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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
THE COUNCIL**

on the implementation of macro-financial assistance to third countries in 2017

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1 INTRODUCTION

Macro-financial assistance, or MFA, is an EU financial instrument¹ designed to address exceptional external financing needs of countries that are geographically, economically and politically close to the EU. Its prime objective is to restore macroeconomic and financial stability in candidate and potential candidate countries and in countries in the European neighbourhood, while encouraging macroeconomic adjustment and structural reforms. It takes the form either of loans, for which the Commission borrows the necessary funds on capital markets and on-lends them to the beneficiary country, or, under certain circumstances, grants financed through the EU budget.

MFA complements and is conditional on the existence of an adjustment and reform programme agreed with the International Monetary Fund (IMF). MFA is also conditional on respect for human rights and effective democratic mechanisms in the beneficiary country. It is released in instalments strictly dependent on the successful implementation of strong reform measures aimed at putting the beneficiary country's economy back on a long-term sustainable path. In this way, MFA complements regular EU cooperation assistance and contributes to the wider goal of preserving stability and promoting prosperity beyond the EU. Against a backdrop of persisting macroeconomic and political instability in the EU's neighbourhood, MFA has been widely recognised as an effective instrument to respond to crises, enabling the EU to intervene in a visible and flexible manner and with considerable policy leverage.

Over the past 9 years, MFA volumes have increased from EUR 1.5 billion in commitments for 2000-2008 to EUR 5.2 billion since 2009. The political and economic upheavals in the Arab Mediterranean partner countries have led to increased demand for MFA since 2012, with operations being implemented in Jordan and Tunisia. Meanwhile in 2014, the conflict in eastern Ukraine and the marked deterioration of the country's economic and financial situation triggered MFA support at an unprecedented level. Between 2014 and 2015, a total of EUR 3.4 billion was made available to Ukraine under three MFA operations. This represents the largest financial assistance ever granted to a non-EU country in such a short period of time.

To address the region's persisting geopolitical and economic instability, the maximum lending volume for MFA loans has been increased from EUR 0.5 billion to EUR 2 billion per year for the remainder of the 2014-2020 multiannual financial framework.

This annual report is prepared in accordance with the Commission's information obligations as laid down in the various Council and joint European Parliament and Council decisions on MFA operations. The report is accompanied by a Commission staff working document providing a more detailed analysis of the macroeconomic context and implementation of individual MFA operations.

¹ The legal basis for macro-financial assistance to third countries other than developing countries is Article 212 of the Treaty on the Functioning of the European Union (TFEU).

2 MACRO-FINANCIAL ASSISTANCE OPERATIONS IN 2017

2.1 Overview

2017 was characterised by the completion of MFA operations in Georgia and Tunisia, which had been delayed for reasons beyond the EU's control, and by progress in the implementation of the new MFA programmes in Jordan and Tunisia approved in 2016. In September 2017, the European Parliament and the Council adopted a decision to provide MFA assistance to Moldova, and the Commission proposed a new operation in Georgia. Finally, the third MFA programme in Ukraine expired in January 2018 without the final instalment being disbursed, as progress in implementing the agreed structural reforms actions was insufficient.

In 2017, implementation of MFA programmes stood as follows:

- **Georgia MFA II:** In August 2013, the EU approved an MFA operation of up to EUR 46 million for Georgia², to be disbursed in two equal instalments of EUR 23 million (EUR 10 million in grants and EUR 13 million in loans). Disbursement of the first instalment took place in 2015. The second instalment was delayed due to the lack of progress under the programme agreed with the IMF and was disbursed in May 2017.
- **Jordan MFA II:** On 14 December 2016, the co-legislators adopted a decision³ to provide additional MFA to Jordan (MFA II) of up to EUR 200 million, entirely in loans, as a follow-up to the EUR 180 million operation completed in 2015. The Memorandum of Understanding (MoU) between the EU and Jordan was signed on 19 September 2017. The assistance will be disbursed in two instalments, the first instalment of EUR 100 million was disbursed in October 2017 and the second instalment is expected to be released in the second quarter of 2018.
- **Moldova MFA:** On 13 September 2017, the co-legislators adopted a decision to provide MFA assistance to Moldova of up to EUR 100 million, out of which up to EUR 40 million would be provided in grants and up to EUR 60 million in loans. The Memorandum of Understanding between the EU and Moldova was signed on 24 November 2017. The assistance will be disbursed in three instalments.
- **Tunisia MFA I and II:** The first MFA programme of EUR 300 million was adopted in May 2014⁴ and disbursed in three instalments in 2015-2017. On 6 July 2016, the EU approved an additional MFA to Tunisia of up to EUR 500 million in the form of loans⁵ to be disbursed in three instalments. The first instalment of EUR 200 million of the MFA II programme was disbursed on 25 October 2017 and the remaining two instalments are expected to be made available in the course of 2018.

² Decision No 778/2013/EU of the European Parliament and of the Council of 12 August 2013 providing further macro-financial assistance to Georgia (OJ L 218, 14.8.2013, p. 15).

³ Decision (EU) 2016/2371 of the European Parliament and of the Council of 14 December 2016 providing further macro-financial assistance to the Hashemite Kingdom of Jordan (OJ L 352, 23.12.2016, p. 18).

⁴ Decision No 534/2014/EU of the European Parliament and of the Council of 15 May 2014 providing macro-financial assistance to the Republic of Tunisia (OJ L 151, 21.5.2014, p. 9).

⁵ Decision (EU) 2016/1112 of the European Parliament and of the Council of 6 July 2016 providing further macro-financial assistance to Tunisia (OJ L 186, 9.7.2016, p. 1).

- **Ukraine MFA III:** A third operation for up to EUR 1.8 billion in loans was approved by the co-legislators in April 2015. Together with the two operations implemented between May 2014 and April 2015⁶, a total of EUR 3.4 billion in MFA was made available to Ukraine from the onset of the crisis. Following the disbursement of the first instalment (EUR 600 million) in July 2015, the second EUR 600 million instalment of the operation was disbursed in April 2017 in response to the measures adopted by the authorities at the end of 2016 and in early 2017. A number of policy commitments attached to the third and last instalment of EUR 600 million, including in relation to the fight against corruption, had not been implemented by the time the availability period of the assistance expired in January 2018. Because of this, the Commission was not in a position to disburse the last instalment under MFA III, and the instalment was officially cancelled on 17 January 2018.

In total, in 2017, EUR 1.01 billion was disbursed. Annex 1A and 1B provide more detail on the status of effective disbursements by country and by region as of end-December 2017.

In addition, two new MFA programmes were under preparation:

- **Georgia MFA III:** Following a request by the government of Georgia, the Commission adopted a proposal on 29 September 2017 for a new MFA programme for up to EUR 45 million. The proposed MFA, which was adopted by the European Parliament and Council in April 2018, consists of EUR 35 million in loans and EUR 10 million in grants, to be disbursed in two instalments in 2018.
- **Ukraine MFA IV:** On 29 November 2017, the Commission received an official request for a further MFA operation in Ukraine. On 9 March 2018, the Commission submitted a proposal to provide an additional EUR 1 billion in MFA to Ukraine in the form of loans to be disbursed in two instalments in 2018-2019.

2.2 Individual MFA operations in the beneficiary countries in 2017

2.2.1 Georgia

Georgia's macroeconomic outlook remains vulnerable. Despite an increase in GDP growth in 2017, the economy faces risks due to external imbalances (notably, a large current account deficit and significant external debt) and international reserves that are below the adequate level.

Georgia's GDP increased by 4.8 % in January-November 2017 and is expected to have grown by more than 4 % for the whole of 2017, driven by a recovery in both external and domestic demand and by an increase in investment. Last year's faster-than-expected economic growth follows 2 years of deceleration due to external shocks, in particular the economic slowdown in the region. An over-performance on the back of the faster-than-expected economic growth is expected to have allowed a reduction of the general government fiscal deficit to 3.5 % of GDP in 2017, compared to 4.1 % in 2016. Georgia's public debt is expected to have decreased in 2017, to around 42 % of GDP

⁶ Decision (EU) 2015/601 of the European Parliament and of the Council of 15 April 2015 providing macro-financial assistance to Ukraine (OJ L 100, 15.4.2015, p. 1).

(compared to 45 % in 2016). However, Georgia's balance of payment position remains vulnerable due to a large current account deficit (around 10 % expected in 2017) and high external debt (107 % expected in 2017). Georgia's international reserves have been broadly stable in absolute terms since 2011, totalling USD 3.0 billion at end-2017 (about 3 months of import cover), but reserve needs have been increasing and are currently below the level estimated by the IMF to be adequate.

In this context, Georgia and the IMF agreed a three-year (2017-2020) extended arrangement under the Extended Fund Facility of USD 285 million in April 2017. Following the first review of the programme in October 2017, the IMF confirmed that the programme is well on track and that Georgia met all relevant targets. The second review of Georgia's IMF-supported programme is scheduled for April 2018.

The first and second MFA operations for Georgia were pledged at the International Donors' Conference in Brussels in October 2008, following Georgia's military conflict with Russia in August 2008. The second operation of EUR 46 million, half in grants and half in loans, was implemented in 2015-2017, with the last instalment being disbursed in May 2017.

Following the completion of the second MFA operation, the government of Georgia requested further MFA from the EU in June 2017. In September 2017, the Commission submitted a proposal to the European Parliament and the Council for MFA of up to EUR 45 million, of which EUR 35 million would be in the form of loans and EUR 10 million in the form of grants. Following the European Parliament and Council's adoption of the decision and the signing of the MoU, the MFA to Georgia is intended to be disbursed in two instalments in 2018.

2.2.2 *Jordan*

The Jordanian economy continued to suffer from the effects of the crisis in Syria and Iraq: blocked trade routes, lower foreign direct investment and external receipts have put a drag on growth and weighed on Jordan's external and fiscal position. In addition, the Syrian conflict caused an inflow of around 1.3 million Syrian refugees into Jordan that increased pressure on Jordan's fiscal position, public services and infrastructure.

In 2017, growth remained at low levels (around 2.2 %) while unemployment rose to 18.5 % in the third quarter of 2017 from 15.3 % in 2016. The overall fiscal deficit (including grants) narrowed down to 2.6 % of GDP supported by fiscal measures of 1.5 % of GDP that the authorities took at the beginning of 2017. Despite the progress, the fiscal position remains dependent on foreign grants which amounted to 2.9 % of GDP in 2017. Similarly, despite its adjustment in recent years, the current account deficit remains very large (around 11.7 % of GDP in 2017), excluding foreign grants.

On 24 August 2016, the IMF Board approved a three-year Extended Fund Facility (EFF) programme for USD 723 million (150 % of quota), a considerably lower amount than the USD 2 billion (or 800 % of quota) of the three-year Stand-by Arrangement which was completed in August 2015. The first IMF programme review was completed successfully in June 2017. The second programme review was initially planned for September 2017, but has not yet been completed, due to prolonged discussions on the fulfilment of certain IMF conditions.

Also, on 14 December 2016, the European Parliament and the Council adopted a decision for a second programme of macro-financial assistance (MFA-II) of EUR 200 million in loans. The MFA-II programme, which comes on top of the EUR 180 million of the MFA-I disbursed in 2015, will help Jordan to face its increased external and fiscal

financing needs in large part related to the regional instability, including the presence of a large number of Syrian refugees in Jordan.

The MoU and the loan facility agreement of the MFA-II were signed on 19 September 2017. The MoU sets out an ambitious programme of reforms linked to each of the two instalments to be disbursed under the MFA. The areas where conditions are posed include reforms to: (i) make the tax system more transparent and increase the collection of taxes; (ii) strengthen public financial management, the social safety net and the labour market; (iii) facilitate investments and trade; and (iv) improve the performance of the water sector.

The Commission released the first instalment of EUR 100 million on 25 October 2017. Disbursement of the second instalment has not been possible, given the insufficient progress so far with four policy measures (on the income tax law, tax exemptions, public procurement and the audit bureau law).

2.2.3 Moldova

A major banking fraud scandal erupted in November 2014, exposing severe governance problems that have been accompanied by political instability. These developments led to a deceleration in economic growth, the suspension of budget support by Moldova's international partners, and a weakening of the fiscal and balance of payment position. Moldova's GDP decreased by 0.5 % in 2015, and only in 2016 did the economy grow at 4.1 %. In 2017-2019, the economy is expected to remain in the range of 3.5 %-4.0 %, supported by consumption and fiscal stimulus. Inflationary pressure has been contained, with annual inflation expected to remain stable at 6.5 % in 2017 before decelerating to 4.4 % in 2018. An improvement in external demand and prices helped to lift export growth. But a return to higher commodity import prices and a recovery in domestic demand resulted in a worsening of the current account deficit, which was equivalent to 6 % of GDP in 2017. In 2017, worker remittances started to recover compared to 2016. Financial stability has been maintained; wide-ranging efforts to cleanse the sector are proceeding, including efforts to improve shareholder transparency and bank diagnostics.

In the wake of the 2014 crisis, Moldova requested support from the IMF, and the three-year ECF/EFF arrangement of USD 183 million was approved by the IMF in November 2016. After completing the second programme review in December 2017, the IMF confirmed that the programme is broadly on track.

The government of Moldova also repeated its request for a new MFA from the EU in March 2016. On 13 January 2017, the Commission proposed MFA to Moldova of up to EUR 100 million, of which EUR 60 million in loans and EUR 40 million in grants. On 13 September 2017, the European Parliament and the Council signed the Decision to extend the MFA to Moldova. The assistance aims to help Moldova cover part of its residual external financing needs and reduce the economy's balance of payments and fiscal vulnerabilities over the coming 2 years.

On 24 November 2017, the MoU, the loan facility agreement and grant agreements were signed with the Moldovan authorities. Moldova gave notification that it had fulfilled national procedures for the entry into force of the three agreements on 18 January 2018. The MoU sets out an ambitious programme of reforms linked to each of the three instalments to be disbursed under the MFA. The conditions posed cover: (i) reforms to strengthen governance in the financial sector, public finance management, and the fight against corruption and money-laundering; (ii) energy sector reform; and (iii) accompanying measures to strengthen the social safety net, improve the investment climate and support the implementation of the DCFTA agreement.

2.2.4 Tunisia

Since the 2011 revolution, Tunisia has experienced a slowing down of economic activity and increasingly serious issues with its balance of payments. This has been due to the necessary readjustment of the economy following the regime change and to a series of terrorist attacks in 2015 which strongly affected some of the country's key sectors (e.g. tourism and transport). In 2017, the Tunisian economy showed some signs of recovery, with estimated GDP growth of about 2 % following 2 years of nearly no growth (0.8 % in 2015 and 1.1 % in 2016). Inflation picked up throughout the year, reaching over 6 % at year-end compared to 4.2 % at the end of 2016. The state of public finances has been deteriorating over the years, mainly because of increases in spending (especially on wages) which have not been sufficiently counterbalanced by the encouraging growth in revenues caused by the tax reform measures implemented since 2016. The public deficit is estimated at over 6 % of GDP for 2017, while debt is expected to have reached 70 % at year-end. The external position has also been worsening lately, with a current account deficit nearing 10 % of GDP, depleting reserves at about 90 days of imports at the end of 2017 and overall external debt at about 70 % of GDP.

Tunisia first entered a Stand-by Arrangement with the IMF in June 2013 for USD 1.75 billion. The arrangement ended in December 2015. A second IMF programme under the Extended Fund Facility was launched in May 2016 for USD 2.9 billion over 48 months. Due to some delays in implementing reform, only two instalments of the EFF (of about USD 320 million each) have been disbursed so far, when the programme was launched and when the first review was completed in June 2017. The second review ended with a staff-level agreement in December 2017 and was approved by the Board on 23 March 2018.

The first MFA operation (MFA-I) for EUR 300 million was approved by the co-legislators in May 2014, launched in March 2015, and the last payment was disbursed in July 2017. Meanwhile, following the terrorist attacks in 2015 and the exacerbation of the crisis, the Tunisian authorities asked for a second MFA operation (MFA-II) in August of that year. It was approved by the co-legislators in July 2016. The MFA-II operation consists of a EUR 500 million loan to be disbursed in three instalments of EUR 200 million, EUR 150 million and EUR 150 million. The first instalment, not dependent on any MoU condition, was disbursed on 25 October 2017. The policy measures required for the second and third disbursements concern key areas of reform such as the civil service and public financial management at large, the tax system, social and employment policies, the banking sector, and the business environment. If all relevant measures are fulfilled, the disbursements could be made before the end of 2018.

2.2.5 Ukraine

In 2014 and 2015, Ukraine's economy was hit by a deep recession, resulting in real GDP contraction by 6.6 % and 9.8 % respectively. While the crisis reflected Ukraine's macroeconomic and structural weaknesses, it was triggered by the conflict that Russia's destabilising actions provoked in the East of the country and which translated into a loss of confidence and damage to the country's production capacity. The combination of a strong policy response from the authorities and a large-scale international support package helped the Ukrainian economy return to growth in 2016 (2.3 %). Recovery continued into 2017, with Ukraine recording 2.3 % growth in the first three quarters of the year (compared with the first three quarters of 2016). The expansion of economic activity in 2017 was mainly driven by investment and household consumption, on the back of wage growth and stabilisation of the exchange rate. The sustainability of public finances has also improved, with public debt stabilising at an estimated 75.6 % of GDP at

end-2017, partly as a result of the government’s fiscal consolidation efforts in the past 3 years. Despite the improvement in Ukraine’s economic situation since 2015, a number of external vulnerabilities remain. These are caused notably by the slower-than-expected replenishment of Ukraine’s international reserves, the country’s dependency on commodity exports and its persistently high level of external indebtedness.

In response to Ukraine’s request for financial support, the IMF approved a four-year, USD 17.5 billion Extended Fund Facility for the country in March 2015. It will expire in March 2019. A total of USD 8.5 billion has so far been disbursed under this programme, sometimes with significant delays due to the weak implementation of reforms. The completion of the ongoing programme review, which has been pending since mid-2017 and could open the way to a disbursement of USD 1.9 billion, is dependent on Ukraine fulfilling a number of earlier actions.

The EU’s support to Ukraine has been an integral part of the international financial package set up by the IMF, with EUR 3.4 billion of EU macro-financial assistance being made available to Ukraine. Of this, EUR 2.8 billion were disbursed in 2014-2017, including EUR 1.6 billion as part of the first two MFA operations and two instalments of EUR 600 million as part of a third MFA operation. A final instalment of EUR 600 million was available to Ukraine under the third MFA programme, subject to the implementation of 21 policy measures as agreed in the MoU. Ukraine fulfilled 17 of its policy commitments attached to this disbursement, including reforms in public finance management, public administration, energy, and the judiciary. However, four measures had not been implemented when the validity period of the MFA expired. Among these were two measures related to the fight against corruption, including the introduction of a mechanism to verify asset declarations submitted by public officials. As a result, the third instalment of MFA was cancelled on 18 January 2018.

Following a request from Ukraine, the Commission submitted a proposal on 9 March 2018 to provide an additional EUR 1 billion in MFA to Ukraine in the form of loans, to be disbursed in two instalments in 2018-2019.

2.3 Overview of reforms supported by MFA operations

The structural reform criteria in the MoUs outline the set of measures the beneficiary country needs to take to strengthen macroeconomic and financial stability and make the balance of payment position more sustainable.

For the MFA programmes implemented in 2017, the agreed conditionality has differed in number and type in Eastern and Southern Neighbourhood countries. In the Eastern Neighbourhood, the most frequent conditions were aimed at improving public sector governance followed by reforms aimed at improving the business climate and reforms aimed at the energy sector and the fight against corruption and money laundering. MoU conditions in the Southern Neighbourhood countries were fewer in number and tended to focus on public sector governance and social protection and social safety net and labour market measures.

	Public sector governance	Fight against corruption and money laundering	Energy sector	Business climate	Financial sector	Social safety net and labour market	Other
Georgia II	2	0	0	2	2	2	0

Jordan II	6	0	0	0	0	4	1
Moldova	5	6	5	7	5	0	0
Tunisia I	2	0	0	2	2	2	1
Tunisia II	5	0	0	2	1	6	1
Ukraine III	14	4	6	6	2	4	0
Eastern Neighbourhood	21	10	11	15	9	6	0
Southern Neighbourhood	13	0	0	4	3	12	3

3 ENSURING THE PROPER USE OF MFA FUNDS: OPERATIONAL ASSESSMENTS, EX POST EVALUATIONS AND AUDITS

3.1 Operational assessments

In line with the requirements of the EU Financial Regulation, the Commission carries out operational assessments with the help of external consultants to obtain reasonable assurances on the functioning of administrative procedures and financial circuits in beneficiary countries.

Operational assessments focus on public finance management systems, in particular on how finance ministries and central banks are organised and what procedures they implement and, more specifically, on how accounts receiving EU funds are managed. In addition, special attention is given to how external audit institutions function, their independence, their work programmes and how effective their controls are. Public procurement procedures at central level are also examined.

In 2017, the Commission carried out one operational assessment of Georgia, in preparation for the new MFA operation. The assessment was completed in December 2017, and it concluded that the procedures in Georgia provided sufficient guarantees to move ahead with the envisaged MFA operation.

3.2 Ex post evaluations

In line with the EU Financial Regulation, the Commission conducts *ex post* evaluations⁷ after completion of MFA programmes to assess their impact. The main objectives are:

- i. to analyse the impact on the beneficiary country's economy and in particular on the sustainability of its external position;
- ii. to assess the added value of the EU action.

The external contractors' reports on the *ex post* evaluations of the MFA I and MFA II operations for Ukraine and the MFA I operation for Jordan were completed end-2017.

The *ex post* evaluation of the **MFA I and II operations for Ukraine** concluded that the MFA had a positive impact on Ukraine's economy, in part because of its quick implementation. In particular, it helped to stabilise the financial situation and played a significant role in advancing reforms in public finance management and the social safety net. Had there not been the MFA programmes, substantial public spending cuts would have had a serious negative social impact, real GDP would have contracted more sharply in 2014 and 2015, and the growth rate would have been lower in 2016.

⁷ All *ex post* evaluations are available on the DG ECFIN website: http://ec.europa.eu/dgs/economy_finance/evaluation/completed/index_en.htm.

For the **MFA I operation for Jordan**, the evaluation concluded that the MFA, combined with a simultaneous IMF programme, effectively contributed to the timely stabilisation and medium-term sustainability of Jordan's external financial and fiscal positions. The MFA conditions were fulfilled in a satisfactory manner and indirectly contributed to the implementation of structural reforms in several EU priority areas. However, the evaluation also found that the decision-making process for the MFA operation could be improved to avoid unnecessary delays.

3.3 Audits

The European Court of Auditors (ECA) published two special reports assessing the EU assistance to Ukraine and Tunisia. On the MFA, the reports were broadly positive, offering some specific recommendations that the Commission accepted.

In December 2016, the ECA published a special report on EU assistance to **Ukraine**, covering both budget support and MFA⁸. The report concluded that EU assistance to Ukraine was partially effective in supporting Ukraine's transformation into a well-governed state by addressing public finance management, the fight against corruption and the gas sector during 2007-2015. On MFA, the report said that *'the macro-financial assistance instrument managed by the Commission was the most effective means of rapidly disbursing the support promised to Ukraine for dealing with its difficult financial situation'*. Postponing MFA disbursements also helped to ensure that certain conditions attached to the programme were implemented properly. On the other hand, the report pointed out that in some cases MFA conditions were set and their fulfilment assessed in a way that allowed for a broad margin of appreciation. The report set out five recommendations for improving EU assistance: (i) place greater emphasis on public finance management; (ii) better design the conditions for and disbursement of financial assistance; (iii) monitor more closely the way EU assistance is implemented; (iv) place greater emphasis on the effective implementation and sustainability of reforms; and (v) take steps to make EU assistance to Ukraine for gas more effective.

In following up on these recommendations, the Commission has defined policy objectives in a more precise and targeted manner and will continue to strive to address the financial needs of the beneficiary country while supporting key reforms to put the country's economy back on a sustainable path.

In March 2017, the ECA published a special report on EU assistance to **Tunisia**, covering both budget support and MFA⁹. The report concluded that EU funding made a significant contribution to the democratic transition and economic stability in Tunisia and that the MFA loan provided valuable access to finance despite delays in disbursement. The report set out recommendations for improving EU assistance. In the specific case of MFA, the ECA recommended that the Commission explore with its co-legislators the available options to speed up the approval procedures of subsequent MFA programmes, particularly in emergency situations.

The Commission considers that late disbursement of MFA loans to Tunisia was due to a combination of external factors, including factors beyond the EU's control. The Commission also recognises that more can be done to disburse the assistance faster, and

8 Report available at: https://www.eca.europa.eu/Lists/ECADocuments/SR16_32/SR_UKRAINE_EN.pdf.

9 Report available at: https://www.eca.europa.eu/Lists/ECADocuments/SR17_3/SR_TUNISIA_EN.pdf.

it will continue to cooperate with the co-legislators to arrive at a more efficient decision-making process.

4 GENERAL DEVELOPMENTS RELATED TO THE MFA INSTRUMENT

4.1 Functioning of the MFA instrument

The 2013 Joint Declaration of the European Parliament and the Council on MFA¹⁰ frames the assistance as being of a macroeconomic and financial nature and clearly states that its aim is *‘to restore a sustainable external finance situation for eligible countries and territories facing external financing difficulties. It should underpin the implementation of a policy programme that contains strong adjustment and structural reform measures designed to improve the balance of payment position, in particular over the programme period, and reinforce the implementation of relevant agreements and programmes with the Union.’*

In line with principle 6.a) of the same Joint Declaration, *‘A pre-condition for granting macro-financial assistance should be that the eligible country or territory respects effective democratic mechanisms, including a multi-party parliamentary system and the rule of law and guarantees respect for human rights’*. Throughout the life cycle of the MFA operation, the Commission, together with the European External Action Service, monitors the fulfilment of these political pre-conditions, and each disbursement is conditional on their fulfilment.

In 2017, as part of the legislative process for the new proposals for Moldova and Georgia, co-legislators included more detailed provisions on these political pre-conditions, going beyond the Commission proposal which was based on the agreed template of the Joint Declaration of 2013.

This increased focus on the political pre-conditions has led to a more protracted decision-making process, lengthening the time needed to approve the decisions for MFA. This has jeopardised the main objective of MFA of providing support for balance of payments in a crisis situation when it is needed most, as was also stated in the ECA’s special report on EU assistance to Tunisia mentioned above.

The Commission has made attempts to address this issue and liaise with the co-legislators to explore ways to make the current decision-making process more effective and efficient.

The Commission considers it important for all institutions to continue to adhere to the principles and established legal texts based on the 2013 Joint Declaration of the European Parliament and of the Council on MFA.

To give full effect to the principle of equal treatment of the European Parliament and of the Council for sharing information on macro-financial assistance in accordance with Article 9 of the Framework Agreement on Relations between the European Parliament and the European Commission, the Commission and the Committee on International Trade (INTA Committee) found a new arrangement in 2017. They agreed to set up technical contact points in the Commission and the INTA Committee. These contact points will ensure that the Commission sends all documents, in particular ‘non-

¹⁰ Joint Declaration by the European Parliament and the Council adopted together with the decision providing further macro-financial assistance to Georgia (Decision (EU) 2013/778 of 12 August 2013).

comitology' documents which are not distributed through the Register for Committee Proceedings, to the European Parliament and the Council at the same time.

4.2 Future developments: MFA in the next multiannual financial framework

As the EU's neighbourhood continues to experience geopolitical and economic instability, the need for EU macro-financial support is likely to remain high in the years to come. In this context, as part of the mid-term review of the 2014-2020 multiannual financial framework, the Commission proposed, and co-legislators endorsed, strengthening MFA as an instrument of macro-financial support and therefore increasing the annual lending capacity of the MFA from EUR 500 million to EUR 2 000 million.

On 2 May 2018, the Commission adopted a Communication on the Multi-Annual Financial Framework beyond 2020. For EU external action, there are plans to streamline existing instruments significantly to better communicate what the EU does, avoid overlaps, make processes less cumbersome, increase efficiency and complementarity and better demonstrate the EU's added value. It is proposed that several instruments under the multiannual financial framework 2014-2020 will be integrated into the new Neighbourhood, Development and International Cooperation Instrument (NDICI). The specific MFA operations will however continue to be activated on the basis of separate ad-hoc decisions as needed, as it is acknowledged that the decision-making process of MFA operations should remain distinct. MFA will thus continue to be governed by ordinary legislative procedure, which requires the approval of the European Parliament and the Council for each specific operation. At the same time, the guarantee provisioning for MFA loans will be covered by the new External Action Guarantee to be created within the NDICI, and which is envisaged to incorporate the existing Guarantee Fund for external actions. Additionally, MFA grants will continue to be provided to eligible countries with very high vulnerabilities.

5 NEW REQUESTS FOR ASSISTANCE AND FUTURE COMMISSION PROPOSALS — BUDGETARY SITUATION

The programme of MFA operations for 2018 is as follows:

- i. implementation of ongoing MFA operations, as described above. These include disbursement of the final instalments for Jordan MFA II and Tunisia MFA II, and the start of disbursement of the Moldova operation, provided the necessary conditions are fulfilled;
- ii. approval and implementation of the Georgia MFA III operation, with the expected disbursement of the first two instalments of the assistance;
- iii. approval and start of implementation of a new programme for Ukraine MFA IV.

The total disbursements of MFA are expected to amount to EUR 995 million in 2018 compared with EUR 1.01 billion in 2017.

The table below provides an overview of commitments and payments of MFA grants for 2016, 2017 and (provisionally) 2018. The forecast for 2018 is preliminary and includes only those MFA operations for which a decision has been approved by the co-legislators or proposed by the Commission.

Finally, in line with earlier commitments, in 2018 the Commission will further investigate the financing needs of eligible countries currently benefiting from an IMF

programme, more particularly Jordan and Tunisia, and will, if appropriate, propose additional MFA operations for these countries.

Commitments and payments for MFA grants, disbursements of MFA loans 2016-2018 (EUR)

	2016	2017	2018 (provisional)
	79 669 000	45 828 000	42 086 000
Commitment appropriations for grants in the budget			
Operational assessments, PEFA studies, <i>Ex post</i> evaluations	331 822	223 715	550 000
MFA Georgia II (proposal adopted)*			10 000 000
MFA Moldova (decision adopted)		40 000 000	
Other possible MFA operations		TBD	TBD
Commitments, total	331 822	40 223 715	10 550 000
Uncommitted budget allocations	79 337 178	5 604 285	31 536 000
Payment appropriations for grants in the budget	79 669 000	45 828 000	45 828 000
Operational assessments, PEFA studies, <i>Ex post</i> evaluations	131 195	324 840.36	350 000
MFA Kyrgyz Republic (decision adopted)	5 000 000		
MFA Georgia (decision adopted)		10 000 000	
MFA Georgia II (proposal adopted)*			10 000 000
MFA Moldova (decision adopted)			40 000 000
Other possible MFA operations		TBD	TBD
Payments, total	5 131 195	10 324 840	50 350 000
Unused allocations for grant payments	74 537 805	35 503 160	-4 522 000
Disbursements of MFA loans			
MFA Georgia (decision adopted)		13 000 000	
MFA Georgia II (proposal adopted)*			35 000 000
MFA Tunisia I (decision adopted)		100 000 000	
MFA Kyrgyz Republic (decision adopted)	10 000 000		
MFA Ukraine III (decision adopted)		600 000 000	
MFA Tunisia II (decision adopted)		200 000 000	300 000 000
MFA Jordan II (decision adopted)		100 000 000	100 000 000
MFA Moldova (decision adopted)			60 000 000
MFA Ukraine IV (proposal adopted)*			500 000 000
Other possible MFA operations		TBD	TBD
Disbursements of MFA loans, total	10 000 000	1 013 000 000	995 000 000

* The operation is expected to be approved in the course of 2018.