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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 14.10.2009
COM(2009) 531 final

2009/0150 (CNS)

Proposal for a

COUNCIL DECISION

providing macro-financial assistance to Armenia

{SEC(2009)1324}

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

- **Grounds for and objectives of the proposal**

The Commission proposes to provide macro-financial assistance (MFA) to Armenia in the form of a loan and a grant with a view to supporting Armenia's economic adjustment and financing its external balance-of-payments and budgetary needs identified by the IMF. The proposed assistance will support the authorities' economic programme with a view to ensure sustainable fiscal and external accounts. It will contribute to helping Armenia to address the consequences of the global financial crisis.

The proposed Community macro-financial assistance will complement support from the IMF foreseen under the stand-by arrangement's revision agreed by the IMF board on 3 March 2009, as well as World Bank support due to take the form of budget support policy loans. Community MFA will be exceptional and limited in time, and conditional, in particular, on progress in the implementation of the current IMF programme and on the successful fulfilment of economic policy conditions that will be attached to this assistance.

In view of the financing needs identified for 2010, it is important that the Community macro-financial assistance to Armenia is disbursed over the period 2010-2011.

- **General context**

The global economic downturn and particularly the rapid deterioration of the Russian economy had a deep impact on the economic activity in Armenia which started to contract since the last quarter of 2008. After six years of double digit growth based mainly on remittances inflows and FDI's from Russia, the Armenian economy grew by 6.8% in 2008 down from 13.7% in 2007. Growth in key sectors of Armenian economy like construction metallurgy and diamond processing was hurt, whereas exports earnings declined resulting to the deterioration of the current account deficit to 11.3% of GDP in 2008 from 6.4% in 2007.

The Armenian currency remained relatively stable during 2008 partly because of the interventions of the Central Bank (leading to a 20% reduction of the reserves until January 2009); however, given the continuous deterioration in the economy in 2009, the authorities reverted in early March to a fully floating exchange rate regime allowing a de-facto devaluation of the Armenian Dram of around 22 % against the euro and the USD. At the same time the IMF approved a USD 540 million 28-month Stand-By Arrangement to help Armenia to deal with the worsening economic environment and to ensure the smooth transition to the floating exchange rate regime.

Although, the negative effects of the devaluation were largely absorbed and the banking system remained solid, the economic situation in the first six months of 2009

worsened dramatically with the GDP contracting by 16.3% on a year-on-year basis. Industrial output contracted by 11.5% whereas construction sector declined by 53.5%. The economic contraction resulted in large additional government financing needs as revenues fell by 33% in the first five months of 2009 (year-on-year) and the authorities did not manage to meet the target for the fiscal deficit despite the postponement of non essential expenditures. Therefore, even with significant budget cuts the fiscal deficit is projected to be around 6.5% of GDP in 2009 and is unlikely to be covered by financing sources identified originally by the IMF. As a result, on 22 June 2009 the IMF Board approved the augmentation of access of Armenia to Fund resources under the SBA by about USD 250 million (180% of quota) requested by the Armenian authorities.

On the completion of the first review of the IMF SBA (approved on the 22 of June 2009), overall real GDP is forecasted to contract by 9.5% in 2009¹ representing a massive turnaround compared to growth rates of the previous years, and also a substantial deterioration of Armenia's economic outlook compared by what was anticipated at the time of the approval of the SBA. However, latest indications as of mid July suggest that that economic downturn is even more severe than foreseen in the revised June assumptions.

The economic downturn has also led to a sharp widening of the external financing needs compared to March 2009. This is the result of a much deeper deterioration in export earnings, remittances and FDI despite the devaluation of the exchange rate in March 2009. During the first six months of 2009, foreign trade turnover contracted by 31.5% year-on-year, with exports dropping by 45.9% and imports by 27.5%. Remittances fell by 30% during January-May 2009 compared to the same period of 2008 although later data indicate that the decline is likely to be sharper. Exports and remittances are now expected to contract between 10-20% in both 2009 and 2010 leading to a widening current account deficit of 13% of GDP for 2009, despite the devaluation of the exchange rate.

- **Existing provisions in the area of the proposal**

None

- **Consistency with other policies and objectives of the Union**

Armenia is one of the EU partner countries in the framework of the European Neighbourhood Policy (ENP). The EU-Armenia ENP Action Plan was adopted in November 2006 for a period of five years. The European Union has a vital interest in seeing stability, better governance and economic development at its Eastern borders. To this end, the European Commission has prepared a proposal for the establishment of an "Eastern Partnership". The Eastern Partnership was officially launched by the EU and the six partner countries during the Prague Summit on 7 May 2009.

¹ More recent data suggest that GDP contraction is likely to be more than 10% in 2009.

2. CONSULTATION OF INTERESTED PARTIES AND IMPACT ASSESSMENT

- **Consultation of interested parties**

Commission services have been in contact with the Armenian authorities, and the International Monetary Fund during the preparation of the present Commission proposal to discuss assistance needs. Before submitting its proposal, the Commission has consulted the Economic and Financial Committee, which raised no objections to the present proposal. Following the adoption of the Council Decision, the Commission services will negotiate with the authorities of Armenia a Memorandum of Understanding, a Grant Agreement and a Loan Agreement to lay down in detail the implementation modalities of the assistance.

- **Collection and use of expertise**

An Operational Assessment assessing the quality and reliability of Armenia's public financial circuits and administrative controls will be prepared with the support of external consultants appointed by the Commission.

- **Impact assessment**

Macro-financial assistance will have an immediate impact on Armenia's balance of payments and will in this way contribute to the alleviation of financial constraints on the implementation of the authorities' economic programme and to financing the budget deficit. Macro-financial assistance will further support the general objectives of the stabilisation programme agreed with the IMF, which in particular aims at achieving external adjustment, bolstering foreign reserves, maintaining confidence in the domestic currency and banking system and protecting the poor. Given the potential pressure that the easing of the fiscal policy creates on the balance of payments, part of the Macro-financial assistance will consist of grants.

Project finance and/or technical assistance would not be suitable to address these macroeconomic objectives. When delivered as balance-of-payments, as proposed in the case of Armenia, the disbursements contribute to the building up of reserves in the Central Bank as foreseen under the macro-economic stabilisation programme. However, given the potential pressure that the easing of the fiscal policy creates on the balance of payments, part of the Macro-financial assistance can also be channelled to finance the budget deficit.

EC assistance will also support the authorities' efforts to implement short- and medium-term policies identified in the EU-Armenian Action Plan.

3. LEGAL ELEMENTS OF THE PROPOSAL

- **Summary of the proposed action**

The Community shall make available to Armenia macro-financial assistance

amounting up to EUR 100 million. Given the deep impact of the economic crisis to the economy of Armenia and the country's eligibility to concessional (IDA) financing, the Community assistance will consist of a grant (EUR 35 million) and a loan (EUR 65 million). Regarding the loan component the Commission shall be empowered to borrow up to EUR 65 million on the capital markets or from financial institutions.

The assistance will be made available in two instalments. The maximum average loan maturity shall not exceed 15 years. The assistance will be managed by the Commission which shall agree with the authorities the specific economic policy and financial conditions attached to the payment of each instalment. Specific provisions on the prevention of fraud and other irregularities, consistent with the Financial Regulation, will be duly taken into account.

The assistance will be fully consistent with the macroeconomic targets already set in Armenia's economic policy documents, such as the 2009 Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding agreed with the IMF. It will be also consistent with longer-term policy objectives contemplated in the EU-Armenia Action Plan adopted in November 2006. As regards specific economic policy conditions attached to the disbursement of the grant and loan instalments, the Commission intends to focus on a limited number of areas, including in particular public finance management. Also, the Commission may consider targeting specific policies of particular importance, such as priorities identified in the context of the EU-Armenia Action Plan and the 2009 Progress Report, or measures deemed appropriate following the above mentioned Operational Assessment.

- **Legal basis**

Article 308 of the Treaty.

- **Subsidiarity principle**

The proposal falls under the exclusive competence of the Community. The subsidiarity principle therefore does not apply.

- **Proportionality principle**

The proposal complies with the proportionality principle for the following reasons.

The amount of the assistance –up to EUR 100 million– corresponds to the 19% of the residual financing needs of Armenia for the year 2009-2010 in the context of the IMF programme, over and above macro-economic support provided by the IMF, the World Bank and the Asian Development Bank, and notwithstanding budget support under the European Neighbourhood and Partnership Instrument (ENPI) expected to be released for the same year (EUR 19.5 million in 2010, following a first tranche of EUR 12.3 million in 2009). This high burden sharing by the Community takes account of the current exceptional juncture, as the unfolding of the global crisis is having a severe effect on Armenia's economy.

- **Choice of instruments**

Proposed instruments: other.

In the absence of a framework regulation for the macro-financial assistance instrument, ad hoc Council decisions under Article 308 of the Treaty are the only available legal instrument for this assistance.

4. BUDGETARY IMPLICATION

The grant component of the assistance (EUR 35 million) would be financed from commitment appropriations in 2009 under budget line 01 03 02 (Macroeconomic assistance), with payments taking place at the earliest in 2010.

In line with the Guarantee Fund Regulation² the provisioning of a EUR 65 million loan disbursed in 2010 would intervene in 2012 and amount to a maximum of EUR 5.85 million.

5. ADDITIONAL INFORMATION

- **Review/revision/sunset clause**

The proposal sets a limited availability period.

² Article 5 of the Council Regulation (EC, Euratom) No 480/2009 of 25 May 2009 establishing a Guarantee Fund for external action (codified version). The provisioning is appropriated from "the provisioning of the Guarantee Fund" (budget line 01 04 01 14).

Proposal for a

COUNCIL DECISION

providing macro-financial assistance to Armenia

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 from the Commission³,

Having regard to the opinion of the European Parliament⁴,

After consulting the Economic and Financial Committee,

Whereas:

- (1) Relations between Armenia and the European Union are developing within the framework of the European Neighbourhood Policy. The EU and Armenia agreed on 14 November 2006 on a European Neighbourhood Policy Action Plan identifying medium-term priorities in EU-Armenia relations and related policies which are expected to lead to deeper economic integration. The framework of EU-Armenian relations is enhanced by the newly launched Eastern Partnership.
- (2) The Armenian economy has been increasingly hit by the international financial crisis since the second half of 2008, with declining output, falling fiscal revenues and rising external financing needs.
- (3) Armenia's economic adjustment and recovery is supported by financial assistance of the International Monetary Fund (IMF). In March 2009, the Armenian authorities agreed with the IMF on a Stand-By Arrangement of USD 540 million to support the Armenian economy to achieve the necessary adjustment to the economic crisis.
- (4) Following a further deterioration of the economic situation and a necessary revision of the programme's underlying economic assumptions as well as higher external financing needs, an agreement was reached between Armenia and the IMF for an increase of IMF resources by USD 250 million, which was approved on 22 June 2009 by the IMF board.

³ OJ C , , p. .

⁴ OJ C , , p. .

- (5) The Community intends to provide in 2009 and 2010 European Neighbourhood and Partnership Instrument (ENPI) budget support grants of a total of EUR 32 million.
- (6) Armenia has requested additional Community macro-financial assistance in view of the worsening economic situation and outlook.
- (7) Given that a residual financing gap remains in the balance of payments in 2010, macro-financial assistance is considered an appropriate response to Armenia's request under the current exceptional circumstances to support economic stabilisation in conjunction with the current IMF programme. The present financial assistance is also expected to contribute to alleviate budgetary financing needs.
- (8) In order to ensure efficient protection of the Community's financial interests linked to the present financial assistance, it is necessary to provide for appropriate measures by Armenia related to the prevention of, and the fight against, fraud, corruption and any other irregularities linked to this assistance, as well as for controls by the Commission and audits by the Court of Auditors.
- (9) The release of the Community financial assistance is without prejudice to the powers of the budgetary authority.
- (10) This assistance should be managed by the Commission, in consultation with the Economic and Financial Committee.
- (11) 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 Armenia macro-financial assistance in the form of a loan facility and a grant with a view to supporting Armenia's economic stabilisation and alleviating its balance of payments and budgetary needs as identified in the current IMF programme.
2. The loan component of this assistance shall amount to a maximum principal of EUR 65 million with a maximum maturity of 15 years. To this end, the Commission is empowered to borrow on behalf of the European Community the necessary resources.
3. The grant component of this assistance shall amount to a maximum of EUR 35 million.
4. The release of the Community financial assistance shall be managed by the Commission, in close cooperation with the Economic and Financial Committee, in a manner consistent with the agreements or understandings reached between the IMF and Armenia.
5. The Community financial assistance shall be made available for two years starting from the first day after the entry into force of the Memorandum of Understanding

referred to in Article 2(1). However, if circumstances so require, the Commission, after consultation of the Economic and Financial Committee, may decide to extend the availability period by a maximum of one year.

Article 2

1. The Commission shall agree with the authorities of Armenia, after consulting the Economic and Financial Committee, the economic policy conditions attached to the Community macro-financial assistance, to be laid down in a Memorandum of Understanding, in a Grant and a Loan Agreements. The conditions shall be consistent with the agreements or understandings reached between the IMF and Armenia. The detailed financial terms of the assistance shall be laid down in the Grant and Loan Agreements to be agreed between the Commission and the authorities of Armenia.
2. During the implementation of the Community financial assistance, the Commission shall monitor the soundness of Armenia's financial arrangements, administrative procedures, internal and external control mechanisms which are relevant to such assistance.
3. The Commission shall verify at regular intervals that Armenia's economic policies are in accordance with the objectives of the Community assistance and that the agreed economic policy conditions are being satisfactorily fulfilled. In doing so, the Commission shall coordinate closely with the International Monetary Fund and the World Bank and, when required, with the Economic and Financial Committee.

Article 3

1. The Community financial assistance shall be made available by the Commission to Armenia in two instalments subject to the conditions of paragraph 2. The size of the instalments will be laid down in the Memorandum of Understanding.
2. The Commission shall decide on the release of the instalments subject to satisfactory implementation of the economic policy conditions agreed in the Memorandum of Understanding and along the terms of the assistance agreed in the Grant and Loan Agreements. The disbursement of the second instalment shall not take place earlier than three months after the release of the first instalment.
3. The Community funds shall be paid to the Central Bank of Armenia. Subject to provisions to be agreed in the Memorandum of Understanding, including a confirmation of residual budgetary financing needs, their counter-value in local currency may be transferred to the Treasury of Armenia as final beneficiary.

Article 4

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

2. The Commission shall take the necessary steps, if Armenia 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 Armenia, and where circumstances permit an improvement of 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 of capital outstanding at the date of the refinancing or restructuring.
4. All costs incurred by the Community which are related to the borrowing and lending operations included in this Decision shall be borne by Armenia.
5. The Economic and Financial Committee shall be kept informed of developments in the operations referred to in paragraphs 2 and 3.

Article 5

The Community financial assistance shall be implemented in accordance with the provisions of Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities⁵ and its implementing rules⁶. In particular, the Memorandum of Understanding and the Grant/Loan Agreements to be agreed with the authorities of Armenia shall provide for appropriate measures by Armenia related to the prevention of, and the fight against, fraud, corruption and other irregularities affecting the assistance. They shall also provide for controls by the Commission, including the European Anti-Fraud Office, 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.

Article 6

By 31 August of each year the Commission shall submit to the European Parliament and to the Council a report, including an evaluation of the implementation of this Decision in the preceding year. The report shall indicate the connection between the policy conditions as laid down in a Memorandum of Understanding pursuant to Article 2(1), Armenia's on-going economic and fiscal performance, and the Commission's decision to release the instalment of the assistance.

Article 7

This Decision shall take effect on the day of its publication in the *Official Journal of the European Union*.

⁵ OJ L 248, 16.9.2002 p. 1. Regulation as amended by Regulation (EC, Euratom) No: 1995/2006 (OJ L 390, 30.12.2006, p. 1)

⁶ Commission Regulation (EC, Euratom) No 2342/2002 OJ L 357 31.12.2002, p.1

Done at Brussels,

*For the Council
The President*

LEGISLATIVE FINANCIAL STATEMENT

1. NAME OF THE PROPOSAL:

Macro-financial assistance to Armenia

2. ABM / ABB FRAMEWORK

Policy Area(s) concerned and associated Activity/Activities:

Title 01 – Economic and Financial Affairs, 03 – International economic and financial affairs

3. BUDGET LINES

3.1. Budget lines (operational lines and related technical and administrative assistance lines (ex- B.A lines)) including headings:

Article 01 03 02 – Macroeconomic assistance 01 04 0114 Provisioning of the Guarantee Fund for Community borrowings raised for macro-financial assistance to third countries

3.2. Duration of the action and of the financial impact:

Start 2010, tentatively all disbursements will take place over the year 2010 in two tranches. However, delays cannot be excluded that would prolong the operation.

3.3. Budgetary characteristics:

Budget line	Type of expenditure		New	EFTA contribution	Contributions from applicant countries	Heading in financial perspective
01.04.01.14	Comp	Diff	NO	NO	NO	No 4
01. 03. 02	Non-comp	Diff	NO	NO	NO	No 4

3.4. Loan component of the assistance

01 04 01 14 – Provisioning of the Guarantee Fund

The Guarantee Fund for external actions has to be provisioned according to the Fund Regulation as amended. In line with this Regulation, loans are not any more provisioned for the entire amount at the time of the decision but based on the outstanding amount at the end of a year. The provisioning amount is calculated at the beginning of the year "n" as the difference between the target amount and the Fund's net assets at the end of the year "n-1". This provisioning amount is introduced in the year "n" to the "n+1" preliminary budget and effectively paid in one transaction at

the beginning of the year "n+1" from "the provisioning of the Guarantee Fund" (budget line 01 04 01 14).

As a result, 9% (maximum of EUR 5.85 million) of the effectively disbursed amount will be considered in the target amount at the end of the year "n-1" for the calculation of the provisioning of the Fund.

01 04 01 04 – EC guarantee for Community loans raised for macro-financial assistance to third countries.

The budget entry ("p.m.") reflecting the budget guarantee for the loan (EUR 65 million) will be activated only in the case of an effective call on the guarantee. It is expected that normally the budget guarantee will not be called.

4. SUMMARY OF RESOURCES

4.1. Financial Resources

4.1.1. Summary of commitment appropriations (CA) and payment appropriations (PA)

EUR million (to 3 decimal places)

Expenditure type	Section no.		2009	2010			Total
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Operational expenditure⁷

Commitment Appropriations (CA)	8.1.	a	99,000	107,000 ⁸			
Payment Appropriations (PA)		b	110,000	111,000 ⁸			

Administrative expenditure within reference amount⁹

Technical & administrative assistance (NDA)	8.2.4.	c	0	0			
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TOTAL REFERENCE AMOUNT

Commitment Appropriations		a+c	0	0			
Payment Appropriations		b+c	0	0			

Administrative expenditure not included in reference amount¹⁰

Human resources and associated expenditure (NDA)	8.2.5.	d	0	0			
Administrative costs, other than human resources and associated costs, not included in reference amount (NDA)	8.2.6.	e	0	0			

Total indicative financial cost of intervention

TOTAL CA including cost of Human Resources		a+c +d +e	99,000	107,000 ⁸			
TOTAL PA including cost of Human Resources		b+c +d +e	110,000	111,000 ⁸			

⁷ Expenditure that does not fall under Chapter xx 01 of the Title xx concerned.

⁸ Preliminary Draft Budget for 2010

⁹ Expenditure within article xx 01 04 of Title xx.

¹⁰ Expenditure within chapter xx 01 other than articles xx 01 04 or xx 01 05.

4.1.2. *Compatibility with Financial Programming*

- Proposal is compatible with existing financial programming.
- Proposal will entail reprogramming of the relevant heading in the financial perspective.
- Proposal may require application of the provisions of the Inter-institutional Agreement¹¹ (i.e. flexibility instrument or revision of the financial perspective).

4.1.3. *Financial impact on Revenue*

- Proposal has no financial implications on revenue
- Proposal has financial impact – the effect on revenue is as follows:

4.2. **Human Resources FTE (including officials, temporary and external staff) – see detail under point 8.2.1.**

Annual requirements	2009	2010				
Total number of human resources	1/3	1/3				

5. **CHARACTERISTICS AND OBJECTIVES**

5.1. **Need to be met in the short or long term**

The Armenian economy has been severely hit by the global economic and financial crisis. Economic growth started to decelerate in the second half of 2008 and output is expected to contract by 9.5% in 2009. Despite the devaluation of the exchange rate on March 2009, due to the sharp fall in remittances and FDI inflows the current account deficit is not expected to decline therefore, overall external financing needs remain. The International Monetary Fund identified an external financing gap to be filled by IMF, World Bank and official donors of USD 1.113 million in 2009 and USD 549 million in 2010. Whereas the programme is under current assumptions expected to be fully financed in 2009 and 2011, a residual financing gap remains in 2010 after IMF and expected World Bank support, and is estimated by the IMF at about USD 140 million, which corresponds to the amount of the proposed EU assistance.

5.2. **Value-added of Community involvement and coherence of the proposal with other financial instruments and possible synergy**

The Community financial support reflects the country's strategic importance as a partner country of the European Neighbourhood Policy and of the Eastern Partnership. Macro-financial assistance is an appropriate instrument to complement

¹¹ See points 19 and 24 of the Interinstitutional agreement.

existing Community assistance and contributes to a fully financed IMF-supported economic adjustment programme. Thereby, important synergies can be established with respect to its impact on economic reform and stabilisation.

5.3. Objectives, expected results and related indicators of the proposal in the context of the ABM framework

Within the Activity "International Economic and Financial Affairs" of the Directorate General for Economic and Financial Affairs, the Objective of "providing macro-financial assistance to third countries in resolving their balance of payment crises and restoring external debt sustainability" is related to the general objective "to promote prosperity beyond the EU".

The related indicators are "current account balance as a percentage of GDP", "external debt as a percentage of GDP" and "official reserves in months of imports of goods and services" .

5.4. Method of Implementation (indicative)

X *Centralised Management*

X directly by the Commission

indirectly by delegation to:

executive Agencies

bodies set up by the Communities as referred to in art. 185 of the Financial Regulation

national public-sector bodies/bodies with public-service mission

Shared or decentralised management

with Member states

with Third countries

Joint management with international organisations (please specify)

Relevant comments:

6. MONITORING AND EVALUATION

6.1. Monitoring system

The monitoring of the action by the Commission services will take place on the basis of macroeconomic and structural policy measures to be agreed with the Armenian authorities in a Memorandum of Understanding. The authorities will be required to report on those measures to the Commission services on a regular basis. The Delegation of the European Commission in Yerevan will also provide reporting on issues relevant for the monitoring of the assistance. The Commission services will remain in close contact with the IMF and the World Bank to benefit from their expertise.

6.2. Evaluation

6.2.1. Ex-ante evaluation

An ex-ante evaluation was carried out by Commission services (Unit D3 of the Economic and Financial Affairs Directorate-General).

6.2.2. Measures taken following an intermediate/ex-post evaluation (lessons learned from similar experiences in the past)

An ex-post evaluation on a previous macro-financial assistance operation in favour of Armenia was carried out in 2004. Ex-post evaluations have been also carried out for another independent state of the former Soviet Union (Tajikistan) and other countries of the Western Balkans (Albania, Bosnia and Herzegovina and the former Yugoslav Republic of Macedonia). The results of those evaluations provide some useful lessons for the current operation in favour of Armenia.

The evaluations carried out so far conclude that MFA operations do contribute, albeit sometimes modestly and indirectly, to the improvement of the external sustainability, the macroeconomic stability and the achievement of structural reforms in the recipient country. In most cases, MFA operation had a positive effect on the balance of payments of the beneficiary country and contributed to relax their budgetary constraints. They also led to a slightly higher economic growth.

6.2.3. Terms and frequency of future evaluation

An independent ex-post evaluation of the assistance to Armenia is planned to be carried out under the multi-annual evaluation programme of the Directorate-General for Economic and Financial Affairs. This will take place one or two years after the expiry of the implementation period.

7. ANTI-FRAUD MEASURES

Commission services have put in place an on-going programme of Operational Assessments of the financial circuits and administrative procedures in all third countries benefiting from the Community macro-financial assistance in order to fulfil

requirements of the Financial Regulation applicable to the General Budget of the European Communities.

In Armenia, the Commission services assessed in 2004, with the support of duly mandated external experts, the reliability of financial circuits and administrative procedures that are relevant for to this type of assistance, concluding that the existing fiduciary environment was broadly satisfactory. At the same time, the assessment identified a number of areas for improvement, notably in the field of internal controls and IT security. A new operational assessment will be commissioned by the European Commission. Its results will be used to guide the definition of the specific policy measures to be attached to the release of the assistance with a view of strengthening efficiency, transparency and accountability of public finance management systems in Armenia.

The proposed legal basis for macro-financial assistance to Armenia includes a provision on fraud prevention measures. These measures will be elaborated further in a Memorandum of Understanding and in the Grant/Loan agreements. It is envisaged that a number of specific policy conditions will be attached to the assistance mainly in the field of public finance management, with a view of strengthening efficiency, transparency and accountability of the assistance. The macro-financial assistance will be liable to verification, control and auditing procedures under the responsibility of the Commission, including the European Antifraud Office (OLAF), and by the European Court of Auditors.

8. DETAILS OF RESOURCES

8.1. Objectives of the proposal in terms of their financial cost

Commitment appropriations in EUR million (to 3 decimal places)

(Headings of Objectives, actions and outputs should be provided)	Type of output	Av. cost	Year 2009		Year 2010		Year 2011		Year 2012		Year n+4		Year n+5 and later		TOTAL		
			No. outputs	Total cost	No. outputs	Total cost	No. outputs	Total cost	No. outputs	Total cost	No. outputs	Total cost	No. outputs	Total cost	No. outputs	Total cost	
OPERATIONAL OBJECTIVE No.1																	
Action 1 Balance of payments/ budget support to Armenia																	
- Output 1	Guarantee Fund provisioning	0	0	.0						5.85							
- Output 2																	
Action 2 Update of Operational Assessment.																	
- Output 1	Report		1	0.05													
Sub-total Objective 1				0.05						5.85							
OPERATIONAL OBJECTIVE No.2 1.....																	

Action 1.....																
- Output 1																
Sub-total Objective 2																
OPERATIONAL OBJECTIVE No.n 1																
Sub-total Objective n																
TOTAL COST				0.05								5.85				

8.2. Administrative Expenditure

8.2.1. Number and type of human resources

Types of post		Staff to be assigned to management of the action using existing and/or additional resources (number of posts/FTEs)					
		Year 2009	Year n+1	Year n+2	Year n+3	Year n+4	Year n+5
Officials or temporary staff ¹² (XX 01 01)	A*/AD	1/3	1/3				
	B*, C*/AST						
Staff financed ¹³ by art. XX 01 02							
Other staff ¹⁴ financed by art. XX 01 04/05							
TOTAL		1/3	1/3				

8.2.2. Description of tasks deriving from the action

Inter alia prepare/negotiate memoranda of understanding and grant/loan agreements, liaise with the authorities and the International Financial Institutions, monitor economic and structural policies of the beneficiary country, conduct review missions and prepare Commission staff reports, prepare Commission procedures related to the management of the assistance.

8.2.3. Sources of human resources (statutory)

- Posts currently allocated to the management of the programme to be replaced or extended
- Posts pre-allocated within the APS/PDB exercise for year n
- Posts to be requested in the next APS/PDB procedure
- Posts to be redeployed using existing resources within the managing service (internal redeployment)
- Posts required for year n although not foreseen in the APS/PDB exercise of the year in question

¹² Cost of which is NOT covered by the reference amount

¹³ Cost of which is NOT covered by the reference amount

¹⁴ Cost of which is included within the reference amount

8.2.4. *Other Administrative expenditure included in reference amount (XX 01 04/05 – Expenditure on administrative management)*

EUR million (to 3 decimal places)

Budget line 01 03 02 Macro-economic assistance	Year n	Year n+1	Year n+2	Year n+3	Year n+4	Year n+5 and later	TOTAL
1 Technical and administrative assistance (including related staff costs)							
Executive agencies ¹⁵							
Other technical and administrative assistance							
- <i>intra muros</i>							
- <i>extra muros</i>							
1) <i>Operational assessment</i>	0.050						
2) <i>Ex-post evaluation</i>		0.250					
Total Technical and administrative assistance	0.050	0.250					

8.2.5. *Financial cost of human resources and associated costs not included in the reference amount*

EUR million (to 3 decimal places)

Type of human resources	Year n	Year	Year	Year	Year	Year
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¹⁵ Reference should be made to the specific legislative financial statement for the Executive Agency(ies) concerned.

		n+1	n+2	n+3	n+4	n+5 and later
Officials and temporary staff (XX 01 01)	0.030	0.030				
Staff financed by Art XX 01 02 (auxiliary, END, contract staff, etc.) (specify budget line)						
Total cost of Human Resources and associated costs (NOT in reference amount)	0.030	0.030				

Calculation– *Officials and Temporary agents*

Reference should be made to Point 8.2.1, if applicable

NOT APPLICABLE

Calculation– *Staff financed under art. XX 01 02*

Reference should be made to Point 8.2.1, if applicable

NOT APPLICABLE

8.2.6. Other administrative expenditure not included in reference amount

EUR million (to 3 decimal places)

	Year 2009	Year n+1	Year n+2	Year n+3	Year n+4	Year n+5 and later	TOTAL
XX 01 02 11 01 – Missions	0.020	0.010					0.030
XX 01 02 11 02 – Meetings & Conferences							
XX 01 02 11 03 – Committees ¹⁶							

¹⁶ Specify the type of committee and the group to which it belongs.

XX 01 02 11 04 – Studies & consultations							
XX 01 02 11 05 - Information systems							
2 Total Other Management Expenditure (XX 01 02 11)							
3 Other expenditure of an administrative nature (specify including reference to budget line)							
Total Administrative expenditure, other than human resources and associated costs (NOT included in reference amount)	0.020	0.010					0.030

Calculation - *Other administrative expenditure not included in reference amount*

Three staff missions for one/two persons