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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 2021

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[1] This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on the implementation of macro-financial assistance to third countries in 2021 ([2])

1 INTRODUCTION

Macro-financial assistance, or MFA, is an EU financial instrument ([3]) extended to partner countries experiencing a balance-of-payments crisis. Since its inception in 1990, MFA has helped to improve macroeconomic and financial stability in countries neighbouring or geographically close to the EU, while encouraging structural reforms in these countries. MFA complements - and is conditional on - a non-precautionary credit arrangement agreed with the International Monetary Fund (IMF). Relieving the partner country of some pressure to address balance-of-payments problems allows it to increase its fiscal space, improve its debt sustainability and focus on driving needed reforms. By smoothening the macroeconomic adjustment path, MFA operations can have positive social impacts, giving the country more time and scope to address the root causes of its crisis.

MFA most often takes the form of loans, the funding for which the Commission borrows on capital markets. The Commission in turn then lends these funds to the beneficiary country. In some cases, MFA takes the form of grants financed by the EU budget, or takes the form of a combination of loans and grants.

MFA is released in instalments and only if specific structural reform criteria – agreed with the country – are met. These conditions underpin the implementation of strong adjustment and reform measures aimed at: (i) strengthening public-finance systems; and (ii) supporting sustainable and inclusive growth and employment creation. Moreover, a pre-condition for granting MFA is that the beneficiary country must comply with effective democratic mechanisms. These mechanisms include: having a multi-party parliamentary system; observing the rule of law; and guaranteeing that human rights will be upheld. In this way, MFA complements regular EU cooperation assistance and contributes to the wider goals of preserving stability, promoting prosperity, and promoting our core values beyond the EU. 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 the power to encourage changes in countries' policies ([4]). This conclusion on the effectiveness of MFA in responding to crises is supported by the findings of several independent *ex post* evaluations of completed MFA operations ([5]).

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[2] This report is based on information available up to June 2022.

[3] The legal basis for macro-financial assistance to non-EU countries other than developing countries is Article 212 of the Treaty on the Functioning of the European Union (TFEU). Article 213 TFEU may be used as a legal basis when the third country requires urgent financial assistance.

[4] MFA also complements other EU external actions or instruments for the neighbourhood and the Western Balkans, including budget support for which a total of 461 million EUR of grants was paid in the regions in 2021. The latest budget support report is available at: https://ec.europa.eu/international-partnerships/system/files/budget_support_-_trends_and_results_2021.pdf

[5] All *ex post* evaluations are available on the Commission's website: https://ec.europa.eu/info/evaluation-reports-economic-and-financial-affairs-policies-and-spending-activities_en

As a crisis instrument and unlike other EU external financial instruments, MFA does not provide financial support on a regular, programmable basis. For this reason, under the 2021-2027 multiannual financial framework (MFF), specific MFA operations will continue to be activated on the basis of ad hoc decisions. When they are based on Article 212 TFEU, these ad hoc decisions for specific MFA operations are governed by the ordinary legislative procedure, which requires the approval of the European Parliament and the Council for each operation (or for several operations simultaneously as was the case for the COVID-19 MFA package adopted in May 2020).

This annual report is prepared according to the Commission's information obligations as laid down in the various decisions by the European Parliament and the Council on MFA operations. It is accompanied by a Commission staff working document, which provides a more detailed analysis of the macroeconomic context and the implementation of individual MFA operations.

2 MACROECONOMIC DEVELOPMENTS IN PARTNER COUNTRIES

Following the recession induced by the COVID-19 pandemic in 2020, the economies of the enlargement and neighbourhood countries recovered in 2021. The duration and severity of the recession differed greatly from country to country. These differences reflect both the different way the pandemic spread across the countries, but also the different economic structures of the partners and their differing capacity to take effective counteracting measures. The ensuing recovery was also uneven across the countries. This section examines the regional challenges faced by the countries of the EU neighbourhood and the Western Balkans, while their economic performance is further assessed on a country-by-country basis in the accompanying staff working document.

While the regional overviews presented below are backward-looking, it must be noted that Russia's invasion of Ukraine significantly clouds the general outlook beyond its devastating direct impact on Ukraine. While some of Ukraine's neighbours in the eastern Partnership (EaP) may be most affected by the spillovers, the repercussions of the invasion will be felt in all the three regions. In the EaP countries, the invasion of Ukraine has led to currency depreciation and strong pressures on food and energy prices. Consumer and business confidence have also been hit heavily. In the coming months, the conflict is set to weigh heavily on trade, remittances and investments. Overall, the EaP region is likely heading for a year of stagflation. In the southern neighbourhood, despite overall low trade exposure, pressure from the conflict is being felt through higher food prices and threats to food security (some countries rely heavily on Russia and Ukraine for their wheat imports, a critical and highly subsidised staple) as well as through (often highly subsidised) energy prices. In addition, the post-COVID-19 recovery in the tourism sector will also be dented in some southern neighbourhood countries. In the Western Balkans, sustained increases in in the prices of energy, food and transport are similarly expected to fuel a further acceleration in inflation, reducing households' real disposable income and private consumption. Economic growth may be dampened further in the most highly tourism-dependent countries of the Western Balkans. The economic outlook in all three regions would be affected by: (i) disruptions in international supply chains; and (ii) lower demand resulting from lower growth prospects in major trading partners, including the EU. These factors could influence exports, foreign direct investment and remittances, and thus exacerbate existing external imbalances.

2.1 Eastern neighbourhood

In 2021, the economies of the eastern neighbourhood region recovered from the pandemic-induced recession of 2020. The driving factors in this recovery were: (i) the rebound in household consumption from a very low base; (ii) a surge in remittances; and (iii) increased investment activity. These economies were also supported by robust external demand. Although the return to growth helped reduce unemployment rates in almost all countries, this return to growth was accompanied by a steady and sharp acceleration in inflation throughout the year. The increase in inflation was mainly driven by the surge of global energy and food prices. In an attempt to rein in inflation, all central banks in the eastern neighbourhood region tightened their monetary policy stance in 2021. This supported a steady appreciation of the local currencies, which, in many cases, recovered the losses they had recorded in 2020.

Fiscal positions improved in 2021 despite still feeling the scars of the pandemic. Revenues bounced back strongly on the back of rising economic activity and a sharp increase in trade. At the same time, expenditure kept on growing steadily, including due to the only gradual scale-down of the generous measures deployed to tackle the impact of the pandemic on households and businesses. Lower deficits, appreciating domestic currencies and a considerable rise of the nominal GDP all led to improvements of the public debt-to-GDP ratios of the eastern neighbourhood countries. On the external side, both imports and exports recovered strongly across the region reflecting the low base, higher demand and the rise of commodity prices. Remittances rose substantially as well. All this, along with the general allocation of Special Drawing Rights (SDR) by the IMF to its members in August, gave an important boost to the external positions and led to rising international reserves in most countries.

Looking ahead and as noted above, the eastern neighbourhood is particularly exposed to the economic fallout of Russia's invasion of Ukraine with the risk of falling into a severe recession, whose proportions could be comparable to the havoc prompted by the break-up of the Soviet Union in the 1990s, as the two largest economies in the EaP region, Ukraine and Belarus, are by far the ones most heavily hit.

2.2 Southern neighbourhood

In 2021, economic activity in the southern neighbourhood region also began to recover from the pandemic and its economic fallout. Growth returned to all countries, except for Lebanon, where there is an ongoing deep political and economic crisis. Growth in the region accelerated during the year, as looser restrictions, the vaccine rollout and pent-up demand all supported both increased investment activity and a recovery in private and government consumption. The recovery in external demand also supported export industries, in particular manufacturing. Tourism numbers also improved somewhat, in line with the gradual lifting of travel restrictions. Unemployment remained above the pre-pandemic level, yet employment rates improved in line with higher activity rates. Inflationary pressures have increased substantially, including for food and energy products, as monetary policies remained accommodative. The increase in commodity prices has increased activity and improved fiscal balances in energy-exporting countries.

Fiscal deficits fell in 2021, due to recovering revenues and moderate expenditure increases in line with the gradual withdrawal of pandemic-related support measures. However, public debt remained at record levels as a consequence of substantial financing needs due to the pandemic. The region witnessed a strong recovery in both imports and exports on the back of: (i) the rebound in previously subdued demand; (ii) increases in commodity prices; (iii) and growing demand from the region's main export markets. Record remittances were also supported by the return to growth in the European Union and the upsurge in global oil prices. Domestic currencies remained stable or appreciated slightly, with international reserves declining in most countries. The region continued to benefit from external support from international institutional lenders, including the IMF SDR allocations.

Russia's invasion of Ukraine has also impacted the outlook for the southern neighbourhood, albeit to a lesser degree than it impacted the outlook for the EaP. The fallout of Russia's invasion implies significant risks to the nascent recovery, as the southern neighbourhood countries are set to be affected in particular through higher prices for food, energy and other commodities. These higher prices will drive up inflation and hit domestic consumption while adding to pressure on public budgets.

2.3 Western Balkans

After the pandemic-induced recession in 2020, the disruptive effects of the COVID-19 crisis subsided and economic activity rebounded strongly in all Western Balkan economies in 2021. The recovery was largely supported by: (i) the gradual lifting of COVID-19-related containment measures; (ii) stronger domestic and external demand; and (iii) flattering base effects. In line with the rebound in economic activity, employment growth returned to positive territory and unemployment rates declined in most countries in the region. There was also an increase in the numbers of people in employment. Inflation dynamics reflected the recovery in aggregate demand and higher prices for energy, food and transport, with all Western Balkan countries experiencing a pick-up in inflation in 2021.

The rebound in tax revenues due to stronger economic activity helped to reduce fiscal deficits across the region in 2021. In addition, the general government debt-to-GDP ratio slightly decreased in most countries compared to the end of 2020, partly reflecting a recovery in nominal GDP growth. On the external front, current-account deficits narrowed markedly in 2021 compared to the year before as the strong rebound in services exports and higher inflows of remittances outweighed the increase in merchandise trade deficits.

The outlook for the economies of the Western Balkans has also deteriorated, with prospects for growth held back due to several factors, most significantly the impact of higher prices for energy, food and transport on disposable income and consumption. Nevertheless, the Western Balkans have clearly been affected to a lesser degree by these factors than the countries of the EaP.

3 MACRO-FINANCIAL ASSISTANCE OPERATIONS IN 2021

On 22 April 2020, the Commission adopted a proposal for a EUR 3 billion MFA package to 10 enlargement and neighbourhood-region partners, to help them limit the economic fallout of the COVID-19 pandemic. The decision[6] was very swiftly adopted by the European Parliament and the Council on 25 May 2020[7]. Only available for 1 year, the COVID-19 MFA was to be released in two instalments in conjunction with a disbursing IMF arrangement, and subject to the general political pre-conditions being met. As an

[6] Decision (EU) 2020/701.

[7] MFA is always subject to a disbursing IMF programme. Beneficiary countries with an IMF stand-by arrangement or a programme under the Extended Fund Facility (or similar arrangement with an IMF-accompanied adjustment and reform programme) must in principle keep their IMF programme on track, as indicated by successful reviews. In the context of the COVID-19 crisis, MFA is also exceptionally available to countries that benefit from emergency funding from the IMF, such as through the Rapid Financing Instrument (RFI), which comes in a single IMF disbursement.

additional condition, the second and final instalment would only be disbursed after the partner country had fulfilled the attached policy conditions.

In 2021, the focus was therefore on implementing the COVID-19 MFA package. A total of EUR 1.665 billion in loans was disbursed to support the financial stability of EU partner countries and help them limit the economic fallout of the COVID-19 pandemic.

Of the 7 operations initiated in 2020, 6 were successfully completed in full, with the disbursement of the second and final tranche for the following countries: North Macedonia, Kosovo, Montenegro, Jordan, Moldova and Ukraine. In addition, the assistance to Albania, which entered into force only in 2021, was also fully disbursed.

However, the MFA operation to Georgia agreed under the above-mentioned decision was only partially paid out. Although the first disbursement took place in November 2020, the second instalment was cancelled: (i) following non-fulfilment by Georgia of the most important policy condition related to the judicial system; and (ii) after the Georgian authorities indicated that they no longer required the funds.

The two remaining operations for Bosnia and Herzegovina and Tunisia were also started in 2021, following their respective, rather lengthy ratification processes for the Memorandum of Understanding (MoU) and Loan Facility Agreement (LFA). Tunisia received the second disbursement on 25 May 2022, thus successfully completing the operation upon completion of the policy conditions agreed in the MoU. On the other hand, the second tranche for Bosnia and Herzegovina was not disbursed due to limited reform implementation at the end of the availability period.

Besides the financial assistance planned to help countries respond to the COVID-19 pandemic, plans to implement a third regular MFA for Jordan were also taken forward, with the release of the second tranche completed on 20 July 2021.

In light of the ongoing post-pandemic economic recovery, and of a gas crisis that started in October 2021, Moldova submitted a request for a new MFA operation in November 2021. The Commission also received a request for a new MFA from Ukraine, amid the risk of an escalation of the conflict with Russia and against the background of the loss of access to international capital markets. Corresponding MFA operations were subsequently proposed in early 2022 for up to EUR 150 million to Moldova and up to EUR 1.2 billion to Ukraine.

The implementation status of MFA operations in 2021 (by region):

3.1 Eastern neighbourhood

- **Georgia: COVID-19 MFA**

The COVID-19 MFA package included MFA of up to EUR 150 million for Georgia.

The first instalment (EUR 75 million) was disbursed in November 2020.

The second instalment of EUR 75 million was subject to fulfilment of a set of policy conditions laid down in the MoU in the areas of: public procurement; the pension system; company law; the governance of state-owned enterprises; the judicial system; energy efficiency; and the labour market. Georgia did indeed implement several structural reforms in line with the conditions of the MFA. However, the second instalment was cancelled, following non-fulfilment by Georgia of the most important policy condition related to the judicial system and following Georgian authorities' decision not to request this second instalment.

The MFA was provided in conjunction with resources from international financial institutions and bilateral donors, including the IMF, under the IMF's four-year Extended Fund Facility (EFF) programme with Georgia. The IMF's four-year EFF was approved in April 2017 and increased in 2020 to a total of approximately EUR 690 million. All reviews under this EFF programme were successfully approved by the IMF Board, including the final one in April 2021.

- **Moldova: MFA and COVID-19 MFA**

As part of the COVID-19 MFA package, EUR 100 million of assistance was earmarked for Moldova, complementing the IMF emergency programme of USD 235 million (adopted in April 2020). After the disbursement of the first instalment in November 2020, the MFA was successfully completed with the disbursement of the second and last tranche (EUR 50 million) in October 2021. A set of policy conditions were laid down in the MoU in the areas of: public-finance management; business governance; and the fight against corruption. Reform implementation was rather slow for most of the COVID-19 MFA period. However, following the July 2021 parliamentary elections, Moldova's willingness to address structural shortcomings increased significantly as the President, Government and Parliament started to work together in a more coherent manner. Notwithstanding this improvement, a waiver had to be granted in relation to one condition (on the asset-recovery strategy following the 2014 banking fraud) after consulting the Member States Committee for Macro-Financial Assistance.

In November 2021, following the outbreak of an energy crisis, and given the circumstances of the post-pandemic economic recovery, Moldova officially requested a new, regular MFA. After careful assessment of the financing needs, the Commission prepared a proposal for a new operation of up to EUR 150 million, including EUR 120 million in medium-term loans, and EUR 30 million in grants. The decision to provide additional MFA to Moldova was adopted by the European Parliament and the Council on 6 April 2022. The MFA will be disbursed in three instalments following the implementation of policy actions in the areas of: good governance; the rule of law; the fight against corruption; and energy-sector reforms. Further progress on asset recovery (following up on previous MFA operations) is also a condition for the disbursement of these instalments.

The new MFA reflects how the IMF re-engaged with the Moldovan authorities after the elections in July 2021. A new staff-level agreement was reached for a three-year Extended Credit Facility/EFF of USD 558.3 million, which was adopted by the Fund's Executive Board in December 2021. The first instalment of USD 79.8 million was disbursed immediately after it was adopted.

- **Ukraine: COVID-19 MFA**

The COVID-19 MFA for Ukraine of EUR 1.2 billion entered into force in September 2020. The structural policy conditions of this fifth MFA operation built upon past MFA achievements and supported reforms in four areas: public-finance management; governance and the rule of law; improvement of the business climate; and energy and state-owned enterprises. The first tranche of EUR 600 million was disbursed on 9 December 2020.

The disbursement of the second tranche was conditioned on the successful implementation of the eight structural policy measures to which Ukraine has committed in the MoU, and of the IMF programme. The COVID-19 MFA to Ukraine was provided in conjunction with other resources from international financial institutions and bilateral donors, most notably the IMF under its 18-month USD 5 billion Stand-by Arrangement agreed on 9 June 2020. Progress with implementing the conditionality agreed with the IMF was uneven and the first programme review, including an extension of the programme to end-June 2022, was closed in November 2021 only. Based on a prior comfort letter by the IMF on significant progress along the key programme priorities and given the Commission's own assessment of satisfactory implementation of the structural measures agreed in the MoU, the second tranche of EUR 600 million was disbursed on 25 October 2021. This concluded the successful implementation of the COVID-19 MFA for Ukraine.

In the context of the escalating geopolitical tensions preceding Russia's invasion of Ukraine, on 1 February 2022 the European Commission adopted a proposal for a decision on providing a new emergency MFA to Ukraine for up to EUR 1.2 billion in loans, to be disbursed in two equal instalments. The European Parliament and the Council adopted the Decision on 24 February 2022, thus authorising the sixth MFA operation in Ukraine since 2014. The Commission and Ukraine signed the related MoU on 3 March, which enabled a disbursement of the first instalment of EUR 600 million in two tranches on 11 and 18 March 2022. As an exceptional response to the acute financing needs of Ukraine, and since the conditions agreed in the MoU cannot be achieved at this stage for reasons of *force majeure*, the Commission decided, after a positive consultation of the Member States Committee for MFA, to proceed with the disbursement of the second tranche of EUR 600 million in May, as a matter of urgency. This emergency MFA is provided in conjunction with resources from international financial institutions and bilateral donors, including the IMF's 18-month, USD 5 billion stand-by arrangement agreed on 9 June 2020. Following the successful conclusion of the first programme review in November 2021, the Board of the IMF extended the validity of the stand-by arrangement until end-June 2022. The second programme review started on 23 February 2022, a day before the Russian invasion. Given the exceptional situation, Ukraine then requested emergency financing under the Rapid Financing Instrument and received USD 1.4 billion on 9 March.

3.2 Southern neighbourhood

- **Jordan: MFA-III and COVID-19 MFA**

After the third MFA to Jordan of EUR 500 million entered into force in January 2020, the Jordanian authorities requested additional assistance in April 2020, in the context of the COVID-19 pandemic and the EU agreed on a 'top-up' MFA of EUR 200 million, all in loans. The MFA's policy conditions focus primarily on: (i) improving public-finance management; (ii) fighting corruption; (iii) making reforms in the utilities sector; (iv) reforming social and labour market policy; and (v) governance.

The first instalment (EUR 150 million, plus EUR 100 million as top-up) was disbursed on 25 November 2020. The second and third instalments are subject to the specific policy conditions agreed between Jordan and the EU in the MoU. The second tranche (EUR 50 million and a top-up of EUR 200 million) was disbursed on 20 July 2021, successfully concluding the COVID-19-related part of the assistance. For the release of the second tranche, a waiver was granted for one condition (on steps towards setting up an electronic invoicing system) following consultation of the Member States Committee for Macro-Financial Assistance. However, this waived condition must be fulfilled in full when all reforms necessary for disbursement of the third tranche are implemented. The third tranche of EUR 200 million remains available until April 2023.

These MFA operations are provided in conjunction with resources from international financial institutions and bilateral donors, including the IMF. On 25 March 2020, the IMF approved a four-year EFF programme with Jordan worth EUR 1.1 billion (270 % of quota). This amount was later increased to around EUR 1.3 billion (equivalent to 312 % of Jordan's quota). On 20 May 2020, the IMF also made available around EUR 366 million in emergency assistance to Jordan under the Rapid Financing Instrument to help the country deal with the impact of the pandemic. By December 2021, the IMF's total disbursement to Jordan since the start of 2020 had reached around EUR 1 billion. The EFF programme remains on track, with the third review completed on time in December 2021. While Jordan's public debt remained high at 110 % of GDP in late 2021, it was assessed as sustainable by the IMF.

- **Tunisia: COVID-19 MFA**

As part of the COVID-19 MFA package adopted in May 2020, the EU agreed on a EUR 600 million MFA for Tunisia. The MoU and the LFA were signed on 24 November 2020, ratified by the Tunisian Parliament on 15 April 2021 and entered into force on 11 May 2021, upon publication in the Tunisian Official Gazette. The 12-month availability period therefore ran until May 2022. The MFA's policy conditionality focuses primarily on four thematic areas: public finance management and civil sector reform; reforms in state-owned enterprises; social protection; and investment climate.

The MFA was provided in two tranches of EUR 300 million each. The first instalment was subject to the general political pre-conditions for MFA and was disbursed on 1 June 2021. Efforts have clearly been accelerated in relation to required policy reforms for the disbursement of the second tranche and all conditions are at least broadly fulfilled. Notwithstanding some concerns in relation to the political precondition, a letter from the authorities setting out commitments on a political calendar this year enabled the second tranche to be disbursed on 25 May 2022.

The assistance is meant to complement resources made available by other donors, including the IMF, under its EUR 685 million Rapid Financing Facility programme with Tunisia approved on 10 April 2020.

3.3 Western Balkans

- **Albania: COVID-19 MFA**

Following the devastating earthquakes in November 2019 and the challenges posed by the COVID-19 pandemic, Albania officially requested MFA on 15 April 2020. In response, as part of the COVID-19 MFA package, the EU agreed on a EUR 180 million MFA for Albania. The MoU and the LFA were signed on 3 November 2020 and entered into force on 3 November 2020 and on 26 January 2021, respectively, as different national procedures were applicable. The MFA's policy conditions aimed to address some of the weaknesses in public finance management, the financial sector, good governance and the fight against corruption and social protection policies.

The MFA was provided in two tranches of EUR 90 million each. The first instalment was disbursed on 31 March 2021. The second and final instalment was disbursed on 5 November 2021, after Albania had fulfilled the attached policy conditions.

The assistance was meant to complement resources made available by other donors, including the IMF, under its Rapid Financing Facility programme with Albania of EUR 174 million approved on 10 April 2020.

- **Bosnia and Herzegovina: COVID-19 MFA**

Following an official request for MFA from Bosnia and Herzegovina on 14 April 2020 in the context of the COVID-19 pandemic, EUR 250 million was included for Bosnia and Herzegovina in the COVID-19 MFA package. The MoU and the LFA were signed on 15 January 2021 and entered into force on 9 June 2021. This substantial delay was caused by the lengthy decision-making processes of the country. The MFA's policy conditions aim to address some of the weaknesses in economic governance and institution building, financial sector stability, transparency and the fight against corruption and a better functioning of the labour market.

The MFA was to be provided in two tranches of EUR 125 million each. The first instalment was disburded on 7 October 2021, while the second tranche was not disbursed due to limited reform implementation at the end of the availability period.

The assistance is meant to complement resources made available by other donors, including the IMF, under its EUR 330 million Rapid Financing Facility (RFI) programme approved on 20 April 2020.

- **Kosovo: COVID-19 MFA**

Following an official request for MFA from Kosovo on 8 April 2020 in the context of the COVID-19 pandemic, Kosovo received a new EUR 100 million MFA operation. The MFA's policy conditionality focused primarily on strengthening public finance, enhancing financial stability, tackling informality, advancing the rule of law strategy, and improving employment prospects for young people.

The MFA was provided in two tranches of EUR 50 million each. The first instalment was disbursed on 6 October 2020. The second and final instalment was disbursed on 1 June 2021, after Kosovo had fulfilled the attached policy conditions.

The assistance was meant to complement IMF funds (EUR 52 million) under the Rapid Financing Facility (RFI) (50% of the Kosovo quota in the Fund), approved on 10 April 2020.

- **Montenegro: COVID-19 MFA**

Following an official request for MFA from Montenegro on 15 April 2020, the EU agreed on a EUR 60 million MFA operation for Montenegro, as part of the COVID-19 MFA package. The MFA's policy conditionality focused primarily on strengthening public finances and the fight against corruption, enhancing financial stability, improving the business environment, and reforming social protection.

The MFA was provided in two tranches of EUR 30 million each. The first was disbursed on 6 October 2020. The second and final instalment was disbursed on 1 June 2021, after Montenegro had fulfilled the attached policy conditions.

The assistance was meant to complement resources made available by other donors, including the IMF, under its EUR 75 million Rapid Financing Facility programme with Montenegro approved on 24 June 2020.

- **North Macedonia: COVID-19 MFA**

Following an official request for MFA from North Macedonia on 15 April 2020, the EU earmarked EUR 160 million MFA operation for North Macedonia, as part of the COVID-19 MFA package. The MFA's policy conditionality focused primarily on strengthening public finance and the fight against corruption, enhancing financial stability, improving the business environment, and reforming social protection.

The MFA was provided in two tranches of EUR 80 million each. The first instalment was disbursed on 6 October 2020. The second and final instalment was disbursed on 1 June 2021, after North Macedonia had fulfilled the attached policy conditions.

The assistance was meant to complement resources made available by other donors, including the IMF, under its EUR 176 million Rapid Financing Facility programme with North Macedonia approved on 10 April 2020.

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

4.1 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 financial-management systems. In particular, they focus on how finance ministries and central banks are organised and what procedures they implement. More specifically, they focus on how accounts receiving EU funds are managed. Special attention is also paid to the functioning, independence and work programmes of external audit institutions, and the effectiveness of these institutions' controls. Public-procurement procedures at central level are also examined.

In 2020, 10 operational assessments were carried out in the context of the COVID-19 MFA operations, as well as the MFA-III Jordan. These assessments concluded that the financial circuits and procedures in the partner countries are deemed appropriate for the purposes of MFA. No new assessments were necessary in 2021.

4.2 Ex post evaluations

In line with the EU Financial Regulation and the corresponding MFA decisions, the Commission conducts *ex post* evaluations[8] after the completion of MFA operations to assess their impact. The two main objectives of these evaluations are to:

i. analyse the impact of MFA on the beneficiary country's economy, and in particular on the sustainability of its external position; and

ii. assess the added value of the EU action.

In January and April 2021, the Commission published the staff working documents for the *ex post* evaluations of MFA-I to Tunisia and MFA-III to Ukraine respectively. The Commission staff working document accompanying the present report provides additional information on these two evaluations.

Furthermore, in 2021, the joint *ex post* evaluation of MFA-II interventions to Tunisia and Jordan was completed, as was the meta-evaluation of all MFA operations over the period 2010-2020. The meta-evaluation assessed the principles and characteristics governing the MFA instrument and aimed to provide input on how to improve: (i) its relevance, effectiveness, efficiency and value added; and (ii) its ability to respond to the priorities of EU external action. The accompanying staff working documents of the two evaluations are expected to be published in 2022.

- **MFA-II to Tunisia and Jordan**: the external study concludes that the size, form and timing of the operations implemented by the two countries were relevant and appropriate to the countries' financing needs, providing EU added value. In both countries, the MFA had a positive impact on debt sustainability and helped to promote macroeconomic stabilisation. The conditions were relevant and focused on key reform areas. The operations supported positive change in some reform areas, despite mixed progress in some other specific reforms. From a regional perspective, the positive impact and spillovers on the Middle East and north Africa region of the two MFAs was less measurable and related mostly to the confidence effect.
- **The meta-evaluation of MFA operations 2010-2020**: the external study concludes that MFA operations were efficient, relevant, and coherent, and that they generated EU added value. Moreover, the MFA instrument was found to be effective in helping to both restore external sustainability and promote structural reforms. At the same time, the study notes the importance of a sense of 'ownership' of reforms in the partner country to ensure that the policy reforms undertaken have a lasting impact. The study also highlights the long time it can take for MFA operations to become operational and presents some ideas to facilitate a swifter and more effective response of the instrument in a challenging geopolitical context. The evaluation stressed the need to strengthen the visibility of the MFA in beneficiary countries. In this respect, the event organised by the Commission on 16 November 2021, on the occasion of the 30th anniversary of the instrument, also provided an important showcase to consolidate awareness around the instrument outside the European Union. High-level representatives from beneficiary countries, consultancy firms, EU delegations and Member States took part in the debate on what MFA has achieved so far and possible strategies

[8] All *ex post* evaluations are available on the Commission's website: https://ec.europa.eu/info/evaluation-reports-economic-and-financial-affairs-policies-and-spending-activities_en.

for its future. From a methodological perspective, the MFA *ex post* evaluations were carried out to a high standard. This was especially so after the 2015 'better regulation' guidelines came into effect.

Additional information on the two evaluations is provided in the staff working document accompanying the present report and will be available in the staff working documents to be published for both evaluations.

5 GENERAL DEVELOPMENTS RELATED TO THE MFA INSTRUMENT

5.1 Functioning of the MFA instrument

The 2013 Joint Declaration of the European Parliament and of the Council on MFA[9] 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.' For MFA to be successful as an 'emergency' instrument, it is therefore important to mobilise it effectively and in time.

At the same time, it has been noted by both the European Court of Auditors and in the meta-evaluation of MFA operations (2010-2020) that delays in adopting MFA decisions by the European Parliament and the Council within the ordinary legislative procedure can be a significant shortcoming for an instrument that is meant to respond to a balance-of-payments crisis. As a consequence, the European Court of Auditors recommended that 'the Commission should explore with its co-legislators the available options to accelerate the approval procedures of subsequent MFA programmes, particularly for emergency funding.'[10]

However, the Commission believes that the experience with the COVID-19 MFA package and the new emergency MFA to Ukraine shows that the current setup of MFA can allow for a swift adoption, if all institutions agree to make full use of the available procedural flexibilities. In both cases, the Commission worked with the Parliament and the Council to agree on the use of existing urgency procedures which allowed for the assistance to be adopted within a month of the Commission's proposal and by both co-legislators. The European Parliament invoked a specific clause (Rule 163) in their Rules of Procedure, which permitted the Parliament to immediately adopt the decision in plenary, without having to go through the INTA Committee, as is regular practice. This fast adoption process was the result of a shared sense of urgency by all institutions in these extraordinarily challenging times.

Thus, the rules of procedure of both the Council and the European Parliament provide for an accelerated procedure necessary for rapid adoption in situations of urgency. By having timely and constructive contacts, it proved possible to have a faster adoption process under the ordinary legislative procedure, with the full involvement of the European Parliament. This would not have been the case if the Commission had proposed measures

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[9] 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). Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013D0778&from=EN.

[10] European Court of Auditors Special Report (No 03/2017) available at: https://www.eca.europa.eu/Lists/ECADocuments/SR17_3/SR_TUNISIA_EN.pdf.

on the basis of Article 213 TFEU (applicable for cases where urgent financial assistance is required and by the Council adopting the MFA operation only).

5.2 MFA in the 2021-2027 MFF

The EU's neighbourhood region continues to experience geopolitical and economic instability. This is further exacerbated by the humanitarian and economic fallout from the COVID-19 pandemic and Russia's invasion of Ukraine. In this context, the need for the EU to consider providing MFA is likely to remain high in the years to come.

The new Neighbourhood, Development and International Cooperation Instrument (NDICI) (also known as the 'Global Europe' instrument) entered into force in June 2021 after its formal adoption by the Council and the Parliament. The MFA instrument will remain separate from NDICI-Global Europe, and specific MFA operations will continue to be activated, as needed, by separate ad hoc decisions on the basis of the applicable legal basis in the Treaty. Nevertheless, the MFA loans will from now on be guaranteed by the new external action guarantee (EAG) that was created by the NDICI-Global Europe Regulation, at a provisioning rate of 9 % as was previously the case.

NDICI-Global Europe: (i) stipulates that the provisioning of the EAG must be financed from the budget of the relevant geographic programmes; and (ii) sets an overall limit of EUR 10 billion that may be used to provision the EAG. This would effectively put a limit on the volume of MFA operations as well as other instruments (including European Investment Bank external lending, EFSD+ and Euratom loans) that can be financed during this MFF.

The EAG will no longer be managed through the Guarantee Fund for External Action, but through the Common Provisioning Fund. The Commission has embarked on an assessment of the risks involved in this given: (i) new rules on the treatment of contingent liabilities; and (ii) the specific context of exposure to Ukraine and the region. These risks may also be addressed at the forthcoming mid-term review of the NDICI-Global Europe Regulation.

6 LOOKING AHEAD – MFA OPERATIONS AND BUDGETARY SITUATION IN 2022

The year 2022 opened with the adoption by the Commission of two new MFA proposals for Moldova and Ukraine for EUR 150 million and EUR 1.2 billion respectively. Requested in November 2021 amid the outbreak of Moldova's gas crisis and the ongoing post-pandemic economic recovery, the MFA to Moldova will consist of EUR 120 million in loans and EUR 30 million in grants. These loans and grants will be disbursed in three tranches upon the completion of pre-defined conditions. On 11 March, Moldova requested an increase in the MFA, reflecting the economic fallout of the Russian invasion of Ukraine on its financing needs, including the high influx of refugees. Moldova's request stressed the need for grants in particular. In response, efforts are ongoing to complement this MFA by a wider support package where the request for more grant assistance can be accommodated. Additionally, the grant component of the MFA will be front-loaded, to make it possible to disburse more grants in the first two tranches (EUR 15 million and EUR 10 million, respectively).

On 24 February 2022, the European Parliament and the Council adopted a decision on a new emergency MFA to Ukraine amid the risk of an escalation in the conflict with Russia and against the background of Ukraine's loss of access to international capital markets. This MFA was in the form of EUR 1.2 billion in loans, and the first EUR 600 million was paid out in March 2022, helping to address Ukraine's soaring financing gap due to the ongoing conflict with Russia. The Ukrainian authorities, overall, had taken action towards the implementation of the agreed condition. However, the circumstances of the war constituted an event of *force majeure* that impeded the effective completion of the structural policy measures that condition the disbursement of the second tranche of the MFA. After a careful assessment, and after consulting the Committee for Macro-Financial Assistance, the Commission decided nevertheless to proceed with the disbursement of the second tranche of EUR 600 million already in May 2022, as a matter of urgency.

The European Council on 30 May 2022 reiterated their support to Ukraine and stands ready to grant new exceptional MFA of up to EUR 9 billion in 2022.

Depending on the progress with policy reforms and the fulfillment of the political precondition, the last tranche for the COVID-19 MFA was disbursed to Tunisia on 25 May 2022, while the second tranche to Bosnia and Herzegovina was not disbursed due to limited reform implementation at the end of the availability period. The final instalment of the Jordan MFA-III operation remains available until April 2023.

The Commission stands ready to consider any forthcoming requests for MFA, and if appropriate, will propose new and/or follow-up MFA operations to eligible partners.

Table 1 provides an overview of commitments and payments of MFA grants and the disbursement of MFA loans for 2019, 2020, 2021 and (provisionally) 2022. Total disbursements are expected to amount to EUR 1 575 million of loans and of EUR 25 million of grants in 2022.

Table 1: Commitments and payments for MFA grants and disbursements of MFA loans 2019-2022 (EUR)[11]

	2019	2020	2021	2022 (provisional)
Commitment appropriations for grants in the budget	27 000 000	20 000 000	227 200	50 000 000
Operational assessments, *Ex post* evaluations	125 900	293 900	227 200	TBD
Other possible MFA operations	-	-	-	30 000 000
Commitments, total	125 900	293 900	227 200	30 000 000
Uncommitted budget allocations	26 874 100	19 706 100		TBD
Payment appropriations for grants in the budget	27 000 000	27 000 000	362 400	25 000 000
Operational assessments, *Ex post* evaluations	304 949	284 600	362 400	-
MFA Georgia III (completed)	-	5 000 000	-	-
MFA Moldova (completed)	10 000 000	10 000 000	-	-
MFA Moldova	-	-	-	25 000 000
Other possible MFA operations	-	-	-	-
Payments, total	10 304 949	15 284 600	362 400	25 000 000
Unused allocations for grants payments	16 695 051	11 715 400		-
Disbursements of MFA loans				
MFA Georgia III (completed)	-	20 000 000	-	-
MFA Moldova (completed)	20 000 000	20 000 000	-	-
MFA Ukraine IV (completed)	-	500 000 000	-	-
MFA Jordan II (completed)	100 000 000	-	-	-
MFA Jordan III[12]		100 000 000	200 000 000	-
MFA Tunisia II (completed)	300 000 000	-	-	-
MFA Moldova	-	-	-	75 000 000
Emergency MFA Ukraine	-	-	-	1 200 000 000
Disbursements of MFA loans, total	**420 000 000**	**640 000 000**	**200 000 000**	**1 275 000 000**
COVID-19 MFA operations:				
MFA Georgia (partially disbursed)		75 000 000	-	-
MFA Moldova (completed)		50 000 000	50 000 000	-
MFA Ukraine (completed)		600 000 000	600 000 000	-
MFA Jordan (completed)		150 000 000	50 000 000	-
MFA Tunisia (completed)		-	300 000 000	300 000 000
MFA Albania (completed)		-	180 000 000	-
MFA Bosnia and Herzegovina (partially disbursed)		-	125 000 000	-
MFA Kosovo (completed)		50 000 000	50 000 000	-
MFA Montenegro (completed)		30 000 000	30 000 000	-
MFA North Macedonia (completed)		80 000 000	80 000 000	-
Disbursements of MFA loans, total	**420 000 000**	**1 675 000 000**	**1 665 000 000**	**1 575 000 000**

[11] The table does not take into account any proposal for new MFA operations after 1 June 2022.

[12] The third instalment of EUR 200 million is available until April 2023.