Council of the
European Union

**Brussels, 19 January 2023**
**(OR. en)**

**5495/23**

**ECOFIN 54**
**RELEX 65**
**NIS 3**
**MED 4**
**COEST 56**

**COVER NOTE**

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| From: | Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director |
| date of receipt: | 13 January 2023 |
| To: | Ms Thérèse BLANCHET, Secretary-General of the Council of the European Union |
| No. Cion doc.: | SWD(2023) 17 final |
| Subject: | COMMISSION STAFF WORKING DOCUMENT EXECUTIVE SUMMARY OF THE EVALUATION of Macro-financial assistance operations to third countries (Meta-evaluation of operations 2010-2020) |

Delegations will find attached document SWD(2023) 17 final.

Encl.: SWD(2023) 17 final

EUROPEAN
COMMISSION

Brussels, 13.1.2023
SWD(2023) 17 final

**COMMISSION STAFF WORKING DOCUMENT**

**EXECUTIVE SUMMARY OF THE EVALUATION**

**of**
**Macro-financial assistance operations to third countries**

**(Meta-evaluation of operations 2010-2020)**

{SWD(2023) 16 final}

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**Macro-financial assistance (MFA) is a form of EU financial aid for partner countries, experiencing a balance-of-payments crisis,** helping to restore their external stability and return their economies to a sustainable path. It takes the form of concessional medium-/long-term loans and/or grants and typically complements financing provided by the international community in the context of a financial arrangement with the International Monetary Fund (IMF). Support can be provided only if beneficiaries respect effective democratic mechanisms, including a multi-party parliamentary system and the rule of law and guarantee respect for human rights (political pre-condition). Disbursements are conditional on the implementation of policy reforms agreed between the Commission, on behalf of the EU, and the beneficiary country in a bilateral Memorandum of Understanding (MoU).

**Since its inception, MFA has been gaining increasing prominence in the external toolbox of the EU and is an important part of its contribution to the Global Financial Safety Net under G20 rules**. This meta-evaluation was undertaken by the Commission's Directorate General for Economic and Financial Affairs (DG ECFIN) to assess whether the principles and characteristics governing MFA are still fit for its purpose. The exercise, coinciding with the MFA's thirtieth anniversary, took stock of previous evaluations and will help the Commission learn how to improve the design and implementation of MFA, as well as the methodology used to evaluate individual operations. The Staff Working Document (SWD) is mainly based on an external study of e*x-post* evaluations of 15 MFA operations during 2010-2020, complemented by experience with the 2020 COVID-19 MFA package and the recent MFA operations with Ukraine[1]. The bulk of MFA funding made available during 2009-2019 (EUR 6.3 billion in total) was provided to the eastern neighbourhood (71%: Armenia, Georgia, Moldova, Ukraine), followed by the southern neighbourhood (24%: Jordan, Lebanon, Tunisia). Additionally, EUR 3 billion of MFA support in the form of loans to 10 countries was authorised in response to the COVID-19 pandemic in 2020. Furthermore in 2022, EUR 7.2 billion was disbursed to Ukraine in three successive operations.

### *State of play and objectives*

**The EU has been providing MFA to partner countries, primarily in its neighbourhood, through targeted interventions since 1990.** It is a "crisis" instrument in the EU's external policy toolkit and is used in response to sudden (and unexpected) economic and financial developments in partner countries. The absence of a framework regulation for this policy means that MFA operations are adopted and implemented by means of ad-hoc decisions. Since 2013, the European Parliament (EP) and the Council have been authorising each MFA operation on the basis of Article 212 of the Treaty on the Functioning of the European Union (TFEU), and acting as co-legislators on a Commission proposal in accordance with the ordinary legislative procedure (the OLP[2]). The Council alone can authorise MFA operations in urgent cases on the basis of Article 213 of the TFEU.

**By a Joint Declaration in 2013[3], the EP and the Council have provided guidance on the MFA instrument.** While not legally binding, it takes stock of the main features of MFA. In

[1] The countries covered by the meta-evaluation are: Albania, Armenia, Bosnia and Herzegovina, Georgia, Jordan, Kosovo, Kyrgyz Republic , Lebanon, Moldova, Montenegro, North Macedonia, Serbia, Tunisia and, Ukraine.

[2] The procedure for the OLP is laid out in Article 294 of the TFEU. The Council alone authorised MFA operations before 2013.

[3] 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).

accordance with this Joint Declaration, MFA is an exceptional financing instrument of untied and undesignated balance-of-payments support for pre-accession and neighbourhood countries and territories (and others, in exceptional cases). Its objectives are to: (i) restore a sustainable external finance situation for eligible countries facing external financing difficulties, (ii) underpin the implementation of a policy programme containing structural reforms to improve the balance of payments position, (iii) strengthen the implementation of relevant agreements and programmes with the EU. Furthermore, the EP and the Council establish that MFA is linked to the political pre-condition and on the implementation of an IMF economic programme.

**The EU's treaties set out the broader goals and purposes of MFA as a tool for the EU external action.** These include safeguarding the EU values and fundamental interests; consolidating and supporting democracy, human rights and the rule of law; and encouraging the integration of the beneficiary countries into the world economy[4].

*Evaluation findings*

**Overall, MFA was effective in stabilising the beneficiaries' (external) macroeconomic position, especially in the short and medium-terms**. Notably, the individual ex-post evaluations show that despite a challenging external environment at the start of MFA operations, market access was maintained or regained in all cases. Besides, reserve adequacy and current accounts mostly improved during MFA operations, while inflation subsided.

**The following features were considered key in supporting MFA's effectiveness:**

- **the focus on countries in the EU's direct vicinity** and the strong ties with those countries help ensure that MFA policy conditions are relevant and can be met and that the instrument achieves its goals;
- **the preference for loans** and the standard availability period of 2.5 years create an overall framework that incentivises reforms and their implementation. The bulk of MFA funding was in the form of loans (95%), and the rest was in grants;
- **policy conditions are determined as a package of reforms,** ensuring a comprehensive reform effort. The chosen policy areas, the degree of ambition and impact on long-term sustainability, as well as the sequencing of reforms was found to be appropriate and important ingredients for successful operations. The external study has found evidence of high compliance with MFA conditionality and very little backtracking on reforms.

**MFA has been a relatively cost-efficient instrument.** For the EU, the complete non-occurrence of defaults to date has allowed the related external guarantee provisioning to be routinely returned to the EU budget. Concomitance with IMF interventions has provided assurance regarding the beneficiary's debt sustainability and repayment capacity, while the division of labour with the IMF has generated significant resource savings for the EU. For beneficiary countries, the high degree of loan concessionality provides substantial savings in comparison with market funding in a period of stress.

**Stakeholders have confirmed that the objectives, design and implementation of MFA operations were largely complementary and consistent with other EU initiatives and IMF operations**. MFA was complementary to budget support programmes in partner countries as well as to IMF/World Bank operations. The pooling of resources and expertise,

[4] Article 21 of the Treaty on European Union.

and policy conditionality between the Commission and the IMF in synchronised operations has increased the overall impact of MFA in terms of the level of support and leverage to push for reforms.

**MFA operations have substantial EU added value in various areas.** For Member States, the joint action has provided additional funding and economies of scale. For beneficiaries, MFA has promoted reforms that would not otherwise have taken place so quickly and broadly.

**Other features can reduce the effectiveness of MFA.**

- **The lengthy procedures for adopting MFA operations can pose risks to their effectiveness.** The time lag between request and disbursement was generally considered protracted for a crisis instrument, especially when standard decision-making procedures are being applied as it may affect the implementation of envisaged reforms and lead to some unwanted economic corrections occurring before external funding support is fully made available.
- **Notwithstanding the high compliance rates, the MoU's lack of flexibility appears to have reduced the effectiveness of MFA in times of profound change.** Across the evaluated operations, beneficiaries complied with roughly 90% of the agreed conditions, at least broadly. MFA policy conditions are fixed at the operation's inception and remain unchanged once the national procedures, often requiring parliamentary ratification, have been finalised.
- **The relatively low size of the MFA also affected its effectiveness,** with lower MFA amounts producing less stabilisation benefits and weaker reforms implementation. Besides, MFA visibility was rather low. The instrument was under-exploited for the promotion of EU economic diplomacy in partner countries. It also limited the perceived EU value added in comparison with the IMF/World Bank operations.

***Conclusions and lessons learned***

**Continuing demand for MFA from partner countries and external evaluation findings demonstrate the ongoing relevance of MFA and the reforms that it promotes.** MFA was requested and employed 15 times during the evaluation period, and 10 new operations were requested and authorised at the start of the COVID-19 pandemic in 2020. The continuing demand attests its ongoing relevance, and stakeholders generally confirm the EU value added of past operations. The overall assessment of the MFA instrument over the meta-evaluation period is very positive and shows that MFAs contributed to stabilisation of the beneficiaries' economies. It was found to be very cost-efficient to the EU budget. MFA policy conditions were shown to be relevant and well-coordinated with other EU instruments in neighbourhood and pre-accession countries.

**The evaluation has nevertheless identified several areas where there may be room for improvement :** (*i) Concomitance with IMF support:* despite the proven value added of the link with IMF support, making MFA strictly conditional on beneficiaries having a satisfactory track record of implementing the IMF programme has sometimes delayed the implementation of MFA; (ii) *Lengthy decision-making procedure for a crisis instrument: t*he length of the standard procedures has been found to delay the swift availability of MFA support. It was the intention of the Commission in 2011 to establish a framework regulation for MFA that would make the instrument more effective by streamlining its decision-making process, but no agreement could be reached on a legal set-up that was acceptable to all EU institutions. Recent experiences with the COVID-19 package and MFA to Ukraine following Russia's invasion have shown, however, that the current EU procedures can allow for a very rapid adoption, when all institutions make full use of the available procedural flexibilities in particularly urgent cases. (iii) *Volume of the financial assistance:* the impact of MFA operations is found to be proportional to the level of financial support. It is not entirely clear to what extent the limits imposed in that respect in relation to contributing to the residual financing gap provide sufficient flexibility. (iv) *Some flexibility to adapt policy conditionalities* in light of changing circumstances during an operation could enhance MFA's capacity to effectively anchor and accompany important policy reforms. *(v) Limited visibility of MFA operations*: various elements could be explored, including regarding the dissemination of ex-post evaluations results.

**The framework for MFA ex-post evaluations is overall appropriate and useful.** Ex-post evaluations have been carried out to a high standard and further enhanced with the introduction of the Better Regulation Guidelines.

A comprehensive assessment of the MFA operations is set out in the accompanying SWD, which informs this executive summary.