COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 20.8.2007
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2007/0172 (CNS)

Proposal for a

COUNCIL DECISION

Providing Community macro-financial assistance to Lebanon

(presented by the Commission)

EXPLANATORY MEMORANDUM

1) CONTEXT OF THE PROPOSAL

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

The Commission proposes to provide macro-financial assistance to Lebanon in the form of a combination of a grant and a loan with a view to supporting Lebanon's public finances and balance of payments. The proposed assistance will support Lebanon's fiscal consolidation effort aimed at reducing public debt to a sustainable level based on the implementation of its economic reform programme. It will also facilitate and encourage efforts of the authorities of Lebanon to implement measures identified under the EU-Lebanon European Neighbourhood Policy Action Plan.

The proposed macro-financial assistance will be exceptional and limited in time. It will complement support from (i) the Bretton Woods Institutions, (ii) Arab and other bilateral donors, (iii) EU Member States, and (iv) the EU's own funds, under the ENPI, and EIB funds, as part of the EC assistance package. Macro-financial assistance will be conditional, in particular, on progress in the implementation of the IMF EPCA arrangement and another IMF-supported programme. This operation will take place at a time when EU-Lebanon relations are entering a phase of deeper integration in the context of the European Neighbourhood Policy.

Given the large financing needs in 2007 and the EU strong commitment toward supporting the Lebanese State, it is important that the Council adopts its Decision on providing Community macro-financial assistance to Lebanon before the end of 2007.

- **General context**

Lebanon remains one of the most indebted countries in the world. The impact of the 2006 summer conflict with Israel and the cumulative effects of past economic policies have led to a severe crisis that requires urgent action. The recently signed IMF Post-Conflict Emergency Assistance (EPCA) programme reinforces the credibility of the government's programme of socio-economic reforms, provides a means for close monitoring of its implementation and acts as a catalyst for external assistance, particularly budget support. Both the EPCA and the EU-Lebanon Action Plan agreed in the context of the European Neighbourhood Policy offer the appropriate basis for the MFA.

So far, in the absence of working financing arrangements with the IMF, EC MFA operations in favour of Lebanon could not be implemented despite the urgent extraordinary needs and the deteriorating financial situation. Two high-level meetings took place in Paris in 2001 and 2002 (the so-called Paris I and Paris II conferences), but no consensus was found on an IMF-supported programme. The international financial assistance, which was provided following Paris II, helped to improve substantially the structure of public debt and reduced its cost, but because of weak implementation of the structural components of the reform programme, the full benefits of Paris II could not materialise.

Comprehensive socio-economic reforms re-appeared on Lebanon's policy agenda in 2005 after the political changes in the country, which followed the assassination of

former PM Hariri. The new government's commitment to reforms and to financial stabilisation has been reinforced by its European orientation, confirmed by the entry into force of the Association Agreement on 1 April 2006 and the adoption in January 2007 of the EU-Lebanon European Neighbourhood Policy (ENP) Action Plan. On 25 January 2007 in Paris, at the International Donors' Conference on Support for Lebanon (Paris III), the international community endorsed the programme and pledged USD 7.6 billion divided into four major types of assistance: "government support" estimated at USD 5.1 billion, "private sector support" at USD 1.5 billion, "projects underway" at USD 870 million and "funds currently being discussed" at USD 82 million. Part of the assistance pledged in Paris III is conditional upon progress in the reforms promised by the government. Donors are asked for flexibility in the use of aid and to shift financial support, where possible, towards budget support to assist the efforts towards fiscal consolidation and debt sustainability. The IMF Emergency Post-Conflict Assistance (EPCA) programme approved on 9 April 2007 also provides an anchor for the implementation of reforms.

2007 is expected to be a very difficult year. Political instability and recurrent outbreaks of violence may continue ahead of the presidential election in September. The government will have to strike a careful balance between post-conflict expenditures, reconstruction, social needs, and the challenges resulting from the large public debt overhang. The fiscal policy aims at containing the primary deficit while accommodating reconstruction and relief spending, under pressure again since the recent clashes in the Palestinian camps. The outlook for 2007 is, therefore, surrounded by uncertainty, which also relates to the availability of donor support and volatile market conditions. A quick resumption of private consumption and investment expected on the back of the reconstruction efforts and direct compensation payments will require a revival of confidence. Expected delays in reform implementation because of the political stalemate would also influence the outlook for the years to come.

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

None

Consistency with other policies and objectives of the Union

Following the signature of the EU-Lebanon Action Plan in January 2007, Lebanon has become one of the EU partner countries in the framework of the European Neighbourhood Policy. The ENP aims at developing an increasingly close relationship between the EU and the partner countries, going beyond past levels of cooperation, and at deepening political cooperation including in the area of foreign and security policy. On various occasions following the military conflict with Israel in summer 2006, the EU reaffirmed its strong commitment toward supporting the Lebanese State and its engagement to support Lebanon in political, social and economic reforms and in its reconstruction.

Community's assistance through the macro-financial assistance instrument would contribute to the strengthening of the bilateral relations with Lebanon. The European Neighbourhood and Partnership Instrument (ENPI) made available to Lebanon for the years 2007-2013, allows assistance also in the form of targeted support for sectoral reforms. Sectoral support programmes in favour of Lebanon would aim at encouraging social and economic reforms, in the energy sector and public finances among others.

However, the use of this instrument under ENPI is foreseen only in 2009 and 2010.

- Financing under the macro-financial assistance instrument will be available well before the budget support under ENPI. MFA, as short-term instrument, will be specifically addressing the currently pressing external financing needs of Lebanon. Yet, macro-financial assistance will also support in the interim period structural reforms contemplated in the EU-Lebanon Action Plan and the government's "Recovery, Reconstruction, Reform" programme.

2) CONSULTATION OF INTERESTED PARTIES AND IMPACT ASSESSMENT

- **Consultation of interested parties**

Macro-financial assistance to Lebanon forms an integral part of the international community's support to Lebanon's domestic efforts of post-war reconstruction and sustainable economic recovery. It complements financing pledged by the multilateral and bilateral donors at the High-Level Conference in Support for Lebanon on 25 January 2007 in Paris. Commission services have been in contact with the Lebanese authorities, 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 with the authorities of Lebanon a Memorandum of Understanding and the grant and loan agreements 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 Lebanon to improve the fiscal sustainability in the short-to-medium run.

Macro-financial assistance will have an immediate impact on Lebanon's balance of payments and will in this way contribute to the alleviation of financial constraints on the implementation of the authorities' economic programme.

EC assistance will also help the authorities implement short- and medium-term policies identified in the EU-Lebanon European Neighbourhood Policy Action Plan.

3) LEGAL ELEMENTS OF THE PROPOSAL

- **Summary of the proposed action**

The Community shall make available to Lebanon macro-financial assistance in the form of a combination of a grant and a loan over a two-year period. The assistance will be made available in maximum three instalments to be disbursed over the period 2007-

2009. 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 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 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 corresponds broadly to less than one-third of the residual financing needs of Lebanon for the years 2007-2008, covered by the assistance. This is deemed an appropriate level of burden sharing for the Community, given the assistance provided to Lebanon by bilateral donors and creditors and the international donor community at large.

The assistance will be fully consistent with the macroeconomic targets already set in Lebanon's economic policy documents, such as the medium-term macro-economic scenario, which underpins the EPCA programme, approved in April 2007. It will be also consistent with longer-term policy objectives contemplated in the EU-Lebanon European Neighbourhood Policy Action Plan adopted in January 2007. As regards specific 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 sectoral policies of particular importance, identified as such in the EU-Lebanon ENP Action Plan.

- **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

Such assistance would be financed from commitment appropriations in 2007 under budget line 01 03 02 (Macroeconomic assistance), with payments taking place over the period 2007-2009.

5) ADDITIONAL INFORMATION

- **Review/revision/sunset clause**

The proposal includes a sunset clause.

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Proposal for a

COUNCIL DECISION

Providing Community macro-financial assistance to Lebanon

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[1],

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

After consulting the Economic and Financial Committee,

Whereas:

(1) The authorities of Lebanon adopted on 4 January 2007 a comprehensive programme of socio-economic reforms, which simultaneously embraces fiscal, structural and social measures, setting medium-term priorities for government action,

(2) Lebanon, on the one hand, and the European Community and its Member States on the other hand, have signed an Association Agreement, which entered into force on 1 April 2006,

(3) The authorities of Lebanon are committed to economic stabilisation and structural reforms, supported by the International Monetary Fund (IMF) through a programme under the Emergency Post-Conflict Arrangement (EPCA) which was approved on 9 April 2007,

(4) Relations between Lebanon and the European Union are developing within the framework of the European Neighbourhood Policy, which is expected to lead to deeper economic integration. The EU and Lebanon have agreed on a European Neighbourhood Policy Action Plan identifying medium-term priorities in EU-Lebanon relations and related policies,

(5) Lebanon faces substantial financing needs arising from the mounting financial constraints of the public sector, including a high level of public debt, aggravated by the July-August 2006 military conflict and a projected deterioration of the balance of payments in 2007,

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1 OJ C , , p. .
2 OJ C , , p. .

(6) The Lebanese authorities have requested financial assistance on a concessional basis from the International Financial Institutions, the Community and other bilateral donors. Over and above the financing from the IMF and the World Bank, a substantial residual financing gap remains to be covered to comfort the country's balance of payments, public finances and public debt and support the policy objectives attached to the authorities' reform efforts,

(7) Lebanon is one of the most indebted countries in the world facing a heavy debt overhang. In these circumstances, the Community assistance to Lebanon should be made available in the form of a combination of a grant and loan, as an appropriate measure to help the beneficiary country at this critical juncture,

(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 Lebanon related to the prevention of, and to 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.

HAS DECIDED AS FOLLOWS:

Article 1

1. The Community shall make available to Lebanon financial assistance amounting to a maximum of EUR 80 million, with a view to supporting Lebanon's domestic efforts of post-war reconstruction and sustainable economic recovery, and in this way, alleviating the financial constraints on the implementation of the government's economic programme.

   Given Lebanon's high level of indebtedness the Community financial assistance consists of EUR 50 million in loans and up to EUR 30 million in grants.

2. The 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 International Monetary Fund (IMF) and Lebanon.

3. The Community financial assistance shall be made available for two years starting from the first day after the entry into force of this Decision. 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 hereby empowered to agree with the authorities of Lebanon, after consulting the Economic and Financial Committee, the economic policy and financial conditions attached to the financial assistance, to be laid down in a Memorandum of Understanding and a Grant and a Loan Agreements. These conditions shall be consistent with the agreements or understandings referred to in Article 1(2).

2. During the implementation of the Community financial assistance, the Commission shall monitor the soundness of Lebanon's financial arrangements, administrative procedures, internal and external control mechanisms which are relevant to this Community financial assistance.

3. The Commission shall verify at regular intervals that economic policy in Lebanon is in accordance with the objectives of this assistance and that the agreed economic policy and financial conditions are being satisfactorily fulfilled. In doing so, the Commission shall coordinate closely with the Bretton Woods Institutions, and, when required, with the Economic and Financial Committee.

Article 3

1. The Community financial assistance shall be made available by the Commission to Lebanon in maximum three instalments.

2. The disbursement of each instalment shall be released on the basis of a satisfactory implementation of the economic programme supported by the IMF.

3. In addition, the second and third instalments shall be released on the basis of a satisfactory implementation of the economic programme supported by the IMF and of the EU-Lebanon European Neighbourhood Policy Action Plan and any other measures agreed with the Commission as set out in Article 2(1), and not before one quarter after the release of the previous instalment.

4. The funds shall be paid to the Banque du Liban exclusively in support of Lebanon's financing needs.

Article 4

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 Communities[3] and its implementing rules. In particular, the Memorandum of Understanding and the Grant/Loan Agreements with the authorities of Lebanon shall provide for appropriate measures by Lebanon 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

[3] OJ L 248, 16.9.2002, p. 1. Regulation as last amended by Regulation (EC, Euratom) No 1995/2006 (OJ L 390, 30.12.2006, p. 1).

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 5

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 set out in Article 2(1), Lebanon's ongoing economic and fiscal performance, and the Commission's decision to release the instalments of the assistance.

Article 6

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

Done in 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: MACRO-FINANCIAL ASSISTANCE TO LEBANON

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

Article 01 03 02 — Macroeconomic assistance

2. OVERALL FIGURES

2.1. Total allocation for action (Part B): EUR 30 million for commitment

Budget available for 2007 EUR 58.201 million in Commitment Appropriations and EUR 78.694 million in Payment Appropriations for the budget line 01 03 02.

2.2. Period of application:

Start year: 2007, expiry year: 2009

2.3. Overall multi-annual estimate of expenditure:

2.3.1 Grant component of the assistance

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

€ Million (*to three decimal places)*

	2007	2008	2009			Total
Commitments	30.000					30.000
Payments		15.000	15.000			30.000

(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

Subtotal a+b						
Commitments	30.030	0.030				30.060
Payments		15.030	15.030			30.060

(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

TOTAL a+b+c						
Commitments	30.195	0.195				30.390
Payments	0.165	15.195	15.030			30.390

2.3.2 Loan component of the assistance

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 component of the assistance (EUR 50 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.

The Guarantee Fund for external actions has to be provisioned according to the Fund Regulation as amended4. In line with this Regulation, loans are not anymore 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 "Reserve for loans and loans guarantees to and in non-member countries" (budget line 01 04 01 13) to "the provisioning of the Guarantee Fund" (budget line 01 04 01 14).

As a result, 9% (maximum of EUR 4.5 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.

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

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4 Council Regulation (EC, Euratom) No 2728/94 establishing a Guarantee Fund for external actions, OJ L 293, 12.11.1994, p.1, as amended by Council Regulation (EC, Euratom) No 1149/1999, OJ L 139, 2.6.1999, p. 1, Council Regulation (EC, Euratom) No 2273/2004, OJ L 396, 31.12.2004, p. 28, and Council Regulation (EC, Euratom) No 89/2007, OJ L 22, 31.1.2007, p. 1.

3. BUDGET CHARACTERISTICS

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

4. LEGAL BASIS

Article 308 of the Treaty

5. DESCRIPTION AND GROUNDS

5.1. Need for Community intervention [5]

5.1.1. Objectives pursued

The proposed assistance consists of a Community loan (to be financed by Community borrowings in the international capital markets) in the amount of EUR 50 million and a Community grant of up to EUR 30 million (to be financed from the General Budget) to Lebanon. The macro-financial assistance will complement financing pledged by the international donors' community at the High-Level Conference in Support for Lebanon on 25 January 2007 in Paris: (i) the Bretton Woods Institutions (BWIs) – the IMF and the World Bank (WB), (ii) Arab and other bilateral donors, (iii) EU Member States, and (iv) the EU's own funds, under the ENPI and EIB funds as part of the EC assistance package. International financial support constitutes an important component of the debt reduction strategy. The Community financial support to Lebanon was designed to reinforce Lebanon's reform plan aiming, among other things, at addressing short-term threats to financial stability, and reflects the country's strategic importance for the EU in the context of the European Neighbourhood Policy and is instrumental in strengthening the Lebanese government's orientation towards the EU.

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

An ex ante evaluation was carried out by Commission services in June 2007 (by Unit D3 of the Economic and Financial Affairs Directorate-General).

5.1.3. Measures taken following ex post *evaluation*

No Community macro-financial assistance provided to Lebanon in the past.

5.2. Action envisaged and budget intervention arrangements

– This assistance will take the form of a loan and a straight grant which would be released in maximum three instalments over a period of two years. Each instalment is to be released

[5] For further information, see separate explanatory note.

on the basis of a Memorandum of Understanding to be agreed between the authorities of Lebanon and the Community, and notably will be linked to the progress in the implementation of an IMF-supported programme. In addition, the second and third instalments 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.

The quantitative performance criteria attached to this assistance would be those stipulated under the macro-economic framework for the present EPCA programme and any other IMF-supported arrangement agreed between Lebanon and the IMF. Accordingly, before the release of each instalment of this assistance, the Commission services, in co-operation with the national authorities and the IMF staff, shall verify that the quantitative performance criteria have been respected or new understandings have been reached.

In addition, the Commission shall agree with the authorities a number of specific policy conditions which have to be met before the second and possible further instalments are released. These policy conditions shall be consistent with agreements or understandings reached by Lebanon with the IMF and the World Bank and will be consistent with the EU-Lebanon ENP Action Plan. It is envisaged at this stage that these conditions would cover inter alia public finance management reform and administration. The Commission may also consider targeting specific sectoral policies of particular importance, identified as such in the EU-Lebanon ENP Action Plan.

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 will be subject to compliance by Lebanon 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	2007	2008	2009				Total
Grant instalments to Lebanon	30.000	-					30.000
TOTAL	30.000						30.000

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

	2007	2008	2009				Total
1) Technical and administrative assistance							
a) Technical assistance offices							
b) Other technical and administrative assistance: - intra muros: - extra muros: *of which for construction and maintenance of computerised management systems*							
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							
TOTAL	0.030	0.030					0.060

6.2. Calculation of costs by measure envisaged in Part B (over the entire programming period)[6]

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)

[6] For further information, see separate explanatory note.

Action 1 *- Measure 1* *- Measure 2* Action 2 *- Measure 1-* *- Measure 2* *- Measure 3* *etc.*
TOTAL COST

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

The amounts are total expenditure for twelve months.

[1] 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

This assistance is of macro-economic nature and its monitoring and evaluation will be undertaken in line with the standard Commission procedures.

8.1. Follow-up arrangements

The monitoring of the action by the Commission services will take place on the basis of macro-economic and structural policy measures to be agreed with the 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 Beirut will also provide regular 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 and activities in Lebanon.

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.

In Lebanon, the Commission services will assess the reliability of financial circuits and administrative procedures that are relevant to this type of assistance and will determine whether the framework for sound financial management of macro-financial assistance is sufficiently effective. The Commission services will carry out, with the support of duly mandated external experts, an Operational Assessment of the financial circuits and administrative procedures of the beneficiary authorities. The results of the Operational Assessment will be used for the definition of appropriate conditionality in the area of public finance management.

The proposed legal basis for macro-financial assistance to Lebanon includes a provision on fraud prevention measures. These measures will be elaborated further in a Memorandum of Understanding and the grant/loan agreements. 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.