COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 29.4.2008
COM(2008) 228 final

2008/0086 (CNS)

Proposal for a

COUNCIL DECISION

establishing a separate liability of Montenegro and reducing proportionately the liability of Serbia with regard to the long-term loans granted by the Community to the State Union of Serbia and Montenegro (formerly the Federal Republic of Yugoslavia) pursuant to Council Decisions 2001/549/EC and 2002/882/EC

(presented by the Commission)

EXPLANATORY MEMORANDUM

(1) Context of the proposal

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

The Commission proposes the adoption of a new Council Decision to establish a separate liability for Montenegro for the repayment of a part of the Community macro-financial assistance ("MFA") loans granted to the former Federal Republic of Yugoslavia ("FRY"), later renamed the State Union of Serbia and Montenegro ("SUSaM"). MFA loans of a total amount of EUR 280 million were disbursed to the FRY/SUSaM between October 2001 and May 2005 pursuant to the now expired Council Decisions 2001/549/EC and 2002/882/EC, as amended (hereinafter together referred to as the "Council Decisions").

Following the declaration of independence of Montenegro in June 2006, the SUSaM was dissolved and Serbia declared itself the successor state of the SUSaM on the basis on Article 60 of the Constitutional Charter of the SUSaM. As a consequence, Serbia has succeeded the SUSaM as the legal entity liable for state debts contracted by the FRY or the SUSaM, including the above mentioned MFA loans.

However, on 10 July 2006 Serbia and Montenegro concluded a bilateral agreement on the distribution of the financial liabilities of the now dissolved SUSaM. According to this agreement, financial liabilities towards the European Community in respect of MFA loans are serviced in the proportion of 90% for Serbia and 10% for Montenegro, unless another percentage is to be used on the basis of the final beneficiary principle.

As a consequence of the bilateral agreement, the Commission is currently receiving interest due on the loans in two separate payments, one from each of the two countries, in the proportion of 90% from Serbia and 10% from Montenegro, with the exception of the interest due on the largest single MFA loan of EUR 225 million, which is being serviced in the proportion of 99.47% for Serbia and 0.53% for Montenegro following the final beneficiary principle.

The existing loan agreements concluded between the Commission and the FRY/SUSaM do not establish any liability or obligations for Montenegro as an independent state as regards the loans, which it is de facto servicing in part, but solely for Serbia pursuant to its status as successor state of the SUSaM. In the event of a default, the Community would therefore be obliged to direct its claim against Serbia regardless of whether the non-payment or delayed payment occurs on a part of the loan for which Montenegro is liable according to the bilateral agreement.

In view of the long period over which repayments will take place (repayments of principal are scheduled to take place from 2012 until 2020) and considering the political relations which the European Union has developed and is developing with Montenegro since the dissolution of the SUSaM, the Commission proposes:

(i) to adopt a new Council Decision, establishing (a) a separate liability of Montenegro to the European Community and (b) that Serbia's liability to the European Community is being reduced accordingly; and

(ii) upon the adoption of the attached draft Council Decision, to conclude a loan agreement with Montenegro establishing its liability vis-à-vis the Community with regard to the proportion of the MFA loans for which Montenegro has assumed the liability vis-à-vis Serbia. At the same time, the Commission proposes to agree the appropriate amendments to the existing loan agreements with Serbia which will reduce its liability accordingly.

- **General context**

Following the political changes in the FRY in late 2000, the country's authorities achieved substantial progress in economic reform and stabilisation. In addition to external financing provided by international financial institutions and bilateral donors, the reform process was supported by EC macro-financial assistance subject to the prior fulfilment of a number of economic and structural policy conditions.

A first MFA operation comprising a loan component of EUR 225 million was granted in 2001 by Council Decision 2001/549/EC of 16 July 2001. The loan agreement between the Community and the FRY was signed on 17 September 2001, and payment followed in one instalment on 17 October 2001. By Council Decision 2002/882/EC of 5 November 2002, the Community provided further macro-financial assistance to the FRY, including a long-term loan of EUR 55 million, with a view to ensuring a sustainable balance-of-payments situation and strengthening the country's reserve position over and above the financing provided in the context of a three-year IMF Extended Arrangement and a package of concessional loans made available by the World Bank. The loan agreement between the Community and the FRY was signed on 13 December 2002.

On 4 February 2003 a new Constitutional Charter for the country entered into force, according to which the FRY was renamed the State Union of Serbia and Montenegro. The Commission paid the first two tranches of the EUR 55 million loan (EUR 10 million and EUR 30 million) to the SUSaM on 28 February and 1 September 2003 (according to the supplemental loan agreement of 25 July 2003).

By Council Decision 2003/825/EC of 25 November 2003, the loan component of the macro-financial assistance was increased to a maximum of EUR 80 million in the form of loans in order to help addressing additional financing needs identified by the IMF. The implementation of the MFA assistance was subsequently prolonged until 30 June 2006 (Council Decision 2004/862/EC of 7 December 2004), and a third loan tranche of EUR 15 million was disbursed to the SUSaM on 4 May 2005 according to the supplemental loan agreement of 7 April 2005. However, due to the subsequent profound improvements of the external financing situation in Montenegro and Serbia in 2006, the loan components of the fourth and fifth (and final) tranche of this assistance were not disbursed. At present, the two countries do not require any further external macro-financial assistance from the Community.

When the above mentioned macro-financial assistance was provided to the Federal Republic of Yugoslavia and, as of 2003, to the State Union of Serbia and Montenegro, Serbia and Montenegro jointly formed a single sovereign state. The situation gradually evolved with increased autonomy of the two countries. In particular, the Constitutional Charter of the SUSaM adopted on 4 February 2003 opened up for the possibility that upon the expiry of a 3-year period each of the member states of the SUSaM could decide to break away from the SUSaM on the basis of a referendum. In such a case the remaining state would become the successor state of the SUSaM.

A referendum on the independence of the country took place in Montenegro on 21 May 2006. The majority of the voters (55.4%) cast their votes in favour of Montenegro's independence. On 3 June 2006 the Parliament of Montenegro declared the full independence of Montenegro under international law. Serbia recognised Montenegro's independence and on 5 June 2006 the Parliament of Serbia adopted a decision that defined Serbia as the successor state of the State Union of Serbia and Montenegro.

On 12 June 2006, the Council recognised Montenegro as a sovereign and independent State and took note of the above mentioned decision of the Parliament of Serbia.

On 10 July 2006, Serbia and Montenegro concluded a bilateral agreement on the regulation of membership in international financial organisations and the distribution of financial assets and liabilities. According to Appendix 4 of that Agreement (as transcribed in the Annex to this Memorandum), macro-financial loans granted to the FRY or the SUSaM are attributed in the proportion of 90% for Serbia and 10% for Montenegro, with the exception of the largest Community loan of EUR 225 million, for which the final beneficiary principle applies (99.47% for Serbia and 0.53 % for Montenegro). Pursuant to this agreement, Serbia and Montenegro have subsequently discharged their debt servicing obligations to the Community and have not incurred any arrears.

On 18 January 2007, Montenegro received membership in the International Monetary Fund and the World Bank Group. On 22 January 2007, the Council adopted Decision 2007/49/EC establishing a new European Partnership with Montenegro. On 15 October 2007, the Stabilisation and Association Agreement between the European Communities and their Member States and Montenegro was signed (COM(2007) 350).

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

There are no existing provisions in the area of the proposal.

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

The proposal is in line with the Conclusions of the General Affairs and External Relations Council of 12 June 2006, according to which the European Union and its Member States have decided that they will develop their further relations with Montenegro as a sovereign, independent state. Furthermore, it is in line with Council Decision 2007/49/EC of 22 January 2007 on the principles, priorities and conditions contained in the European Partnership with Montenegro, according to which it is a short-term key priority to complete the establishment of the legal and institutional set-up required for an independent country including the signature and ratification of the international instruments to which the SUSaM had adhered.

(2) Consultation of interested parties and impact assessment

- **Consultation of interested parties**

Consultation methods, main sectors targeted and general profile of respondents

Commission services have been in contact with the Serbian and Montenegrin authorities during the preparation of the present Commission proposal. Furthermore, the Commission has informed the Economic and Financial Committee of the outline of the proposal before submitting it to the Council.

Summary of responses and how they have been taken into account

EFC members did not raise any objection. Nor did the Serbian and Montenegrin authorities.

- **Collection and use of expertise**

There was no need for external expertise.

- **Impact assessment**

Following the independence of Montenegro, Serbia declared itself the successor state of the SUSaM and thereby assumed the legal liability for repayment of the MFA loans. In late 2006 the Commission received a translation into English of the bilateral agreement concluded between the two countries on 10 July 2006, according to which the financial liability for repayment of the loans were split up between the two countries. Furthermore, as interest payments on the MFA loans are now being serviced in two separate payments, and not, as was previously the case, in one payment from the National Bank of Serbia, the Commission deems it appropriate to adapt the legal situation concerning the outstanding loans to the bilaterally agreed split.

One of the options considered was to obtain express written confirmation from Serbia that notwithstanding the bilateral agreement between Serbia and Montenegro of 10 July 2006 it remains the liable sovereign borrower and therefore responsible for the full service of the loans, including the Montenegrin loan components. However, in view of the long period over which repayments will take place and taking into account the relations the Community is developing with both countries, it is deemed appropriate for the Community to endorse the split of the debt agreed bilaterally between the two countries. This option was the one chosen in the case of the split of Czechoslovakia (Council Decision 94/61/EC of 24 January 1994).

A new loan agreement concluded with Montenegro will create clarity about the legal situation of the Community as regards the repayment of the MFA loans. As for Serbia, loan agreements already exist and will merely need to be modified to adapt them to the new circumstances following the establishment of a separate liability for Montenegro. This could be done by an exchange of letters with the Serbian authorities.

(3) Legal elements of the proposal

- **Summary of the proposed action**

According to Article 1 of the proposal, Montenegro shall assume separate liability for the payments of principal, interest and expenses associated with the servicing of EUR 6 703 388,62 out of the Community long-term loans of in total EUR 280 million granted to the FRY/SUSaM. To this end, the Commission is authorised to sign with the authorities of Montenegro a new loan agreement for the amounts attributed to Montenegro and essentially on the terms and conditions set out in the existing loan agreements.

According to Article 2 of the proposal, Serbia's liabilities to the Community under the existing loan agreements in its capacity of successor state to the SUSaM shall be reduced proportionately upon the signature of the new loan agreement between the Community and Montenegro. The Commission is to the extent appropriate authorised to conclude with Serbia arrangements to amend the existing loan agreements.

According to Article 3 of the proposal, all related costs and expenses incurred by the Community in concluding and carrying out the arrangements provided for by Article 1 and Article 2 shall be borne by Montenegro and Serbia, respectively.

The proposed Council Decision does not entitle the two countries to any additional disbursement of macro-financial assistance from the Community. It will take effect from the third day of its publication in the Official Journal.

- **Legal basis**

EC Treaty Article 308.

- **Subsidiarity principle**

The proposal is a legal adjustment of existing macro-financial assistance granted by the Community to the new reality, which can only be done by the Community itself.

- **Proportionality principle**

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

The proposed form of action involves the conclusion of a new loan agreement with Montenegro, whereas it is envisaged that the existing loan agreement with Serbia will be amended by an exchange of letters with the Serbian authorities.

The administrative burden falling upon the Community and the national governments is thereby minimized and proportionate to the objective of the proposal.

- **Choice of instruments**

Other means would not be adequate for the following reasons:

The existing loan agreements entered into with the FRY/SUSaM were concluded on the basis of Council Decisions. As these Council Decisions have expired, and as the Commission has not been authorised to conclude an agreement with Montenegro with respect to macro-financial assistance or been given the power to accept a limitation of the liability of Serbia as successor state to the FRY/SUSaM, the adoption of a new Council Decision is necessary for the implementation of the proposed actions.

(4) Budgetary implication

The proposal has no implication for the Community budget.

ANNEX

AGREEMENT

BETWEEN THE REPUBLIC OF SERBIA AND THE REPUBLIC OF MONTENEGRO ON THE REGULATION OF MEMBERSHIP IN INTERNATIONAL FINANCIAL ORGANIZATIONS AND THE DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES

(unofficial translation)

The Republic of Serbia and the Republic of Montenegro held talks and negotiations in Belgrade on June 13, 2006 and in Podgorica on June 28, 2006, and,

In the best interest of their respective countries and citizens, have expressed their willingness to resolve in good faith the issues pertaining to the membership in international financial organizations and decide on an equitable distribution of financial assets and liabilities, and

have reached this Agreement as follows:

General Provisions

Article 1

For the purposes of this Agreement:

[…]

- “FRY“ means the former Federal Republic of Yugoslavia;

-“SUSaM“ means the former State Union of Serbia and Montenegro;

[…]

Financial Assets and Liabilities

Financial Assets

[…]

Financial liabilities

Article 12

[…]

Appendix 4 – Survey on the external debt stock of the SUSaM under the Contracts signed by the former FRY, and SUSaM respectively, constitutes an integral part of this Agreement.[…]

[…]

Article 16

The Republic of Serbia and the Republic of Montenegro have agreed to continue to service financial liabilities towards to the European Commission in respect to macro-financial assistance loans in proportion of 90% for the Republic of Serbia and 10% for the Republic of Montenegro.

[…]

In Belgrade, on July 10, 2006

Signed for and on behalf of the Republic of Serbia

Signed for and on behalf of the Republic of Montenegro

[…]

APPENDIX 4

SURVEY ON THE EXTERNAL DEBT STOCK OF THE SUSaM

UNDER AGREEMENTS SIGNED BY THE FRY AND SUSaM

on May 21, 2006

in USD according to exchange rate list no.121 applicable on June 30,2006

BASIS	***CURRENCY***	***SERBIA***	***MONTENEGRO***	***TOTAL***
INTERNATIONAL FINANCIAL ORGANIZATIONS AND EU				
[…]	[…]	[…]	[…]	[…]
E U				
EU - 225 million	EUR	*223.796.611,38*	*1.203.388,62*	*225.000.000,00*
EU - 55 million	EUR	*49.500.000,00*	*5.500.000,00*	*55.000.000,00*
[…]	EUR			
	EUR	***273.296.611,38***	***6.703.388,62***	***280.000.000,00***
[…]				
total in USD		***342.686.679,19***	***8.405.380,42***	***351.092.059,60***

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establishing a separate liability of Montenegro and reducing proportionately the liability of Serbia with regard to the long-term loans granted by the Community to the State Union of Serbia and Montenegro (formerly the Federal Republic of Yugoslavia) pursuant to Council Decisions 2001/549/EC and 2002/882/EC

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],

Whereas:

(1) Pursuant to Council Decision 2001/549/EC of 16 July 2001 providing macro-financial assistance to the Federal Republic of Yugoslavia[3], the Community granted to the Federal Republic of Yugoslavia a long-term loan of up to EUR 225 million with a view to ensuring a sustainable balance-of-payments situation and strengthening the country's reserve position. The loan was fully disbursed by the Commission in one instalment in October 2001.

(2) Pursuant to Council Decision 2002/882/EC of 5 November 2002 providing further macro-financial assistance to the Federal Republic of Yugoslavia[4], the Community granted the Federal Republic of Yugoslavia a loan of up to EUR 55 million with a view to ensuring a sustainable balance-of-payments situation and strengthening the country's reserve position. The loan was fully disbursed by the Commission in three instalments of respectively EUR 10 million in February 2003, EUR 30 million in September 2003 and EUR 15 million in April 2005.

(3) According to the Constitutional Charter adopted on 4 February 2003, the Federal Republic of Yugoslavia was reconstituted as the State Union of Serbia and Montenegro.

[1] OJ C , , p. .
[2] OJ C , , p. .
[3] OJ L 197, 21.7.2001, p. 38. Decision as amended by Council Decision 2001/901/EC (OJ L 334, 18.12.2001, p. 30).
[4] OJ L 308, 9.11.2002, p. 25. Decision as last amended by Council Decision 2004/862/EC (OJ L 370, 17.12.2004, p. 81).

(4) On 3 June 2006, based on Article 60 of the Constitutional Charter of the State Union of Serbia and Montenegro and following the Montenegrin referendum of 21 May 2006, the Parliament of Montenegro passed a declaration on the independence of the country, which stated that Montenegro is an independent State with full legal personality under international law.

(5) The Parliament of Serbia adopted on 5 June 2006 a decision that defined Serbia as the successor state to the State Union of Serbia and Montenegro.

(6) The Council, in its conclusions of 12 June 2006, took note of the declaration of the Parliament of Montenegro and the decision of the Parliament of Serbia and stated that the European Union and the Member States had decided to develop further relations with Montenegro as a sovereign and independent State.

(7) On 10 July 2006, Montenegro and Serbia entered into an agreement on the regulation of membership in international financial organisations and the distribution of financial assets and liabilities, according to which macro-financial assistance loans granted to the Federal Republic of Yugoslavia or the State Union of Serbia and Montenegro shall continue to be serviced in proportion of 90% for Serbia and 10% for Montenegro, unless another percentage is to be used on the basis of the final beneficiary principle.

(8) Montenegro and Serbia are via the Central Bank of Montenegro and the National Bank of Serbia continuing to discharge fully the debt servicing obligations stemming from the Community loan operations.

(9) According to Appendix 4 of the agreement of 10 July 2006 between Montenegro and Serbia a total debt of EUR 6 703 388,62 stemming from the macro-financial assistance loans has been attributed to Montenegro.

(10) The two countries are discharging the debt servicing obligations in accordance with the 10:90 split agreed between them, with the exception of one operation which is being serviced following the final beneficiary principle (99,47% for Serbia and 0,53% for Montenegro).

(11) Considering the relations developed between the European Union and Montenegro as an independent state, notably the European Partnership established by Council Decision 2007/49/EC[5], and the long period of time over which repayments are due to take place, the Commission should be authorised to take the appropriate action to ensure that the liabilities arising under the loans granted pursuant to Council Decisions 2001/549/EC and 2002/882/EC are divided between Montenegro and Serbia in the proportions agreed bilaterally between the two countries.

(12) Montenegro or Serbia will not be entitled to any additional disbursement of macro-financial assistance under this Decision.

(13) The Commission consulted the Economic and Financial Committee before submitting its proposal.

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5 OJ L 20, 27.1.2007, p. 16.

(14) 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. Montenegro shall assume separate liability for the payments of principal and interest as well as all and any costs and expenses associated with the servicing of EUR 6 703 388,62 out of the Community long-term loans of in total EUR 280 million paid to the State Union of Serbia and Montenegro (the former Federal Republic of Yugoslavia) pursuant to Council Decisions 2001/549/EC and 2002/882/EC.

2. To this end, the Commission is authorised to sign, after consultation of the Economic and Financial Committee, a separate loan agreement with the authorities of Montenegro for the amounts attributed to Montenegro and essentially on the terms and conditions set out in:

– Loan Agreement of 17 September 2001 between the European Community and the Federal Republic of Yugoslavia,

– Loan Agreement of 13 December 2002 between the European Community and the Federal Republic of Yugoslavia,

– Supplemental Loan Agreement of 25 July 2003 between the European Community and State Union of Serbia and Montenegro, and

– Supplemental Loan Agreement of 7 April 2005 between the European Community and State Union of Serbia and Montenegro.

In particular, the interest rate and the due dates for payment of interest and repayment of principal shall be the same as those determined in the borrowing contracts annexed to the agreements mentioned in this paragraph.

3. The present Decision does not entitle Montenegro to any additional disbursement of macro-financial assistance from the Community.

Article 2

1. Upon the signature of the separate loan agreement between the Community and Montenegro referred to in Article 1 (2), Serbia's liabilities to the Community in its capacity of successor state to the State Union of Serbia and Montenegro shall be reduced accordingly.

2. The Commission is authorised to conclude with Serbia arrangements to amend the existing loan agreements referred to in Article 1(2) .

3. The present Decision does not entitle Serbia to any additional disbursement of macro-financial assistance from the Community.

Article 3

1. All related costs and expenses incurred by the Community in concluding and carrying out the arrangements provided for by Article 1 shall be borne by Montenegro.

2. All related costs and expenses incurred by the Community in concluding and carrying out the arrangements provided for by Article 2 shall be borne by Serbia.

Article 4

This Decision shall take effect on the third day following 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: **PROPOSAL FOR A COUNCIL DECISION ESTABLISHING A SEPARATE LIABILITY OF MONTENEGRO**

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

Article 01 03 02 — Macroeconomic assistance

2. OVERALL FIGURES

2.1. Total allocation for action (Part B):

The present initiative has no financial impact.

2.2. Period of application:

Not applicable; one-off measure.

2.3. Overall multi-annual estimate of expenditure:

(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	0	0	0			0
Payments	0	0	0			0

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

Commitments	0	0	0			0
Payments	0	0	0			0

Subtotal a+b						
Commitments	0	0	0			0
Payments	0	0	0			0

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

Commitments/ payments	0	0	0			0

TOTAL a+b+c						
Commitments	0	0	0			0
Payments	0	0	0			0

2.4. Compatibility with financial programming and financial perspective

The proposal has no financial impact.

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	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

5.1.1. Objectives pursued

The present proposal aims at:

– establishing separate liabilities for Montenegro vis-à-vis the Community, corresponding to and replacing its share of the existing EC macro-financial assistance loans to the former State Union of Serbia and Montenegro (SUSaM);

– and reducing accordingly the current total amount of liabilities which Serbia legally has to service pursuant to previous Council decisions and to its declared status of successor state of the State Union of Serbia and Montenegro.

This should in particular facilitate any eventual future refinancing or restructuring operations either to permit an improvement in the interest rate of the loans, or in the event one of the two countries would request an early repayment.

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

None. (There is no financial impact).

5.1.3. Measures taken following ex post *evaluation*

An ex-post evaluation of past Community macro-financial assistance provided to the State Union of Serbia and Montenegro has already been commissioned from Commission appointed external consultants and is under way.

5.2. Action envisaged and budget intervention arrangements

The current legal base does no longer provide for the appropriate legal certainty as regards the book of credits of EC macro-financial assistance to the former FRY and to the State Union of Serbia and Montenegro, as the existing decisions do not establish any liability or contractual obligations of Montenegro. Therefore, the Commission intends to proceed with the proposal for a Council Decision establishing a separate liability of Montenegro and reducing accordingly the liability of the Republic of Serbia with regard to the long-term loans granted by the Community to the State Union of Serbia and Montenegro.

According to the proposal, Montenegro shall assume separate liability for the payments of principal, interest and expenses associated with the servicing of EUR 6 703 388,62 out of the Community long-term loans of in total EUR 280 million granted to the FRY/SUSaM. To this end, the Commission is authorised to sign with the authorities of Montenegro a new loan agreement for the amounts attributed to Montenegro and essentially on the terms and conditions set out in the existing loan agreements.

At the same time, Serbia's liabilities to the Community under the existing loan agreements in its capacity of successor state to the SUSaM shall be reduced proportionately upon the signature of the new loan agreement between the Community and Montenegro. The Commission is to the extent appropriate authorised to conclude with Serbia arrangements to amend the existing loan agreements. This could be done by an exchange of letters with the Serbian authorities.

All related costs and expenses incurred by the Community in concluding and carrying out the arrangements provided for in the new proposal shall be borne by Montenegro and Serbia, respectively.

The proposed Council Decision does not entitle the two Republics to any additional disbursement of macro-financial assistance from the Community. It will take effect from the third day of its publication in the Official Journal.

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)

There is no financial impact

6.1.1. Financial intervention

Commitments (in € million to three decimal places)

Breakdown	2007	2008	2009				Total
Grant instalments to Montenegro	0	0	0				0
TOTAL	0	0	0				0

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

	2007	2008	2009				Total
1) Technical and administrative assistance	0	0	0				0
a) Technical assistance offices	0	0	0				0
b) Other technical and administrative assistance: - intra muros: - extra muros: *of which for construction and maintenance of computerised management systems*	0	0	0				0
Subtotal 1	0	0	0				0
2) Support expenditure	0	0	0				0
a) Studies (Operational Assessments)	0	0	0				0
b) Meetings of experts	0	0	0				0
c) Information and publications	0	0	0				0
Subtotal 2	0	0	0				0
TOTAL	0	0	0				0

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)
Action 1 *- Measure 1* *- Measure 2* Action 2 *- Measure 1-* *- Measure 2* *- Measure 3* *etc.*				
TOTAL COST	0	0	0	0

7. IMPACT ON STAFF AND ADMINISTRATIVE EXPENDITURE

7.1. Impact on human resources

None.

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				
Other human resources					
Total					

7.2. Overall financial impact of human resources

Type of human resources	Amount (€)	Method of calculation *****
Officials Temporary staff	0	1/3 x average annual expenditure for an A*5 – A*12 grade official
Other human resources (specify budget line)		
Total	0	

The amounts are total expenditure for twelve months.

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6 For further information, see separate explanatory note.

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 -	0	
Information systems (A-5001/A-4300)	0	
Other expenditure - Part A (specify)	0	
Total	0	

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)	0
II.	Duration of action	One off action
III.	Total cost of action (I x II)	0

8. FOLLOW-UP AND EVALUATION

8.1. Follow-up arrangements

The signature of the new loan agreement between the Community and Montenegro is foreseen. The Commission is to the extent appropriate also authorised to conclude with Serbia arrangements to amend the existing loan agreements. This could be done by an exchange of letters with the Serbian authorities.

The Commission will regularly monitor compliance with the repayments schedule that has been agreed.

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. An ex-post evaluation of past Community macro-financial assistance provided to the State Union of Serbia and Montenegro has already been commissioned from Commission appointed external consultants and is under way.

9. ANTI-FRAUD MEASURES

The funds have already been released, and re-payment is taking place according to the expected schedule. The use of macro-financial assistance remains 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.