



COMMISSION OF THE EUROPEAN COMMUNITIES

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2006/0068 (CNS)

Proposal for a

**COUNCIL DECISION**

**providing exceptional Community financial assistance to Kosovo**

(presented by the Commission)

## **EXPLANATORY MEMORANDUM**

### **1) CONTEXT OF THE PROPOSAL**

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

The Commission proposes to provide exceptional financial assistance to Kosovo in the form of a grant with a view to alleviating the financial situation of Kosovo, supporting the development of a sound economic and fiscal framework, facilitating the continuation and strengthening of essential administrative functions and addressing public investment needs.

The proposed macro-financial assistance will be limited in time, complement support from the World Bank (through IDA funds) and other bilateral donors, and will be conditional on progress in the implementation of a number of measures, in particular in area of public finance, to be defined in close consultation with the IMF and the World Bank. This assistance would provide crucial bridge support before a settlement of Kosovo's status. It would be unrelated to new status arrangements and not pre-empt further EC and international support likely to be required upon status resolution beyond 2007.

- **General context**

In June 2005, the Special Representative of the Secretary General (SRSG) and Head of UNMIK, Mr Jessen-Petersen, addressed to the Presidents of the World Bank and the European Commission a request for new exceptional financial assistance in the form of budget support. The Commission indicated that it would propose further support to Kosovo, provided that a reliable needs assessment in the form of a comprehensive Medium-Term Expenditure Framework was established, agreed with the International Monetary Fund (IMF), and confirming the existence of a financing gap.

The economic situation in Kosovo is bleak: Kosovo has a per-capita GDP of around EUR 1,230, the lowest in the region. According to World Bank estimates, around 37% of the population live in poverty, with around 15% living in extreme poverty. The level of registered unemployment is high, around 44%, even though the real unemployment rate is most probably lower due to a sizeable informal economy. Growth has been weak over the recent years and insufficient in view of the Kosovo's considerable development needs. After a sharp increase of GDP in the immediate post war period, boosted by reconstruction assistance, growth is now negatively affected by declining donor support.

Economic developments in 2004 and 2005 reflected this trend and the lack of dynamism of the economy. GDP growth reached in 2004 estimated 4.1%, on the back of a substantial rise in public expenditure towards the end of the year. In 2005 GDP is estimated to have shrunk by 0.2%. Also due to the weakness in economic activity, inflation has been very moderate. Inflation had been negative in the second half of 2004 and first part of 2005, and the consumer price index fell by 1.9% on average in 2005. Owing to a considerable trade deficit, the current account balance has continued to post high deficits (close to 26% of GDP in 2003 and 2004), and provisional data for 2005 suggest a further deterioration to over 29% of GDP. Given the absence of

sizeable foreign direct investment inflows, the financing of the current account deficit continued to rely on foreign assistance in form of project support (around 23% of GDP in 2004 and 2005) and, to a lesser extent, on private capital transfers (around 15% of GDP in 2005).

Given Kosovo's present status under UN Security Council 1244, its specific monetary regime and the absence of any reliable balance-of-payments statistics -existing information is based on IMF estimates-, Kosovo's external financing needs are assessed through, and driven by, public sector needs.

After an expansionary fiscal stance in 2004, budget consolidation is taking place and the budget deficit has come down to around 2.8% in 2005, down from 5.4% of GDP in 2004 and below planned levels owing to lower than foreseen capital expenditure. The foreseeable exhaustion of accumulated cash deposits, which currently finance the budget deficit, and the impossibility for the Provisional Institutions of Self Government (PISG) under the current UN mandate to finance the deficit through public borrowing imply that deficits, even of a lower level, would rapidly become unsustainable.

Therefore, vigorous fiscal adjustment is a high priority. In October 2005, IMF staff agreed with the authorities of Kosovo on a fiscal framework for the remainder of 2005 and for 2006. Reflecting the recommendations by the IMF, a Letter of Intent (LOI) and a Memorandum of Economic and Financial Policies were signed in November 2005, committing the government to considerable fiscal tightening. According to the LOI, the deficit would need to remain below 3% of GDP in 2006. Real expenditure growth would be kept below 0.5% and the number of government employees be reduced, allowing for a redeployment of public expenditure with a higher share of capital outlays. Following this agreement with the IMF, the authorities of Kosovo have prepared a Medium-Term Expenditure Framework (MTEF) for the period 2006-2008. The establishment of an MTEF has been a long-standing request of the donor community and a pre-condition for any further EC macro-financial assistance.

The submitted MTEF anticipates the budget deficit to be close to the upper limit of 3% of GDP foreseen in the LOI, and to reach respectively EUR 76 million and EUR 67 million in 2006 and 2007. Owing to lower than foreseen expenditure in 2005, cash reserves have remained substantial and may finance a large share of the deficit in 2006. Nevertheless, upon exhaustion of these reserves, urgent financing needs are expected to arise towards the end of 2006 and particularly in 2007 when the budget deficit would need to be entirely financed from external support in order to keep cash reserves at a minimum of around EUR 50 million. This amount is the contingency amount deemed appropriate by the authorities of Kosovo and the IMF for the management of budget treasury operations without running the risk of a payments crisis. Accordingly, external financing needs, subject to possible adjustments in the upcoming revised version of the MTEF, are expected to amount to EUR 14 million in 2006 and EUR 67 million in 2007.

Under its current status, Kosovo cannot become a member of the IMF and the World Bank and therefore cannot borrow from them. However, IMF staff maintains a regular dialogue with the authorities of Kosovo and the World Bank manages IDA grants (a USD 20 million 18-months envelope, which was renewed in mid-2005). Given the rapid depletion of government bank deposits, the inability to borrow and in the absence of IMF and World Bank funding -with the exception of the above-mentioned IDA

grants- Kosovo's budget deficit in 2006 and 2007 will, pending further changes, have to rely on donors' support. In order to address these needs, the Commission deems appropriate to make available to Kosovo macro-financial assistance in the form of grants of around EUR 50 million.

The Community has already found it an appropriate measure to help ease Kosovo's financial constraints in exceptionally difficult circumstances and, under Council Decisions 2000/140/EC and 2001/511/EC, provided exceptional financial assistance in the form of straight grants amounting to EUR 35 million and EUR 30 million in 2000 and 2001 respectively. The last payment under such assistance was released in December 2002.

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

Council Decision 2000/140/EC of 14 February 2000 providing exceptional financial assistance to Kosovo<sup>1</sup>.

Council Decision 2001/511/EC of 27 June 2001 providing exceptional financial assistance to Kosovo<sup>2</sup>.

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

Kosovo is integrated in the bilateral framework of EU relations with the Western Balkans. While the conclusion of a Stabilisation and Association agreement is not possible under the present status, a close monitoring of bilateral relations takes place through high level meetings in the Stabilisation and Association Track Mechanism (STM).

In the European Partnership for Kosovo adopted in December 2005, the Council identified key short term and medium term priorities for Kosovo, as regards economic policy very much in line with IMF priorities as well. These priorities reflect the particular stage of development of Kosovo and are tailored to its specific needs. Kosovo is expected to respond to the European Partnership by producing a revised Action plan with a timetable and administrative and budgetary details on how it intends to address the European Partnership's priorities. Progress in their implementation is monitored regularly by the European Commission, notably in the Progress Reports and through the structures under the Stabilisation and Association Process. The latest Progress Report on Kosovo<sup>3</sup> was published by the Commission in November 2005 and notably reported on developments of the political situation and relations between the EU and Kosovo.

The foreseen exceptional financial assistance complements the Community Assistance for Reconstruction, Development and Stabilisation (CARDS) programme which since 2001 has been the main EC financial instrument for co-operation for the Western Balkan countries, and for Kosovo in particular. The EC annual CARDS assistance programme allocated to Kosovo amounted to EUR 65.28 million in 2003, EUR 74.5 million in 2004 and EUR 79 million in 2005. The CARDS main priorities for

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<sup>1</sup> OJ L 47, 19.2.2000, p. 28.

<sup>2</sup> OJ L 183, 6.7.2001, p. 42.

<sup>3</sup> SEC(2005) 14333 of 9.11.2005.

2005-2006 are *Democratic Stabilisation*, including refugee return, civil society and media; *Good governance and Institution Building*, including judicial reform, police, organised crime, asylum and migration, public administration reform, customs etc; *Economic and Social development*, including trade, infrastructure, environment, education and finally *Participation in Community Programmes*. Furthermore, with its funding of Pillar IV of UNMIK, the EU is supporting the revitalisation of economic activity in Kosovo and creating the conditions for a modern, open economy. EC funding for UNMIK (Pillar IV) has amounted to some EUR 103 million since 1999.

## **2) CONSULTATION OF INTERESTED PARTIES AND IMPACT ASSESSMENT**

- **Consultation of interested parties**

The Special Representative of the Secretary General and Head of UNMIK, Mr Jessen-Petersen, requested further financial assistance from the EC in June 2005. Commission services have been in contact with the authorities of Kosovo (UNMIK and the Provisional Institutions of Self Government), the International Monetary Fund and the World Bank and bilateral donors during the preparation of the present Commission proposal to discuss assistance needs. The Commission has consulted the Economic and Financial Committee before submitting its proposal. Following the adoption of the Council Decision, the Commission services will negotiate a Memorandum of Understanding with the authorities of Kosovo to lay down in detail the implementation modalities of the assistance.

- **Collection and use of expertise**

There was no need for external expertise.

- **Impact assessment**

Because macro-financial assistance is a policy-based instrument, it is particularly well-suited to support the efforts of the authorities of Kosovo to improve the fiscal sustainability in the short-to-medium run.

By providing further exceptional financial assistance in the form of grants, the Community will continue supporting Kosovo's economic reform programmes. In the short-run, this assistance will help the authorities of Kosovo to ensure the financial sustainability of Kosovo's budget. In the medium-run, this exceptional financial assistance will also contribute to strengthening the transparency and sustainability of public finances, enhancing fiscal discipline and management, and implementing structural reforms.

## **3) LEGAL ELEMENTS OF THE PROPOSAL**

- **Summary of the proposed action**

The Community shall make available to Kosovo exceptional financial assistance in the form of grants over a two-year period. The assistance will be made available in two – or, if appropriate, three- instalments over the period 2006-2008. The assistance will be managed by the Commission which shall agree with the authorities of Kosovo 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.

- **Legal basis**

Article 308 of the EC Treaty

- **Subsidiarity principle**

While Member States may provide bilateral macro-financial assistance, a Community macro-financial assistance grouping the efforts of all Member States is a simpler and more efficient economic and financial instrument.

- **Proportionality principle**

The proposal complies with the proportionality principle for the following reason(s).

The assistance will be fully consistent with the macroeconomic targets already set in the LOI and Memorandum of Economic and Financial Policies agreed with the IMF and signed in November 2005, or any subsequent arrangements or understandings reached with the IMF. As regards specific conditions attached to the disbursement of the grant instalments, the Commission intends to focus on a limited number of areas, including in particular public finance management.

While bilateral donors will be encouraged to provide complementary support either through budget or project support, the exact burden sharing with bilateral donors cannot at this stage be assessed and will be linked to the broader context of a full-fledged donors support exercise expected to take place upon status resolution.

- **Choice of instruments**

Proposed instruments: other.

Other means would not be adequate for the following reason:

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**

Such assistance would be financed from commitment appropriations in 2006 under budget line 01 03 02 02 (Macro-financial assistance to the Western Balkans). Should the 2006 commitment appropriations be not sufficient to cover the entire operation, the remaining amount will be committed under the 2007 budget once approved. Payments will take place mainly or exclusively in 2007.

**5) ADDITIONAL INFORMATION**

- **Review/revision/sunset clause**

The proposal includes a sunset clause.

Proposal for a

## **COUNCIL DECISION**

**providing exceptional Community financial assistance to Kosovo**

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 Commission<sup>4</sup>,

Having regard to the opinion of the European Parliament<sup>5</sup>,

Whereas:

- (1) The United Nations Security Council (UNSC) adopted Resolution 1244 (1999) on 10 June 1999 aiming at promoting the establishment, pending a final settlement, of substantial autonomy and self-government in Kosovo within the former Federal Republic of Yugoslavia.
- (2) The International Community, basing itself upon Resolution 1244, has set up an international security presence (KFOR) and an interim civil administration - the United Nations Interim Mission in Kosovo (UNMIK). UNMIK consists of four components (Pillars) and the European Union is funding the fourth Pillar responsible for economic reconstruction and development. UNMIK, and particularly Pillar IV thereof, has achieved substantial progress in setting up an institutional, legal and policy framework conducive to the creation of a sound economy based on market principles.
- (3) Since its establishment, UNMIK has transferred significant areas of competence to the Provisional Institutions of Self Government (PISG). In particular, responsibility for the budget has been transferred from UNMIK to the Ministry of Economy and Finance within the PISG, with the Special Representative of the UN Secretary General retaining the ultimate power of approving the budget.
- (4) On 24 October 2005, the UN Security Council approved the UN Secretary General's proposal to launch the political process to determine the future status of Kosovo.
- (5) The authorities of Kosovo entitled to receive Community assistance and responsible for agreeing to and fulfilling the financial and economic conditions attached to this

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<sup>4</sup> OJ C , , p. .

<sup>5</sup> OJ C , , p. .



assistance are therefore UNMIK and the PISG or, when the future status of Kosovo will have been determined, the institution or institutions designated to take on these tasks and responsibilities.

- (6) Within the Stabilisation and Association process, which is the framework for EU relations with the region, it is desirable to support efforts to sustain political and economic stabilisation in Kosovo, with a view to evolving towards the development of a full cooperation relationship with the Community making the European future of Kosovo more tangible.
- (7) The Community has already found it an appropriate measure to help ease Kosovo's financial constraints in exceptionally difficult circumstances and, under Council Decision 2000/140/EC of 14 February 2000 providing exceptional Community assistance to Kosovo<sup>6</sup> and Council Decision 2001/511/EC of 27 June 2001 on further exceptional financial assistance to Kosovo<sup>7</sup>, provided exceptional financial assistance in the form of straight grants amounting to EUR 35 million and EUR 30 million in 2000 and 2001 respectively. The last payment under such assistance was released in December 2002.
- (8) In November 2005 the authorities of Kosovo agreed with the International Monetary Fund (IMF) a Letter of Intent and a Memorandum of Economic and Financial Policies laying out a fiscal framework for 2006, including medium-term orientations. They completed in the beginning of March 2006 a Medium-Term Expenditure Framework. The framework identifies budget and off-budget financing needs in 2006-2008. Accordingly, it is estimated that budget external financial assistance of some EUR 81 million -respectively EUR 14 million in 2006 and EUR 67 million in 2007- would be needed until the end of 2007.
- (9) Although economic activity resumed after the conflict, Kosovo is at a low level of economic development. Kosovo is not in a position to borrow either domestically or on the international financial market and under its current status it is not eligible for membership in the international financial institutions. It may therefore not benefit from lending assistance associated with their programmes.
- (10) In view of current arrangements under UNSC Resolution 1244, given Kosovo's relatively low level of economic development and its precarious public finance and external accounts, financial assistance from the Community in the form of straight grants, in liaison with other donors, continues to be the appropriate form of support.
- (11) Such assistance will provide crucial bridge support pending a settlement of Kosovo's status. It would be unrelated to new status arrangements under negotiation and not pre-empt further Community and international support likely to be required upon status resolution beyond 2007.
- (12) The release of this grant assistance is without prejudice to the powers of the Budgetary authority.

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<sup>6</sup> OJ L 47, 19.2.2000, p. 28.

<sup>7</sup> OJ L 183, 6.7.2001, p. 42.

- (13) This financial support should be provided after verifying whether the financial and economic conditions to be agreed with the authorities of Kosovo upon approval of this Council Decision can be satisfactorily fulfilled.
- (14) 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 Kosovo in relation to the prevention of and fight against fraud and other irregularities linked to this assistance, as well as for controls by the Commission and audits by the Court of Auditors.
- (15) This assistance should be managed by the Commission in consultation with the Economic and Financial Committee.
- (16) 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 Kosovo an exceptional financial assistance in the form of a grant of up to EUR 50 million with a view to alleviating the financial situation in Kosovo, supporting the development of a sound economic and fiscal framework, facilitating the continuation and strengthening of essential administrative functions and addressing public investment needs.
- 2. This Community financial assistance shall be managed by the Commission in consultation with the Economic and Financial Committee and in a manner consistent with the agreements or understandings reached between the IMF and the authorities of Kosovo.
- 3. 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 is empowered to agree with the authorities of Kosovo, after consultation with the Economic and Financial Committee, the economic policy and financial conditions attached to this assistance, to be laid down in a Memorandum of Understanding. These conditions shall be consistent with the agreements or understandings referred to in Article 1(2).
- 2. Before proceeding with the actual implementation of the Community assistance, the Commission shall monitor the soundness of Kosovo's financial circuits, administrative procedures, internal and external control mechanisms which are relevant to this Community macro-financial assistance.

3. The Commission shall verify at regular intervals, in collaboration with the Economic and Financial Committee and in coordination with the IMF, that economic policies in Kosovo are in accordance with the objectives of this assistance and that the agreed economic policy and financial conditions are being satisfactorily fulfilled.

### *Article 3*

1. The assistance shall be made available by the Commission to Kosovo in two or, if appropriate, three instalments. The first instalment shall be released after the entry into force of the Memorandum of Understanding referred to in Article 2(1), and on the basis of a satisfactory assessment of the monitoring referred to in Article 2(2).
2. The second and any further instalments shall be released on the basis of a satisfactory compliance with the economic policy and financial conditions referred to in Article 2(1), and not before three months have elapsed since the release of the previous instalment.
3. The funds shall be paid to the Ministry of Economy and Finance of the PISG, or when the future status of Kosovo will have been determined, to the institution designated to take on its tasks and responsibilities, exclusively in support of Kosovo's budgetary financing needs.

### *Article 4*

The implementation of this assistance shall take place in accordance with the provisions of Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the General Budget of the European Communities<sup>8</sup> and its implementing rules. In particular, the Memorandum of Understanding referred to in Article 2(1) shall provide for appropriate measures by Kosovo related to the prevention of and the fight against fraud, corruption and other irregularities linked to this assistance. It shall 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.

### *Article 5*

At least once a year the Commission shall submit to the European Parliament and to the Council a report, including an evaluation on the implementation of this Decision in the previous year.

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<sup>8</sup> OJ L 248, 16.9.2002, p. 1.

*Article 6*

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

Done at Brussels,

*For the Council*  
*The President*

## **LEGISLATIVE FINANCIAL STATEMENT**

**Policy area: Title 01 – Economic and Financial Affairs**

**Activity: 03 – International economic and financial affairs**

**TITLE OF ACTION: EXCEPTIONAL FINANCIAL ASSISTANCE TO KOSOVO**

### **1. BUDGET LINE(S) + HEADING(S)**

01 03 02 02 Macroeconomic assistance to the Western Balkans.

### **2. OVERALL FIGURES**

#### **2.1. Total allocation for action (Part B): EUR 50 million for commitment**

Budget available for 2006: EUR 37.065 million following an internal transfer of EUR 11 million to address urgent budgetary needs of Georgia under budget line 01 03 02 01 (following the Council approval on 24 January 2006 of Community macro-financial assistance of EUR 33.5 million in favour of Georgia<sup>9</sup>).

#### **2.2. Period of application:**

Start year: 2006, expiry year: 2008

#### **2.3. Overall multi-annual estimate of expenditure:**

- (a) Indicative schedule of commitment appropriations/payment appropriations (financial intervention) (*see point 6.1.1*)

€ Million

	2006	2007	2008			Total
Commitments	50.000 (*)					50.000
Payments	-	50.000	-			50.000

(\*) subject to a prior reinforcement of budget line 01 03 02 02

- (b) Technical and administrative assistance and support expenditure (*see point 6.1.2*)

Commitments	0.030	0.030				0.060
Payments	0.030	0.030				0.060

<sup>9</sup> OJ L 25 of 28.1.2006.

Subtotal a+b						
Commitments	50.030	0.030				50.060
Payments	0.030	50.030				50.060

- (c) Overall financial impact of human resources and other administrative expenditure  
(see points 7.2 and 7.3)

Commitments/ payments	0.165	0.165				0.330
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TOTAL a+b+c						
Commitments	50.195	0.195				50.390
payments	0.195	50.195				50.390

The €50 million grant agreement will be signed after a reinforcement in commitment appropriations and the corresponding budget commitment. Should a grant agreement be required before such reinforcement has taken place, the assistance will be provided through a first grant agreement stemming from the 2006 available budget commitment. A second grant agreement will be signed for the remaining amount following either a 2006 reinforcement or through the 2007 budget appropriations once approved.

#### 2.4. Compatibility with financial programming and financial perspective

The proposal is compatible with existing financial programming

#### 2.5. Financial impact on revenue

The proposal has no financial implications on revenues

### 3. BUDGET CHARACTERISTICS

Type of expenditure		New	EFTA contribution	Contributions from applicant countries	Heading in financial perspective
Non-compulsory	Differentiated	NO	NO	NO	No 4

### 4. LEGAL BASIS

Article 308 of the Treaty

## **5. DESCRIPTION AND GROUNDS**

### **5.1. Need for Community intervention <sup>10</sup>**

#### *5.1.1. Objectives pursued*

The proposed assistance consists of a Community grant of up to EUR 50 million to Kosovo (to be financed from the General Budget) with a view to alleviating the financial situation in Kosovo, supporting the development of a sound economic framework, facilitating the continuation and strengthening of essential administrative functions and addressing public investment needs.

This assistance is complementary to the resources provided to Kosovo by the World Bank (in the form of IDA grants) and by bilateral donors in support of the authorities' economic stabilisation and structural reform programme.

#### *5.1.2. Measures taken in connection with ex ante evaluation*

An ex ante evaluation was carried out by Commission services in February 2006 (by Unit D1 of the Economic and Financial Affairs Directorate-General).

#### *5.1.3. Measures taken following ex post evaluation*

No ex-post evaluation of past Community macro-financial assistance provided to Kosovo has been carried out yet.

### **5.2. Action envisaged and budget intervention arrangements**

This assistance will take the form of a straight grant which would be released in two or, if appropriate, three instalments. The first instalment is to be released on the basis of a Memorandum of Understanding to be agreed between the authorities of Kosovo and the Community. The subsequent instalment(s) shall be released on the basis of a satisfactory completion of the economic policy conditions and not before one quarter after the release of the previous instalment. Given the nature of this assistance and the priority on fiscal consolidation, special emphasis of the conditionality is expected in area of public finance, and would be defined in close consultation with the IMF and the World Bank.

Performance indicators of a macro-economic nature will be specified in the Memorandum of Understanding, to be agreed with the authorities of Kosovo. They will follow the policy lines anchored in the Letter of Intent and Memorandum of Economic and Financial Policies signed in November 2005 and any subsequent understandings reached with the IMF.

Accordingly, before the disbursement of each instalment of this assistance, the Commission services, in co-operation with the authorities of Kosovo and the IMF staff, shall verify that the performance criteria have been respected or new understandings have been reached.

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<sup>10</sup> For further information, see separate explanatory note.

In addition, the Commission shall agree with the authorities of Kosovo a number of specific policy conditions which have to be met before the second and possible third further grant instalments are released by the Commission. These policy measures shall be consistent with agreements or understandings reached by Kosovo with the IMF. Subject to agreement with the authorities of Kosovo, it is envisaged at this stage that these measures would have a particular focus on public finance management reform and administration.

### 5.3. Methods of implementation

This assistance will be implemented in the form of centralised direct management by the Commission using regular staff.

## 6. FINANCIAL IMPACT

### 6.1. Total financial impact on Part B - (over the entire programming period)

The payments of the assistance from budget line 01 03 02 02 will be subject to compliance by Kosovo with the conditions attached to the assistance as described under 5.2.

#### 6.1.1. Financial intervention

Commitments (in € million to three decimal places)

Breakdown	2006	2007	2008				Total
Grant instalments to Kosovo	50.000	-					50.000
<b>TOTAL</b>							50.000

The €50 million grant agreement will be signed after a reinforcement in commitment appropriations and the corresponding budget commitment. Should a grant agreement be required before such reinforcement has taken place, the assistance will be provided through a first grant agreement stemming from the 2006 available budget commitment. A second grant agreement will be signed for the remaining amount following either a 2006 reinforcement or through the 2007 budget appropriations once approved.

#### 6.1.2. Technical and administrative assistance, support expenditure and IT expenditure (commitment appropriations)

	2006	2007	2008				Total
1) Technical and administrative assistance							
a) Technical assistance offices							



b) Other technical and administrative assistance: - intra muros: - extra muros: <i>of which for construction and maintenance of computerised management systems</i>							
Subtotal 1							
2) Support expenditure							
a) Studies (Operational Assessments)	0.030	0.030					0.060
b) Meetings of experts							
c) Information and publications							
Subtotal 2							
<b>TOTAL</b>	0.030	0.030					0.060

## 6.2. Calculation of costs by measure envisaged in Part B (over the entire programming period)<sup>11</sup>

Commitments (in € million to three decimal places)

Breakdown	Type of outputs (projects, files )	Number of outputs (total for years 1...n)	Average unit cost	Total cost (total for years 1...n)
	1	2	3	4=(2X3)
<u>Action 1</u>				
- Measure 1				
- Measure 2				
<u>Action 2</u>				
- Measure 1-				
- Measure 2				
- Measure 3				
etc.				
<b>TOTAL COST</b>				

<sup>11</sup> For further information, see separate explanatory note.

## 7. IMPACT ON STAFF AND ADMINISTRATIVE EXPENDITURE

### 7.1. Impact on human resources

The tasks related to the management of the assistance will be carried out through staff redeployment, where necessary, and will not involve an increase in the number of Commission staff.

Types of post		Staff to be assigned to management of the action using existing and/or additional resources		Total	Description of tasks deriving from the action
		Number of permanent posts	Number of temporary posts		
Officials or temporary staff	A B C	1/3		1/3	E.g. prepare memoranda of understanding and grant agreements, liaise with the authorities and the IFIs, liaise with external experts for the operational assessments, conduct review missions and prepare Commission staff reports, prepare Commission procedures related to the management of the assistance
Other human resources					
Total		1/3		1/3	

### 7.2. Overall financial impact of human resources

Type of human resources	Amount (€)	Method of calculation *
Officials Temporary staff	30,500	1/3 x average annual expenditure for an A*5 – A*12 grade official
Other human resources (specify budget line)		
Total	30,500	

The amounts are total expenditure for twelve months.

### 7.3. Other administrative expenditure deriving from the action

Budget line (number and heading)	Amount €	Method of calculation
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<b>Overall allocation (Title A7)</b>		
A0701 – Missions	10,000	Two missions per year for two persons
A07030 – Meetings		
A07031 – Compulsory committees <sup>1</sup>		
A07032 – Non-compulsory committees <sup>1</sup>		
A07040 – Conferences		
A0705 – Studies and consultations		
Other expenditure (specify) - An ex-post evaluation -	125,000	Estimated total expenditure of €250,000 for the service contract
<b>Information systems (A-5001/A-4300)</b>		
<b>Other expenditure - Part A (specify)</b>		
Total	135,000	

The amounts are total expenditure for twelve months.

<sup>1</sup> Specify the type of committee and the group to which it belongs.

I.	Annual total (7.2 + 7.3)	€ 165,500
II.	Duration of action	2 years
III.	Total cost of action (I x II)	€ 331,000

## 8. FOLLOW-UP AND EVALUATION

### 8.1. Follow-up arrangements

This assistance is of macro-economic nature and its design is consistent with the Medium Term Expenditure Framework prepared by UNMIK.

The monitoring of the action by the Commission services will take place on the basis of progress in the implementation of the MTEF and specific reform measures to be agreed with the authorities of Kosovo in a Memorandum of Understanding. The authorities, notably the Ministry of Economy and Finance, will be required to report on a set of indicators to the Commission services on a regular basis.

The Commission services will continue to monitor public finance management, following the operational assessment of the financial circuits and administrative procedures being carried out in Kosovo in preparation of this operation. The office of the European Commission in Pristina will also provide regular reporting on issues that are 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 and activities in Kosovo.

### 8.2. Arrangements and schedule for the planned evaluation

An annual report to the European Parliament and to the Council is foreseen in the proposed Council decision, comprising an assessment of the implementation of this

assistance operation. Furthermore, an independent ex-post evaluation of the assistance is planned to be carried out by the Commission or its duly authorised representatives one to two years after the expiry of the implementation period.

## **9. 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. All available conclusions of relevant reports of the IMF or the World Bank will also be taken into consideration.

In Kosovo, the Commission services, with the support of duly mandated external experts, will carry out in the first half of 2006 an operational assessment of the financial circuits and administrative procedures of the beneficiary authority. This review will cover areas such as management structure and organisation, management and control of funds, security of IT systems, internal and external audit capacity.

The proposed legal basis for macro-financial assistance to Kosovo includes a provision on fraud prevention measures. These measures will be elaborated further in a Memorandum of Understanding and a grant agreement. It is envisaged that a number of specific policy conditions will be attached to the assistance, mainly in the area of public finance management, with a view to strengthening efficiency, transparency and accountability.

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.