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Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

**amending DECISION (EU) 2022/563 as regards the amount of macro-financial
assistance to the Republic of Moldova**

{SWD(2023) 25 final}

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

• Reasons for and objectives of the proposal

In 2022, the global economic situation deteriorated. The circumstances underlying Moldova's first request for macro-financial assistance (MFA), made in 2022, further worsened. Moldova is both directly and indirectly affected by Russia's war of aggression against Ukraine, which came on top of the energy crisis it has faced since October 2021. Moreover, since the start of the war, over half a million people have crossed the Moldovan border, and about 90 000 remain in the country. This has put additional pressure on Moldova's public finances. Therefore, the overall macroeconomic position weakened significantly in 2022. Following a marked post-pandemic recovery in 2021, growth in the first 9 months of 2022 plummeted and the country entered a deep recession. With limited buffers to mitigate the crisis, Moldova requested further assistance from international partners. This suggested MFA increase thus comes as part of larger EU and international assistance for Moldova.

The ongoing MFA operation was requested by Moldova on 19 November 2021. The MFA, amounting to EUR 150 million (in loans on concessional terms and grants), was adopted by the European Parliament and the Council on 6 April 2022 and entered into force on 18 July 2022. Following fulfilment of the policy conditions attached to it, the first disbursement was made on 1 August 2022. Under this ongoing operation, EUR 100 million (in loans on concessional terms and grants) remains available to Moldova until January 2025. The second disbursement is expected in the first quarter of 2023.

In line with regular MFA procedures, the operation was made available to Moldova in combination with a new International Monetary Fund (IMF) arrangement, which was adopted in December 2021 and expanded in May 2022. The expanded support by the IMF under the Extended Credit Facility / Extended Fund Facility (ECF/EFF) programme amounts to USD 795 million.

Notwithstanding the current assistance to Moldova, the ongoing energy crisis and the effects of the war in Ukraine continue to pose sizeable challenges. According to the IMF's latest estimates (December 2022), Moldova's overall external financing gap for 2023 has increased by EUR 430 million (around 3% of gross domestic product (GDP)) compared to the IMF's first programme review (September 2022). This translates to an overall financing gap of about EUR 803 million (5% of GDP) for 2023. Against this backdrop and in line with the principle of fair burden-sharing, the Commission submits to the Parliament and the Council a proposal to increase the ongoing MFA to Moldova by EUR 145 million, of which EUR 100 million in loans and EUR 45 million in grants.

The additional MFA assistance would be disbursed in two new instalments, linked to: (i) additional policy conditionality; (ii) good progress in implementing the Association Agreement and the Deep and Comprehensive Free Trade Area (DCFTA); and (iii) a positive track record in implementing the IMF programme. The policy conditions attached to the two new instalments would build on those agreed in the Memorandum of Understanding on the current MFA. This would strengthen the focus of the programme and ensure consistency with the EU-Moldova policy priorities and the Moldovan government agenda. The additional support is also in line with the strengthened EU-Moldova relationship under the candidate country status, which Moldova was granted on 23 June 2022.

The implementation of the proposed operation is expected to go hand in hand with additional EU support under budgetary operations financed by the Neighbourhood, Development and International Cooperation Instrument (NDICI).

As further detailed in the Commission staff working document accompanying this proposal, the Commission has taken account of the assessment of the political situation made by the European External Action Service, and considers that the political and economic preconditions for the proposed MFA operation are satisfied.

- **General context**

Russia's invasion of Ukraine had a strong negative impact on the Moldovan economy amid an increasingly challenging global context. In January-September 2022, the Moldovan economy contracted by 4%, suggesting a deep recession for the year overall. The contraction was driven largely by a fall in household consumption and investment. On the production side, agriculture had a strongly negative impact on growth, following a drought in the summer of 2022. The energy crisis, which intensified in 2022, has put additional pressure on Moldova's public finances. The sharp rise in energy prices fuelled the high inflation and triggered the need for further spending on subsidies for the most vulnerable consumers.

In 2023, Moldova's outlook remains bleak. It is set to be further impacted by Russia's intensifying attacks on Ukraine and by the economic slowdown across the EU (Moldova's key trading partner). According to an IMF forecast (November 2022), in 2023, growth is set to pick up only moderately, to 1.5%, and to go back to its pre-crisis levels only in 2024-2025.

In 2023, inflation is set to go down markedly, but to remain in the double digits, averaging at 13.7%, compared to 28.5% in 2022. The spike in energy and food prices drove the high inflation in 2022, which peaked at 34% in October. In response to the strong inflationary pressure, the central bank hiked the key interest rate three times last year (by a cumulative 9 percentage points), to 21.5%. By the end of the year, inflation began to ease, yet moderately (to 31% in November), prompting a slight downward adjustment of the base rate to 20%.

The budget deficit is set to remain wide in 2023, at 6% of GDP, compared to 4.2% of GDP in 2022. Much of the widening will be due to higher spending on the most vulnerable consumers as a result of the spike in energy tariffs, and some public salary increases deemed necessary given the soaring inflation. Moldova's public debt-to-GDP ratio is low compared to most of its regional peers, but it is set to increase to 38% in 2023, against 36% of GDP at the end of 2022. About 95% of Moldova's public external debt was extended by multilateral creditors on concessional terms. Nevertheless, due to the country's high sensitivity to external shocks, the IMF has revised its rating of Moldova's risk of debt distress from low to medium.

On the external side, the current account deficit remains high, at 13.7% of GDP in the third quarter of 2022, and is set to remain at comparable levels in 2023, at 11.8% of GDP. This is driven largely by a large negative trade balance, at about 32% of GDP in the third quarter of 2022. However, at 14.2% of GDP, remittances remained broadly stable, despite some initial projections that transfers from abroad, especially Russia and the Commonwealth of Independent States, would fall markedly. Net foreign direct investment showed some resilience in the first half of 2022 (largely due to companies' high reinvested earnings). However, due to the uncertainty caused by the war, an IMF forecast (November 2022) expects it to decrease sharply, down to 0.4% of GDP for 2022 overall.

Since the start of Russia's invasion of Ukraine, Moldova's foreign currency reserves have been highly volatile, which has prompted sizeable interventions by the central bank. Initially, Moldova's foreign currency reserves decreased considerably from USD 3.9 billion at the end of 2021 (covering 5.5 months of imports) to a trough of USD 3.3 billion (covering 4.5 months

of imports) in April 2022. This was largely caused by a rapid withdrawal of bank deposits. The Moldovan leu also depreciated against the US dollar by around 7% in the first half of 2022. Although reserve levels were restored by the end of 2022, risks remain on the downside, related largely to the ongoing war in Ukraine. The central bank projects a drop in reserves at the start of 2023, partly due to a mild economic recovery and higher import demand, and additional fluctuations in the foreign exchange market.

- **Consistency with existing policy provisions in the policy area**

The proposed MFA increase would support the resources allocated to Moldova under the existing operation adopted by the Parliament and the Council on 6 April 2022 under Decision (EU) 2022/563 on providing MFA to Moldova amounting to EUR 150 million in loans and grants. The additional conditions attached to the increased amount would build on the reform priorities outlined in the existing Memorandum of Understanding, keeping the focus on public finance governance, the rule of law, combating corruption, improving the business climate, and promoting further energy sector reforms.

- **Consistency with other EU policies**

The EU and Moldova have developed a close political and economic relationship over the years, leading to the conclusion of the Association Agreement (including the DCFTA), which was signed on 27 June 2014 and entered into force on 1 July 2016. An EU-Moldova Association Agenda sets out the list of priorities for joint work. An updated Association Agenda for 2021-2027 was adopted on 22 August 2022.

Following Moldova's application on 3 March 2022, the EU granted Moldova candidate country status on 23 June 2022 on the understanding that the country will take a number of steps, notably in the areas of the rule of law, reform of the justice sector, combating corruption, and fundamental rights.

Also Moldova's economic ties with the EU are well developed. The EU continues to be Moldova's largest trading partner, accounting for 50% of Moldova's total trade in 2021 (about 61% of total exports and 44% of total imports).

Candidate countries and countries that are covered by the European Neighbourhood Policy are eligible for MFA (if they fulfil various conditions). The increased MFA would supplement the grants mobilised under the NDICI, strengthened by additional resources of EUR 55 million in 2023, and other EU programmes. The increased MFA would also supplement the conditions envisaged under the budget support packages currently being implemented by the EU. By supporting an appropriate framework for macroeconomic policy and structural reforms, the EU's MFA increases the added value and effectiveness of the EU's overall financial interventions, including through other financial instruments.

2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY

- **Legal basis**

The legal basis for this proposal is Article 212 TFEU.

- **Subsidiarity (for non-exclusive competence)**

The subsidiarity principle is respected. The objectives of restoring short-term macroeconomic stability in Moldova cannot be sufficiently achieved by the Member States alone and can be better achieved by the EU. The main reasons are the budgetary constraints faced at national

level and the need for strong donor coordination to maximise the scale and effectiveness of the assistance.

- **Proportionality**

The proposal complies with the proportionality principle. It limits itself to the minimum required to achieve the objectives of short-term macroeconomic stability and does not go beyond what is necessary for that purpose.

As identified by the Commission based on IMF estimates in the context of the Extended Fund Facility, the proposed amount - EUR 295 million - of the increased MFA, including the existing amount, corresponds to 33% of Moldova's estimated residual financing gap in 2022-2024. This is consistent with standard practices on burden-sharing for MFA operations. Under the terms of the ECOFIN Council conclusions of 8 October 2002, the upper limit is 60% for a candidate country and a country with an association agreement. It also takes into account the assistance pledged to Moldova by other bilateral and multilateral donors.

- **Choice of the instrument**

Project finance or technical assistance would not be suitable or sufficient to address the macroeconomic objectives. The key value added of the MFA in comparison with other EU instruments would be to alleviate external financial constraints and to help create a stable macroeconomic framework, including by promoting a sustainable balance of payments and budgetary situation, and an appropriate framework for structural reforms. By helping to put in place an appropriate overall policy framework, the MFA can increase the effectiveness of actions financed in Moldova under other, more narrowly focused EU financial instruments.

3. RESULTS OF *EX POST* EVALUATIONS, STAKEHOLDER CONSULTATIONS AND IMPACT ASSESSMENTS

- **Stakeholder consultations**

MFA is provided as an integral part of the international support for Moldova's economic stabilisation. In preparing this proposal, the Commission services consulted the IMF and the World Bank, which have already put in place sizeable financing programmes. On 12 January 2023, the Commission consulted the Alternate Economic and Financial Committee, which endorsed the draft proposal. The Commission has also been in regular contact with the Moldovan authorities.

- **Collection and use of expertise**

In line with the requirements of the Financial Regulation, in the context of the COVID-19 MFA package, the Commission services carried out an operational assessment of the financial and administrative circuits of Moldova. This was to ascertain that the procedures in place for the management of programme assistance, including MFA, provide adequate guarantees. The final report of the operational assessment, prepared by a consultancy company, was received in June 2020. The report notes clear progress in public finance management systems and other financial circuits since 2015, when the last exercise was undertaken. The report concludes that the status of Moldova's financial circuits and procedures is deemed favourable for a subsequent MFA operation. Developments in this area will continue to be closely monitored, including through the regular progress reports on public finance management reforms produced by the EU Delegation in Chisinau.

- **Impact assessment**

The EU's MFA is an exceptional emergency instrument aimed at addressing severe balance-of-payment difficulties in non-EU countries. Because there is a political imperative to move ahead quickly in a situation requiring a rapid response, this MFA proposal is exempted from the requirement to carry out an impact assessment, in accordance with the Commission Better Regulation Guidelines (SWD (2015) 111 final).

More generally, the Commission MFA proposals build on lessons learned from *ex post* evaluations carried out on past operations in the EU's neighbourhood. The increased MFA, and the economic adjustment and reform programme attached to it, will help alleviate Moldova's short-term financing needs. It will also support policy measures aimed at strengthening the medium-term balance of payments and fiscal sustainability and raising sustainable growth, complementing the ongoing IMF programme with Moldova. These policy conditions should address some of the fundamental weaknesses shown over the years by the Moldovan economy and its economic governance system.

- **Fundamental rights**

Candidate countries and countries that are covered by the European Neighbourhood Policy are eligible for MFA. A precondition for granting MFA is that the eligible country respects effective democratic mechanisms, including a multi-party parliamentary system and the rule of law, and guarantees respect for human rights.

The renewed commitment to reform and strong political will shown by the Moldovan authorities (since the elections in July 2021) in key reform areas, such as justice sector reforms, good governance, the rule of law and the fight against corruption, is a clear positive sign. The authorities are committed to conducting these reforms in a transparent manner and in line with EU standards. Therefore, the political precondition for an MFA operation is considered to be satisfied.

4. BUDGETARY IMPLICATIONS

The proposed increase of EUR 145 million in Moldova's ongoing MFA operation is planned to be disbursed in two equal instalments, to be released in 2023, if the conditions are fulfilled. The financial programming over the 2022-2024 period provides that a grant component of EUR 45 million can be financed from the available budget under budget line 14 20 03 01 'Macro-financial assistance (MFA) - grants'. For the loan component of EUR 100 million, the required provisioning at a rate of 9% of the External Action Guarantee will be programmed under the NDICI, for a total amount of EUR 9 million (budget line 14 02 01 70 'NDICI – Provisioning of the Common Provisioning Fund').

5. OTHER ELEMENTS

- **Implementation plans and monitoring, evaluation and reporting arrangements**

The EU will make the MFA increase available to Moldova for a total amount of EUR 145 million, provided in the form of medium- to long-term loans, and including a grant component. This will help to cover Moldova's residual financing needs in 2023. The disbursement of the two additional instalments will be subject to the fulfilment of additional policy measures.

The assistance will be managed by the Commission. Specific provisions on the prevention of fraud and other irregularities, consistent with the Financial Regulation, are applicable.

The Commission and the Moldovan authorities have agreed a Memorandum of Understanding setting out the structural reform measures associated with the ongoing MFA operation, including aspects of timing and sequencing. As a result of the MFA increase, further policy actions will be negotiated with the authorities and added to the existing memorandum.

Moreover, as is normally the case with MFA, the disbursements would be conditional, among other things, on satisfactory reviews under the IMF programme, as well as progress on the implementation of the EU-Moldova Association Agreement and the DCFTA. The Commission will work closely with the authorities to monitor progress on the policy actions and the preconditions, as specified above.

Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

amending DECISION (EU) 2022/563 as regards the amount of macro-financial assistance to the Republic of Moldova

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 212 thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments,

Acting in accordance with the ordinary legislative procedure,

Whereas:

- (1) On 6 April 2022, the European Parliament and Council adopted Decision (EU) 2022/563¹ providing new macro-financial assistance ('MFA') to Moldova for an amount of EUR 150 million, in medium term-loans and through a grant element. The MFA entered into force on 18 July for two and a half years. On 1 August 2022, following successful fulfilment of all policy actions agreed with the Union in the Memorandum of Understanding, the first instalment of EUR 50 million was disbursed.
- (2) The MFA was adopted in parallel with a new IMF programme for Moldova of 20 December 2021 (Extended Credit Facility/Extended Fund Facility worth USD 564 million). On 11 May 2022, as a result of the growing financing needs stemming largely from the effects of the war in Ukraine on the Moldovan economy, the IMF adopted a decision to increase the arrangement by USD 267 million. On 9 January 2023, the IMF announced that Moldova has successfully completed the second programme review, which allowed the immediate disbursement of another USD 27 million under the arrangement.
- (3) The Union's indicative allocation for Moldova under the European Neighbourhood Instrument was EUR 518.15 million for the 2014-2020 period, including budgetary support and technical assistance. The Single Support Frameworks for 2014-2017 and 2017-2020 identified the priority sector for cooperation with Moldova funded by the European Neighbourhood Instrument for the previous budgetary period. The priorities for 2021-2027 are set out in the new Multiannual Indicative Programme, which has been prepared in close consultation with all relevant stakeholders.
- (4) Given that there is still a significant residual external financing gap in Moldova's balance of payments for 2023, over and above the resources provided by the IMF and other multilateral institutions, it is necessary to increase the Union macro-financial assistance provided to Moldova in accordance with Decision (EU) 2022/563. That

¹ Decision (EU) 2022/563 of the European Parliament and of the Council of 6 April 2022 providing macro-financial assistance to the Republic of Moldova (OJ L 109, 8.4.2022, p. 6).

increase is, under the current exceptional circumstances, considered to be an appropriate response to Moldova's request for support to the economic stabilisation, in conjunction with the IMF programme. The Union's macro-financial assistance would support the economic stabilisation and the structural reform agenda of Moldova, supplementing resources made available under the IMF's financial arrangement. Therefore Decision (EU) 2022/563 should be amended accordingly.

- (5) The determination of the amount of the Union's additional macro-financial assistance is based on an updated quantitative assessment of Moldova's residual external financing needs and takes into account its capacity to finance itself with its own resources, in particular the international reserves at its disposal. The determination of the amount of the assistance takes into account expected financial contributions from multilateral donors, including the IMF and World Bank, and the need to ensure fair burden sharing between the Union and other donors, as well as the pre-existing deployment of the Union's other external financing instruments in Moldova and the added value of the overall Union involvement.
- (6) The increase of the Union's macro-financial assistance should be subject to economic policy conditions, to be added to the existing Memorandum of Understanding which will as a consequence have to be amended accordingly. In addition, the detailed financial terms of the Union's macro-financial assistance will have to be laid down in an addendum to the Loan Agreement and the Grant Agreement that was signed on 22 June 2022 by the Commission and Moldova,

HAVE ADOPTED THIS DECISION:

Article 1

1. Decision (EU) 2022/563 is amended as follows:

(1) In Article 1, paragraph 1 is replaced by the following:

“1. The Union shall make macro-financial assistance of a maximum amount of EUR 295 million available to Moldova ("the Union's macro-financial assistance"), with a view to supporting Moldova's economic stabilisation and a substantive reform agenda. Of that maximum amount, up to EUR 220 million shall be provided in the form of loans and up to EUR 75 million in the form of grants. The release of the Union's macro-financial assistance is subject to the approval of the Union budget for the relevant year by the European Parliament and the Council. The assistance shall contribute to covering Moldova's balance of payments needs as identified in the IMF programme.”;

(2) Article 4 is amended as follows:

(a) paragraph 1 is replaced by the following:

2. “1. Subject to the conditions referred to in paragraph 3, the Union's macro-financial assistance shall be made available by the Commission in five instalments, each of which shall consist of a loan and a grant element. The size of each instalment shall be laid down in the amended Memorandum of Understanding referred to in Article 2.”;

(b) paragraph 4 is replaced by the following:

“4. The release of the second instalment shall, in principle, take place at the earliest three months after the release of the first instalment. The release of the third instalment shall, in principle, take place at the earliest three months after the release of the second instalment. The release of the fourth instalment shall, in principle, take place at the earliest three months after the release of the third instalment. The release of the fifth instalment shall, in principle, take place at the earliest three months after the release of the fourth instalment.”

Article 4

This Decision shall enter into force on the third day after its publication in the Official Journal of the European Union.

Done at Brussels,

*For the European Parliament
The President*

*For the Council
The President*

LEGISLATIVE FINANCIAL STATEMENT

1. FRAMEWORK OF THE PROPOSAL/INITIATIVE

1.1. Title of the proposal/initiative

1.2. Policy area(s) concerned

1.3. The proposal/initiative relates to:

1.4. Objective(s)

1.4.1. General objective(s)

1.4.2. Specific objective(s)

1.4.3. Expected result(s) and impact

1.4.4. Indicators of performance

1.5. Grounds for the proposal/initiative

1.5.1. Requirement(s) to be met in the short or long term including a detailed timeline for roll-out of the implementation of the initiative

1.5.2. Added value of Union involvement (it may result from different factors, e.g. coordination gains, legal certainty, greater effectiveness or complementarities). For the purposes of this point 'added value of Union involvement' is the value resulting from Union intervention which is additional to the value that would have been otherwise created by Member States alone.

1.5.3. Lessons learned from similar experiences in the past

1.5.4. Compatibility with the Multiannual Financial Framework and possible synergies with other appropriate instruments

1.5.5. Assessment of the different available financing options, including scope for redeployment

1.6. Duration and financial impact of the proposal/initiative

1.7. Management mode(s) planned

2. MANAGEMENT MEASURES

2.1. Monitoring and reporting rules

2.2. Management and control system(s)

2.2.1. Justification of the management mode(s), the funding implementation mechanism(s), the payment modalities and the control strategy proposed

2.2.2. Information concerning the risks identified and the internal control system(s) set up to mitigate them

2.2.3. Estimation and justification of the cost-effectiveness of the controls (ratio of "control costs ÷ value of the related funds managed"), and assessment of the expected levels of risk of error (at payment & at closure)

2.3. Measures to prevent fraud and irregularities

3. ESTIMATED FINANCIAL IMPACT OF THE PROPOSAL/INITIATIVE

3.1. Heading(s) of the multiannual financial framework and expenditure budget line(s) affected

3.2. Estimated financial impact of the proposal on appropriations

3.2.1. Summary of estimated impact on operational appropriations

3.2.2. Estimated output funded with operational appropriations

3.2.3. Summary of estimated impact on administrative appropriations

3.2.4. Compatibility with the current multiannual financial framework

3.2.5. Third-party contributions

3.3. Estimated impact on revenue

LEGISLATIVE FINANCIAL STATEMENT

1. FRAMEWORK OF THE PROPOSAL/INITIATIVE

1.1. Title of the proposal/initiative

Proposal for a Decision of the European Parliament and of the Council providing further Macro-financial assistance to the Republic of Moldova

1.2. Policy area(s) concerned in the ABM/ABB structure²

Policy area: Economic and Financial Affairs

Activity: International economic and financial affairs

1.3. Nature of the proposal/initiative

- ☐ The proposal/initiative relates to **a new action**
- ☐ The proposal/initiative relates to **a new action following a pilot project/preparatory action³**
- ☐ The proposal/initiative relates to **the extension of an existing action**
- ☒ The proposal/initiative relates to **an action redirected towards a new action**

1.4. Objective(s)

1.4.1. The Commission's multiannual strategic objective(s) targeted by the proposal/initiative

“An economy that works for people”

“A stronger Europe in the world”

1.4.2. Specific objective(s)

- (a) Supporting macro-financial stability and promoting growth-enhancing reforms outside the EU, including through regular economic dialogues with key partners and by providing macro-financial assistance; and
- (b) Supporting the enlargement process and the implementation of the EU enlargement and neighbourhood policies and other EU priorities in partners by conducting economic analysis and providing policy assessments and advice.

1.4.3. Expected result(s) and impact

Specify the effects which the proposal/initiative should have on the beneficiaries/groups targeted.

- Contribute to covering the external financing needs of Moldova in the context of a significant deterioration of their external accounts brought about by the effects of Russia's invasion of Ukraine on the Moldovan economy as well as the ongoing energy emergency.
- Alleviate the partner's budgetary financing needs.
- Support the fiscal consolidation effort and external stabilisation in the context of the IMF programme.

² ABM: activity-based management; ABB: activity-based budgeting.

³ As referred to in Article 54(2)(a) or (b) of the Financial Regulation.

- Support structural reforms aimed at improving the overall macroeconomic management, strengthening economic governance and transparency, and improving conditions for sustainable growth.

1.4.4. *Indicators of performance*

Specify the indicators for monitoring progress and achievements.

The authorities of Moldova will be required to report on a set of economic indicators to the Commission services on a regular basis and, provide a comprehensive report on the compliance with the agreed policy conditions ahead of the disbursement of the instalments of the assistance.

The Commission services will continue to monitor public finance management, following the operational assessment of the financial circuits and administrative procedures in Moldova, that was delivered in June 2020. The EU Delegation in the partners will also provide regular reporting on issues relevant for the monitoring of the assistance. The Commission services will remain in close contact with the IMF and the World Bank to benefit from their insights from their on-going activities in the respective partner.

An annual report to the Council and European Parliament is foreseen in the proposed legislative decision, including an assessment of the implementation of this operation. An independent ex-post evaluation of the assistance will be carried out within two years after the expiry of the implementation period.

1.5. **Grounds for the proposal/initiative**

1.5.1. *Requirement(s) to be met in the short or long term including a detailed timeline for roll-out of the implementation of the initiative*

The disbursement of the assistance will be conditional on the fulfilment of the political pre-conditions and a satisfactory track record in the implementation of the economic programme between Moldova and the IMF. In addition, the Commission shall agree with the authorities of Moldova on specific policy conditions, to be added to the existing Memorandum of Understanding.

The additional assistance is planned to be disbursed in two instalments. The disbursement of the first instalment is expected to take place in Q3 2023, the second instalment could be disbursed in Q4 2023, provided that the policy measures attached to each instalment have been implemented.

1.5.2. *Added value of Union involvement (it may result from different factors, e.g. coordination gains, legal certainty, greater effectiveness or complementarities). For the purposes of this point 'added value of Union involvement' is the value resulting from Union intervention which is additional to the value that would have been otherwise created by Member States alone.*

The instrument of macro-financial assistance is a policy-based instrument directed to alleviate short- and medium-term external financial needs. In the context of the ongoing crisis, the MFA will help to provide economic policy space for the authorities to mount an effective economic response to the deteriorating external position and increased fiscal needs. The MFA will also contribute to promoting macroeconomic and political stability. The operation will complement the resources made available by the international financial institutions, bilateral donors and other EU financial institutions. In doing so, it will contribute to the overall effectiveness of

the financial support provided by the international community, as well as of other EU financial assistance, including budgetary support operations.

Furthermore, by providing long-term financing in highly concessional terms, usually lower than the rest of international or bilateral donors, the MFA programme is expected to help the government to execute its budget without fiscal deviations and to contribute to debt sustainability.

In addition to the financial impact of the MFA, the proposed programme will strengthen the government's reform commitment and their aspiration towards closer relations with the EU, as reflected by the Association Agreement that entered into force in 2016, and as per the candidate country status granted on 23 June 2022. This result will be achieved, inter alia, through appropriate conditionality for the disbursement of the assistance. In a larger context, the programme will signal that the EU is ready to support partners in the Eastern neighbourhood, including Moldova, in moments of economic difficulties.

1.5.3. Lessons learned from similar experiences in the past

Macro-financial assistance operations in partners are subject to ex-post evaluation. Evaluations conducted thus far (on completed MFA programmes), concluded that MFA operations do contribute, albeit sometimes modestly and indirectly, to the improvement of the external sustainability, the macroeconomic stability, and the achievement of structural reforms in the partner. In most cases, MFA operations had a positive effect on the balance of payments of the partner and helped to relax their budgetary constraints. They also led to somewhat higher economic growth.

1.5.4. Compatibility with the Multiannual Financial Framework and possible synergies with other appropriate instruments

Compatibility with the Multiannual Financial Framework

In the 2021-2027 multiannual financial framework, the provisioning of MFA loans will be covered by the External Action Guarantee within Global Europe (Neighbourhood, Development and International Cooperation Instrument). The (indicative) lending capacity foreseen for MFA is sufficient to cover this operation as well as other MFA operations being implemented.

Possible synergies with other appropriate instruments

The EU is among the major donors to Moldova, supporting their economic, structural and institutional reforms as well as civil society. EU financial support to Moldova over 2014-2020 amounted to EUR 518,15 million (the 2021-2027 Multiannual Indicative Programme (MIP), which is under preparation). In this context, this MFA operation complements other EU external actions or instruments used to support Moldova. It is also aligned with the new Global Europe instrument (Neighbourhood, Development and International Cooperation instrument) and the instrument for Pre-accession assistance (IPA-III) for 2021-2027.

The key value added of the MFA in comparison to other EU instruments would be to help create a stable macroeconomic framework, including by promoting a sustainable balance-of-payments and budgetary situation, and an appropriate framework for advancing structural reforms. MFA does not provide regular financial support and is to be discontinued as soon as the partner's external financial situation has been brought back onto a sustainable path.

MFA would also be complementary to interventions envisaged by the international community, in particular the adjustment and reform programmes supported by the IMF and the World Bank.

1.5.5. *Assessment of the different available financing options, including scope for redeployment*

By using loans, this MFA operation increases the effectiveness of the EU budget through the leverage effect and provides for the best cost-efficient option.

The Commission is empowered to borrow funds from capital markets on behalf of both the European Union and Euratom using the guarantee of the EU budget. The aim is to obtain funds from the market at the best available rates due to the top credit status (AAA-rated by Fitch, Moody's and DBRS, AA by S&P, all with stable outlook) of the EU/Euratom and then on-lend them to eligible borrowers in the context of lending under the EFSM, BoP, MFA and to Euratom projects. Borrowing and lending is conducted as a back-to-back operation, ensuring that the EU budget does not take any interest rate or foreign exchange risk. The target of obtaining funds at the best available rates for borrowing and lending activities has been achieved because those rates are in line with peer institutions (EIB, EFSM, and ESM).

1.6. Duration and financial impact of the proposal/initiative

X limited duration

- ☐ in effect from 2022 to 2024
- ☐ Financial impact from 2022 to 2024 for commitment appropriations and from 2022 to 2025 for payment appropriations.

☐ unlimited duration

- Implementation with a start-up period from YYYY to YYYY,
- followed by full-scale operation.

1.7. Management mode(s) planned⁴

X Direct management by the Commission

- **X** by its departments, including by its staff in the Union delegations;
- ☐ by the executive agencies

☐ Shared management with the Member States

☐ Indirect management by entrusting budget implementation tasks to:

- ☐ third countries or the bodies they have designated;
 - ☐ international organisations and their agencies (to be specified);
 - ☐ the EIB and the European Investment Fund;
 - ☐ bodies referred to in Articles 70 and 71 of the Financial Regulation;
 - ☐ public law bodies;
 - ☐ bodies governed by private law with a public service mission to the extent that they are provided with adequate financial guarantees;
 - ☐ bodies governed by the private law of a Member State that are entrusted with the implementation of a public-private partnership and that are provided with adequate financial guarantees;
 - ☐ persons entrusted with the implementation of specific actions in the CFSP pursuant to Title V of the TEU, and identified in the relevant basic act.
- *If more than one management mode is indicated, please provide details in the 'Comments' section.*

Comments

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⁴

Details of management modes and references to the Financial Regulation may be found on the BudgWeb site:

<https://myintracomm.ec.europa.eu/budgweb/EN/man/budgmanag/Pages/budgmanag.aspx>

2. MANAGEMENT MEASURES

2.1. Monitoring and reporting rules

Specify frequency and conditions.

The actions to be financed under this Decision will be implemented under direct management by the Commission from headquarters and with support of the Union delegations.

This assistance is of macroeconomic nature and its design is consistent with the IMF-supported programme. The monitoring of the action by the Commission services will take place on the basis of progress in the implementation of the IMF arrangement and the implementation of specific reform measures to be agreed with the authorities of the partners in a Memorandum of Understanding with a frequency that is consistent with the number of instalments (See also point 1.4.4).

2.2. Management and control system(s)

2.2.1. *Justification of the management mode(s), the funding implementation mechanism(s), the payment modalities and the control strategy proposed*

The actions to be financed under this Decision will be implemented under direct management by the Commission from headquarters and with support of the Union delegations.

MFA disbursements are dependent on successful reviews, and tied to the fulfilment of conditionality attached to each operation. The implementation of conditions is closely monitored by the Commission, in close coordination with the Union Delegations.

2.2.2. *Information concerning the risks identified and the internal control system(s) set up to mitigate them*

Risks identified

There are fiduciary, policy and political risks related to the proposed MFA operations.

There is a risk that the MFA could be used in a fraudulent way. As MFA is not designated to specific expenses (contrary to project financing, for example), this risk is related to factors such as the general quality of management systems in the partner's Central Bank and the Ministry of Finance, administrative procedures, control and oversight functions, the security of IT systems and the appropriateness of internal and external audit capabilities.

A second risk stems from the possibility that the partner will fail to service the financial liabilities towards the EU stemming from the proposed MFA loans (default or credit risk), which could be caused for example by a significant additional deterioration of the balance of payments and fiscal position of the partner.

Internal control systems

The macro-financial assistance will be liable to verification, control, and auditing procedures under the responsibility of the Commission, including the European Anti-Fraud Office (OLAF), and by the European Court of Auditors as foreseen by Article 129 of the Financial Regulation

Ex-ante: Commission assessment of management and control system in the beneficiary country. For each beneficiary country, an ex-ante operational assessment of the financial circuits and control environment is carried out by the Commission, if necessary, with technical support from consultants. An analysis of accounting procedures, segregation of duties and internal/external audit of the Central bank and the Ministry of Finance are carried out to ensure a reasonable level of assurance for sound financial management. Should weaknesses be identified, they are translated into conditions, which have to be implemented before the disbursement of the assistance. Also, when needed, specific arrangements for payments (e.g. ring-fenced accounts) are put in place.

During implementation: Commission checks of periodic partner declarations. The payment is subject to (1) monitoring by DG ECFIN staff, in close coordination with the EU Delegations and with the external stakeholders, like the IMF, of the implementation of the agreed conditionalities, and (2) the normal control procedure provided for by the financial circuit (model 2) used in DG ECFIN, including the verification by the financial unit of the fulfilment of conditions attached to the disbursement of the assistance mentioned above. The disbursement relating to MFA operations may be subject to additional independent ex-post (documentary and/or on-the-spot) verifications by officials of the ex-post control team of the DG. Such verifications may also be initiated at the request of the responsible AOSD. Interruptions and suspensions of payments, financial corrections (implemented by Commission), and recoveries may be practiced where needed (it has not occurred so far), and are explicitly foreseen in the financing agreements with the partners.

- 2.2.3. *Estimation and justification of the cost-effectiveness of the controls (ratio of "control costs ÷ value of the related funds managed"), and assessment of the expected levels of risk of error (at payment & at closure)*

The control systems in place, such as the ex-ante operational assessments or the ex-post assessments, ensured an effective error rate for the MFA payments of 0%. There are no known cases of fraud, corruption or illegal activity. MFA operations have a clear intervention logic, one that allows the Commission to evaluate their impact. The controls enable the confirmation of assurance and of attainment of policy objectives and priorities.

2.3. Measures to prevent fraud and irregularities

Specify existing or envisaged prevention and protection measures, e.g. from the Anti-Fraud Strategy.

To mitigate the risks of fraudulent use several measures have been and will be taken: First, the Loan Agreement comprises of a set of provisions on inspection, fraud prevention, audits and recovery of funds in case of fraud or corruption. It is further envisaged that a number of specific policy conditions will be attached to the assistance, including in the area of public finance management, with a view to strengthening efficiency, transparency, and accountability. Also, the assistance will be paid to a specific account of the Central Bank of the partner.

Moreover, in line with the requirements of the Financial Regulation, the Commission services have carried out an Operational Assessment of the financial and administrative circuits of Moldova to ascertain that the procedures in place for the management of programme assistance, including MFA, provide adequate guarantees. The assessment was carried out in 2020, and covers areas such as budget preparation and execution, public internal financial control, internal and external audit, public

procurement, cash, and public debt management, as well as the independence of the central bank. Developments in that area will be further closely monitored by the EU Delegations in the respective partner. The Commission is also using budget support assistance to help the respective partners improve their PFM systems, and these efforts are strongly supported by other donors.

Finally, the assistance will be liable to verification, control and auditing procedures under the responsibility of the Commission, including the European Anti-Fraud Office (OLAF), and the European Court of Auditors as foreseen by Article 129 of the Financial Regulation.

3. ESTIMATED FINANCIAL IMPACT OF THE PROPOSAL/INITIATIVE

3.1. Heading(s) of the multiannual financial framework and expenditure budget line(s) affected

- Existing budget lines

In order of multiannual financial framework headings and budget lines.

Heading of multiannual financial framework	Budget line	Type of expenditure	Contribution			
	Number	Diff./Non-diff. ⁵	from EFTA countries ⁶	from candidate countries ⁷	from third countries	within the meaning of Article 21(2)(b) of the Financial Regulation
	14.02.01.70.06 [MFA loans – EAG]	Diff.	NO	NO	NO	NO
	14.20.03.01 [MFA Grants]	Diff.	NO	NO	NO	NO

- New budget lines requested – Not applicable

⁵ Diff. = Differentiated appropriations / Non-diff. = Non-differentiated appropriations.

⁶ EFTA: European Free Trade Association.

⁷ Candidate countries and, where applicable, potential candidates from the Western Balkans.

3.2. Estimated financial impact of the proposal on appropriations

3.2.1. Summary of estimated impact on operational appropriations

- ☐ The proposal/initiative does not require the use of operational appropriations
- **X The proposal/initiative requires the use of operational appropriations, as explained below:**

EUR million (to three decimal places)

Heading of multiannual financial framework	6	Heading 6 - 'Neighbourhood and the World'
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DG: ECFIN			Year 2021	Year 2022	Year 2023	Year 2024	Year 2025	TOTAL
○ Operational appropriations								
Budget line ⁸	Commitments	(1a)		10.8	9			19.8
14.02.01.70.06 [MFA loans – EAG]	Payments	(2a)		10.8	9			19.8
Budget line	Commitments	(1b)		30	45			75
14.20.03.01 [MFA Grants]	Payments	(2b)		20	55			75
Appropriations of an administrative nature financed from the envelope of specific programmes ⁹								
Budget line 14.20.03.01		(3)					0.15	0.15
TOTAL appropriations	Commitments	=1a+1b +3		40.8	54		0.15	94.95

⁸ According to the official budget nomenclature.

⁹ Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former 'BA' lines), indirect research, direct research.

for DG ECFIN	Payments	=2a+2b +3		30.8	64		0.15	94.95
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○ TOTAL operational appropriations	Commitments	(4)		40.8	54			94.8
	Payments	(5)		30.8	64			94.8
○ TOTAL appropriations of an administrative nature financed from the envelope for specific programmes		(6)					0.15	0.15
TOTAL appropriations under HEADING 6 of the multiannual financial framework	Commitments	=4+ 6		40.8	54		0.15	94.95
	Payments	=5+ 6		30.8	64		0.15	94.95

If more than one operational heading is affected by the proposal / initiative, repeat the section above: (EUR million (to three decimal places))

Heading of multiannual financial framework	7	Heading 7 – ‘European public administration’
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This section should be filled in using the 'budget data of an administrative nature' to be firstly introduced in the [Annex to the Legislative Financial Statement](#) (Annex V to the internal rules), which is uploaded to DECIDE for interservice consultation purposes.

DG: ECFIN			Year 2021	Year 2022	Year 2023	Year 2024	Year 2025	TOTAL
Human Resource			0.034	0.044	0.044	0.011	0.011	0.144
Other administrative expenditure				0.020	0.020			0.040
TOTAL appropriations under HEADING 7 of the multiannual financial framework	Appropriations		0.034	0.064	0.064	0.011	0.011	0.184
	(Total commitments = Total payments)		0.034	0.064	0.064	0.011	0.011	0.184

			Year 2021	Year 2022	Year 2023	Year 2024	Year 2025	TOTAL
TOTAL appropriations under HEADINGS 1 to 7 of the multiannual financial framework (Reference amount)	Commitments	=4+ 6	0.034	40.864	54.064	0.011	0.161	95.134
	Payments	=5+ 6	0.034	30.864	64.064	0.011	0.161	95.134

3.2.2. Estimated output funded with operational appropriations

Commitment appropriations in EUR million (to three decimal places)

Indicate objectives and outputs ↓		Year 2021		Year 2022		Year 2023		Year 2024		Year 2025		TOTAL	
	Type ¹⁰	Number	Cost	Number	Cost	Number	Cost	Number	Cost	Number	Cost	Total number	Total cost
SPECIFIC OBJECTIVE NO 1 ¹¹													
- Output 1	Grant disbursements			1	20	2	55					3	75
- Output 2	Provisioning of the External Action Guarantee			3	10.8	2	9					5	19.8
- Output 3	Ex-post evaluation									1	0.15	1	0.15
Subtotal for specific objective No 1		-	-	4	30.8	4	64	-	-	1	0.15	9	94.95
TOTAL COST		-	-	4	30.8	4	64	-	-	1	0.15	9	94.95

¹⁰ Outputs are products and services to be supplied (e.g.: number of student exchanges financed, number of km of roads built, etc.).

¹¹ As described in point 1.4.2. 'Specific objective(s)...'

3.2.3. Summary of estimated impact on administrative appropriations

- **X The proposal/initiative requires the use of appropriations of an administrative nature, as explained below:**

EUR million (to three decimal places)

	Year 2021	Year 2022	Year 2023	Year 2024	Year 2025	TOTAL
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HEADING 7 of the multiannual financial framework						
Human resources	0.034	0.044	0.044	0.011	0.011	0.144
Other administrative expenditure		0.020	0.020			0.040
Subtotal HEADING 7 of the multiannual financial framework	0.034	0.064	0.064	0.011	0.011	0.184

Outside HEADING 7¹² of the multiannual financial framework						
Human resources						
Other expenditure of an administrative nature						
Subtotal outside HEADING 7 of the multiannual financial framework						

TOTAL	0.034	0.064	0.064	0.011	0.011	0.184
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The appropriations required for human resources and other expenditure of an administrative nature will be met by appropriations from the DG that are already assigned to management of the action and/or have been redeployed within the DG.

¹² Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former 'BA' lines), indirect research, direct research.

3.2.3.1. Estimated requirements of human resources

- **X The proposal/initiative requires the use of human resources, as explained below:**

Estimate to be expressed in full time equivalent units

	Year 2021	Year 2022	Year 2023	Year 2024	Year 2025
○ Establishment plan posts (officials and temporary staff)					
20 01 02 01 (Headquarters and Commission's Representation Offices)	0.100	0.250	0.150	0.010	0.100
20 01 02 03 (Delegations)					
01 01 01 01 (Indirect research)					
01 01 01 11 (Direct research)					
Other budget lines (specify)					
○ External staff (in Full Time Equivalent unit: FTE)¹³					
20 02 01 (AC, END, INT from the 'global envelope')	0.200	0.350	0.200	0.010	0.100
20 02 03 (AC, AL, END, INT and JPD in the delegations)					
XX 01 xx yy zz¹⁴	- at Headquarters				
	- in Delegations				
01 01 01 02 (AC, END, INT - Indirect research)					
01 01 01 12 (AC, END, INT - Direct research)					
Other budget lines (specify)					
TOTAL	0.300	0.600	0.350	0.020	0.200

XX is the policy area or budget title concerned.

The human resources required will be met by staff from the DG who are already assigned to management of the action and/or have been redeployed within the DG, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints.

Description of tasks to be carried out:

Officials and temporary staff	<p>Director Dir. D: Supervise and manage the operation, liaise with Council and Parliament for the adoption of the Decision and the approval of the Memorandum of Understanding (MoU), negotiate the MoU with the authorities of Moldova, review reports, lead missions and assess progress with conditionality compliance.</p> <p>HoU/DHoU Dir. D: Assist the Director in managing the operation, liaising with Council and Parliament for the adoption of the Decision and the approval of the MoU, negotiating with the Moldovan authorities the MoU and Loan Facility Agreement (together with DG BUDGET), reviewing reports and assessing progress with conditionality compliance.</p> <p>DG BUDGET (Units E1, E3 under the supervision of the Director): Prepare the Loan Facility Agreement (LFA), negotiate it with the authorities of Moldova and have it approved by the responsible Commission services and signed by both parties. Follow up the entry into force of the LFA. Prepare the Commission decision(s) on the</p>
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¹³ AC= Contract Staff; AL = Local Staff; END= Seconded National Expert; INT = agency staff; JPD= Junior Professionals in Delegations.

¹⁴ Sub-ceiling for external staff covered by operational appropriations (former 'BA' lines).

	borrowing transaction(s), follow up the submission of the Request(s) for Funds, select the banks, prepare and execute the funding transaction(s) and disburse the funds to Moldova. Carry out the back-office activities to follow up the reimbursement of the loan(s). Prepare the corresponding reports on these activities.
External staff	Desk economists, MFA Sector (Dir. D): Prepare the Decision and MoU, liaise with the authorities and the IFIs, conduct review missions, prepare Commission staff reports and Commission procedures related to the management of the assistance, liaise with external experts for the operational assessment and the ex-post evaluation.

3.2.4. *Compatibility with the current multiannual financial framework*

The proposal/initiative:

- **X can be fully financed through redeployment within the relevant heading of the Multiannual Financial Framework (MFF).**

3.2.5. *Third-party contributions*

The proposal/initiative:

- **X does not provide for co-financing by third parties**

3.3. Estimated impact on revenue

- **X The proposal/initiative has no financial impact on revenue.**