic of Macedonia.

## 7. FINANCIAL IMPACT

### a) Method of calculation

The evaluation of the amount of the assistance deemed necessary is based on the present estimates of the former Yugoslav Republic of Macedonia's residual external financing needs.

For the loan component of this assistance, a token entry is proposed because it is expected that the budget guarantee will not be called, and in any case the amount and timing of any call on this budget line cannot be calculated in advance.

### b) Effect of the action on intervention credits

The budget entry corresponding to the grant component of this assistance will be activated subject to compliance with a number of policy conditions to be agreed with the authorities of the former Yugoslav Republic of Macedonia.

The budget entry reflecting the budget guarantee for the loan component of this assistance will be activated only in the case of an effective call on the guarantee.

### c) Financing of the intervention expenditure

(i) Grants

– The financing of the expenditure will be secured through an adjustment of the financial means available under Category 4 of the Financial Perspective.

The following schedule of appropriations is proposed (in million €):

| | 1999 | 2000 |
|---|---|---|
| Commitment appropriations | 15 | 15 |
| Payment appropriations | 15 | 15 |

(ii) In case of call on the budget guarantee:

- Recourse to the Guarantee Fund established by Council Regulation (EC, EURATOM) n° 2728 of 31 October 1994.

- In case the Guarantee Fund did not contain sufficient resources, additional payments would be called up from the budget by transfer:

  - of any margin remaining in the Reserve for guarantees;

  - of any late payments to the budget for which the budget guarantee has been activated (under article 27(3) of the Financial Regulation);

  - of any margin available under the ceiling of category 4 of the financial perspectives or redeployment therein.

- In order to fulfil its obligations, the Commission can provisionally ensure the debt service with funds from its treasury. In that case, Article 12 of the Council Regulation (EEC, Euratom) n° 1552/89 of 29.5.1989 will apply.

## 8. FRAUD PREVENTION MEASURES

The funds will be paid directly to the Central Bank of the beneficiary country only after verification by the Commission Services, in consultation of the Economic and Financial Committee and in liaison with the IMF and World Bank Services, that the macro-economic policies implemented in the former Yugoslav Republic of Macedonia are satisfactory and that the specific conditions attached to this assistance are fulfilled.

## 9. ELEMENTS OF COST-EFFECTIVENESS ANALYSIS

### a) Grounds for the operation and specific objectives

By supporting the former Yugoslav Republic of Macedonia's macroeconomic reform efforts and complementing financing by the International Community provided in the context of the IMF-supported programme, this assistance would ease the country's external financing constraints, would improve its growth prospects and would help it face the severe economic and social consequences of the conflict in Kosovo.

### b) Monitoring and evaluation

This assistance is of macro-economic nature and its monitoring and evaluation is undertaken in the framework of the IMF-supported adjustment and reform programme that the former Yugoslav Republic of Macedonia is implementing.

The Commission services will monitor the action on the basis of a genuine system of macro-economic and structural policy indicators to be agreed with the authorities of the beneficiary country. They will also remain in close contact with the IMF and World Bank services and will benefit from their assessment of the former Yugoslav Republic of Macedonia's reform achievements.

An annual report to the European Parliament and to the Council is foreseen in the proposed Council decision, which will include an evaluation of the implementation of this operation.

## 10. ADMINISTRATIVE EXPENDITURE

This action is exceptional in nature and will not involve an increase in the number of Commission staff.