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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 2019

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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 2019

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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 2019 ([1])

1 INTRODUCTION

Macro-financial assistance, or MFA, is an EU financial instrument ([2]) extended to partner countries that are experiencing a balance-of-payments crisis. MFA helps to strengthen macroeconomic and financial stability in countries neighbouring or geographically close to the EU, while encouraging the implementation of structural reforms. It complements and is conditional on the existence of a disbursing adjustment and reform programme agreed with the International Monetary Fund (IMF). By easing pressure in addressing its balance of payment problems, the partner country can inter alia increase its fiscal space, improve its debt sustainability and get help in focusing the attention on needed reforms. By smoothening the macroeconomic adjustment path, MFA programmes can contribute to social development, allowing the country more time and scope to address the root causes of its crisis.

MFA most often takes the form of loans, for which the Commission borrows the necessary funds in capital markets and on-lends them to the beneficiary country or, in some cases, grants financed by the EU budget, or a combination of loans and grants.

MFA is released in instalments and only if specific structural reform criteria are fulfilled. This underpins the implementation of strong adjustment and reform measures aimed at restoring the beneficiary country's economy to long-term sustainability. It is also conditional on respect for human rights, the rule of law and effective democratic mechanisms in the beneficiary country. In this way, MFA complements regular EU cooperation assistance and contributes to the wider goal of preserving stability and promoting prosperity beyond the EU. Against a backdrop of persisting macroeconomic and political instability in the EU's neighbourhood, MFA has been widely recognised as an effective instrument to respond to crises, enabling the EU to intervene in a visible and flexible manner and with considerable policy leverage ([3]). This is supported by the findings of several independent *ex-post* evaluations of completed MFA programmes ([4]).

Unlike other EU external financial instruments, MFA does not provide financial support on a regular, programmable basis. For this reason, under the 2021-2027 MFF, specific MFA programmes will continue to be activated on the basis of separate ad-hoc decisions.

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[1] This report is based on information available up to May 2020.

[2] The legal basis for macro-financial assistance to non-EU countries other than developing countries is Articles 212 and 213 of the Treaty on the Functioning of the European Union (TFEU).

[3] MFA also complements other EU external actions or instruments towards the neighbourhood, including budget support. The 2019 budget support report is available at: https://www.euneighbours.eu/sites/default/files/publications/2019-10/budget_support._trends_and_results_2019.pdf

[4] 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

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These are governed by the ordinary legislative procedure, which requires the approval of the European Parliament and the Council for each programme.

This annual report is prepared in accordance with the Commission's information obligations as laid down in the various Decisions by the European Parliament and the Council concerning MFA programmes. 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 programmes.

2 MACRO-FINANCIAL ASSISTANCE PROGRAMMES IN 2019 ([5])

2.1 Overview

2019 was characterised by the successful completion of the MFA programmes in Jordan and Tunisia, with the Commission disbursing the last instalments of both programmes throughout the year. There was also renewed progress in the implementation of the ongoing MFA programme in Moldova, which had encountered significant delays, and progress in the MFA programme in Ukraine, which was then successfully completed in May 2020. The Commission proposed a new follow-up MFA programme in Jordan in September 2019, which was subsequently adopted by the co-legislators in January 2020.

The implementation status of MFA programmes is as follows:

- **Tunisia MFA-II**: On 6 July 2016, the EU approved further MFA to Tunisia (MFA-II) of up to EUR 500 million in the form of loans ([6]) to be disbursed in three instalments. The memorandum of understanding (MoU) and loan facility agreement entered into force in August 2017. The first EUR 200 million instalment of the MFA-II programme was disbursed on 25 October 2017. The second EUR 150 million instalment was released on 24 June 2019 and the third and final EUR 150 million instalment on 30 October 2019.
- **Jordan MFA-II**: On 14 December 2016, the co-legislators adopted a decision ([7]) to provide additional MFA to Jordan (MFA-II) of up to EUR 200 million, entirely in loans, as a follow-up to the EUR 180 million programme completed in 2015. The MoU between the EU and Jordan was signed on 19 September 2017. The first instalment of EUR 100 million was disbursed on 17 October 2017, while the second and final disbursement was made on 3 July 2019.
- **Moldova MFA**: On 13 September 2017, the co-legislators adopted a decision to provide MFA to Moldova of up to EUR 100 million, of which up to EUR 40 million would be provided in grants and up to EUR 60 million in loans. The MoU, the loan facility agreement and the grant agreement between the EU and Moldova entered into force in January 2018. The MFA programme was, however, kept on hold from June 2018 to June 2019 due to the political pre-conditions not being fulfilled. Subsequently, following the change of government in June 2019 and renewed reform efforts, the EU released the first instalment of EUR 30

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

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

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million (EUR 20 million in loans and EUR 10 million in grants) in October 2019. The second instalment could possibly follow in 2020, if all conditions are met. The programme expires in July 2020.

- **Georgia MFA-III**: On 18 April 2018, the co-legislators adopted a decision to provide further MFA to Georgia (MFA-III) of up to EUR 45 million. Of this, EUR 35 million would be provided in loans and EUR 10 million in grants. The MFA entered into force in November 2018 following the ratification of the legal documents by the Georgian parliament. The first instalment of EUR 20 million was disbursed in December 2018, whilst the second instalment of EUR 25 million (EUR 20 million in loans and EUR 5 million in grants) is expected to be disbursed in 2020, depending on progress with the remaining policy conditions and provided that the IMF programme remains on track.
- **Ukraine MFA-IV**: On 9 March 2018, the Commission submitted a proposal to provide an additional EUR 1 billion in MFA to Ukraine, in the form of loans to be disbursed in two instalments in 2018-2019. The co-legislators adopted the decision on 4 July 2018, and the MFA entered into force following ratification of the MoU and loan facility agreement by the Ukrainian parliament in November 2018. The first instalment of EUR 500 million was disbursed in December 2018, whilst the second and final instalment of EUR 500 million was disbursed in May 2020.

In 2019, a total of EUR 430 million (EUR 420 million in loans and EUR 10 million in grants) were disbursed. Annexes 1A and 1B provide more detail on the status of disbursements made by country and by region at the end of 2019.

2.2 Individual MFA programmes in the beneficiary countries in 2019

2.2.1 Tunisia

Tunisia has experienced a protracted economic downturn over the past 8 years due to the complex political and economic transition following the 2011 revolution and subsequent regime change. The country has also been affected by instability and conflict in the region (particularly in Libya). A number of terrorist attacks in 2015 temporarily crippled the country’s tourism sector.

Economic growth remained subdued in 2019 (at an estimated 1%), following a slight improvement in 2018 (2.7%) and a meagre 1.4% average annual expansion in 2015-2017. Unemployment remained persistently high at around 15% during the last quarter of 2019 (with much higher rates for female and youth), and inflation averaged 6.75% in 2019, after reaching a 7.8% decade-high in June 2018. Despite the good performance of tourism, the current account deficit remains very high (estimated at 10.3% in 2019, albeit down from 11.3% in 2018) and is a key source of vulnerability. External debt continued to grow in 2019 (estimated at 88.7% of GDP at the end of the third quarter of 2019, against 82.3% at same point in 2018). Debt-service charges keep growing and have almost tripled, in current dinars, since 2010. International reserves recovered slightly in 2019 to around 110 days of imports at the end of 2019, after a record low of 69 days of imports in September 2018. The fiscal deficit stood at around 4.9% of GDP in 2018 and is expected to have declined slightly to 4.5% at the end of 2019. After the strong increases recorded in recent years, public debt is expected to have remained stable at around 77% of GDP in 2019.

Tunisia first entered a stand-by arrangement of USD 1.75 billion with the IMF in June 2013. The arrangement ended in December 2015. On 20 May 2016, the IMF Board

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approved a four-year Extended Fund Facility programme for Tunisia for a total of USD 2.9 billion (375% of its quota) to support the country's economic and financial reform programme. So far USD 1.6 billion have been disbursed, following the programme's approval (June 2016) and five programme reviews (June 2017, March 2018, July 2018, September 2018, June 2019). While technical exchanges continued, the programme had limited progress during the final months of the year, partly due to the demanding electoral calendar (legislative and presidential elections) and the protracted government formation. The EFF was ultimately cancelled in April 2020, when Tunisia requested new emergency assistance from the IMF under the Rapid Financing Instrument to address needs stemming from the outbreak of the COVID-19 pandemic.

The EU provided Tunisia with a first MFA programme (MFA-I) of EUR 300 million in loans between 2014 and 2017. A second MFA programme (MFA-II) was requested by the Tunisian authorities in August 2015 and approved by the European Parliament and the Council in July 2016. The programme's policy conditions were mainly aimed at strengthening Tunisia's public finance management and fiscal policy, the fight against corruption, the social protection system, financial regulation and the labour market, as well as at improving the business climate. The first EUR 200 million in loans (out of EUR 500 million in total) was disbursed in October 2017. Following the fulfilment of the relevant policy conditions, the second and third instalments (of EUR 150 million each) were disbursed in July and November 2019, thus concluding the programme successfully.

2.2.2 Jordan

The regional instability continued to act as a drag on Jordan's external and fiscal positions. During the first three quarters of 2019, real GDP remained largely stable at around 2% year on year. This was not enough to prevent an increase in unemployment, which rose during the third quarter of 2019 to 19.1%, compared to 18.6% during the same quarter in 2018. At the end of 2019, inflation had also fallen back significantly, increasing the consumer price index by 0.3% compared to 4.5% in 2018. Progress in fiscal consolidation was not sustained. In the first 11 months of 2019, the general budget deficit, including foreign grants, increased to 4.5% of GDP compared 3.5% of GDP in the same period of 2018.

Jordan's gross public debt increased to 96.9% of GDP at the end of October 2019 compared to 94.4% of GDP at the end of 2018. The external public debt amounted to 40.1% of GDP at the end of October 2019. Around 73% of Jordan's external public debt was denominated in USD, with which the Jordanian currency is pegged, while around half of Jordan's external public debt is owed to official sector creditors.

Exports grew by 8.6% in value terms, while the value of imports fell by 5.5% in the first 10 months of 2019. Combined with an increase in travel receipts (9.9%), this contributed to a substantial narrowing of the current account deficit to 3.4% of GDP (or 4.8% of GDP excluding grants) in the first 9 months of 2019 from 9.3% of GDP in the same period in 2018.

External financing conditions have become less favourable. Foreign direct investment inflows continued the decline seen in previous years, reaching a net inflow of JOD 473.1 million during the first three quarters of 2019 compared to a net inflow of JOD 542.5 million during the same period of 2018. This net inflow of around 2% of GDP for 2019 scores a bit lower than Jordan's peers (Egypt and Tunisia). It is attributed to a combination of factors such as the Syrian conflict, the regional uncertainty, rising public debt, the weak business environment and the low competitiveness of the economy.

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At the end of November 2019, gross foreign currency reserves (including gold and SDRs) stood at USD 13.7 billion (equivalent to around 7½ months of one year's imports), up from USD 12.5 billion at the end of 2018.

The second MFA programme to Jordan (EUR 200 million in loans) was disbursed in October 2017 (EUR 100 million) and in July 2019 (EUR 100 million). The programme's policy conditions aimed to strengthen Jordan's economy in the areas of public finance management, tax policy, social safety nets, the educational system and professional training, as well as the country's labour market policies to increase employment opportunities for both Jordanian citizens and Syrian refugees living in Jordan.

Following a request for a new MFA programme by the Jordanian authorities, on 6 September 2019 the Commission adopted a proposal for a third MFA programme for EUR 500 million in loans. The proposal was adopted by the European Parliament and Council on 15 January 2020. It envisages the disbursement of EUR 300 million in 2020 and of EUR 200 million in 2021, depending on programme implementation.

On 30 January 2020, the IMF and Jordan reached a staff-level agreement on a new four-year arrangement under the Extended Fund Facility for around USD 1.3 billion. This agreement was approved by the Executive Board on 25 March 2020.

2.2.3 Moldova

Moldova has experienced a period of relative economic stability in recent years as it continued to recover from the 2014-2015 banking crisis. In 2019, GDP increased by 3.6% in real terms after a significant slowdown in the fourth quarter.

Inflation accelerated quickly in 2019 to 7.5% in December (year-on-year). However, it is expected to decline in 2020 towards the National Bank of Moldova's target of 5% ±1.5% as the impact of the factors driving inflation in 2019 such as food products and effects of regulated prices will fade. Following fiscal stabilisation in 2017-2018, the fiscal situation deteriorated in the first half of 2019 due to a set of election-related reforms and an interruption in external financing. However, following some corrective measures adopted in August 2019, the budget deficit for 2019 came in at 1.5% of GDP.

The current account deficit widened significantly in 2018 and 2019, reaching 11.5% of GDP in the third quarter of 2019 compared to 5.8% of GDP in 2017. The deterioration reflects strong growth in non-energy imports fuelled by increased consumption demand. The trade deficit is partly offset by remittances that stood at around 15% of GDP in 2019. Foreign direct investment has been low at around 2% of GDP in recent years, but increased significantly in 2019 due to a Eurobond issued by a large Moldovan company in the agricultural sector registered in Cyprus. The reserves level is well above the target stipulated in the IMF programme, reaching to USD 3.1 billion by end-December 2019 (corresponding to 5 months of imports).

In the wake of the 2014 crisis, Moldova requested support from the IMF, and a three-year arrangement of USD 183 million under the Extended Credit Facility and Extended Fund Facility was approved by the IMF in November 2016. The IMF completed the fourth and fifth reviews under the Extended Credit Facility and Extended Fund Facility in September 2019 and made available SDR 24 million (about USD 33.8 million). The final sixth review of the programme was concluded in March 2020.

In September 2017, the European Parliament and the Council adopted a decision to provide MFA to Moldova. AMoU with the Moldovan authorities outlining a set of economic policy conditions was signed in Brussels in November 2017, and entered into force in January 2018. The MoU includes 28 policy conditions focusing on five areas of

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reform: public sector governance; governance and supervision of the financial sector; the fight against corruption and money laundering; energy sector reforms and improving the business climate; and implementation of the Deep and Comprehensive Free Trade Areas.

The disbursement of the first instalment was put on hold in June 2018 after the non-transperent invalidation of the Chisinau mayoral elections. Following the change of government in June 2019 and renewed reform efforts, including the fulfilment of the remaining MoU conditions, the decision to release the first instalment was taken in October 2019. Pending the fulfillment of certain actions in connection with the political pre-conditions, the release of the second instalment may possibly follow in 2020, but most likely not the third instalment as the programme expires in July 2020.

2.2.4 Georgia

In 2019, Georgia's real GDP is estimated to have increased by 5.2%, driven by both domestic and external demand. The general government fiscal deficit is estimated to have increased from below 0.9% of GDP in 2018 to almost 3% of GDP in 2019, according to the preliminary data. The ratio of its public debt to GDP was around 41% in 2019, slightly increasing from 40.4% of GDP in 2018. Georgia's balance of payments improved substantially in the course of 2019, mainly thanks to rising exports, which led to a narrowing of the current account deficit to some 3% of GDP in the first three quarters of 2019. Georgia's international reserves have been increasing in recent years, and totalled USD 3.5 billion at the end of 2019 (almost 4 months of import cover).

In April 2017, Georgia and the IMF agreed an extended arrangement of USD 290 million under the Extended Fund Facility, the validity of which was extended in late 2019 by one year to April 2021. The EFF programme is well on track. Five programme reviews were completed broadly as originally scheduled. In December 2019, the IMF and the Georgian authorities reached a staff-level agreement on the fifth programme review, which made about USD 41.4 million available to Georgia.

Georgia requested further MFA from the EU[8] in June 2017. The European Parliament and the Council adopted the decision on the new MFA for up to EUR 45 million (EUR 10 million in grants and EUR 35 million in loans) in April 2018. Following the entry into force of the MoU and the accompanying agreements in November 2018, the first EUR 20 million instalment (EUR 5 million in grants and EUR 15 million in loans) was disbursed in December 2018. The next step in implementing the MFA programme will be to disburse the second, and final, instalment of EUR 25 million (EUR 5 million in grants and EUR 20 million in loans) when Georgia meets all relevant policy conditions. In addition to the political preconditions and good progress on the IMF programme, specific policy conditions aim to strengthen the Georgian economy in public financial management, the financial sector, social and labour market policies and the business environment. The implementation of these conditions is well advanced, but not fully completed yet.

2.2.5 Ukraine

Following the deep recession of 2014 and 2015 when GDP contracted by more than 16%, the economy of Ukraine returned to positive growth in 2016 and has been gaining momentum since. Real GDP grew by 4.1% year-on-year in the third quarter of 2019.

[8] The first and second MFA programmes for Georgia were pledged at the International Donor Conference in Brussels in October 2008. These programmes of EUR 46 million each were implemented in 2009-2010 and 2015-2017.

While the economic revival has been demand-driven, gross fixed capital formation has remained at a historically subdued level of about 17% of GDP, well below the peer-group level of above 25% that can be expected for countries at this development stage. The unemployment rate decreased to 8.5% in the second quarter of 2019 from its peak at 10.1% in early 2017. Thanks to a year-on-year growth rate of 16.4% in October 2019, implying an increase in real terms of about 11%, the average nominal wage reached the equivalent of around USD 430. Inflation of consumer prices has decelarated significantly from 14.1% in January 2018 to 4.1% in December 2019, thereby allowing the National Bank of Ukraine to successfully reach its medium-term inflation target of 4% to 6% by end-2019. The Ukrainian government has also made significant progress in consolidating its public finances in the past 5 years. The overall fiscal deficit was reduced from 4.5% of GDP in 2014 to 2.0% in 2019. General government debt was reduced from 80.9% of GDP in 2016 to 50.3% of GDP in 2019.

Ukraine has remained a very open economy, even though the combined volume of imports and exports of goods and services has decreased since 2015. The decline in exports has been more pronounced than that of imports, which explains why the negative goods and services balance has widened from 2.6% of GDP to 8.5% in the same period. The current account deficit has been much smaller (1.9% of GDP in 2017, 3.3% in 2018 and an estimated 2.5% in 2019) thanks to significant and growing foreign income flows, driven primarily by remittances from abroad. Inflows of foreign direct investment remained relatively low at USD 2.8 billion or 2.0% of GDP in 2019. However, portfolio and other investments, both private and official, were sufficiently strong to ensure that the overall balance with foreign residents has been positive, growing to USD 2.7 billion or 1.9% of GDP in 2019. Ukraine decreased its gross external debt from 129% of GDP in 2015 to 79.5% in 2019. Official reserves increased from USD 17.8 billion in July 2018 to USD 25.3 billion in December 2019, equivalent to 4 months of goods and services imports. The strong external liquidity inflows resulted in higher demand for the hryvnia, which appreciated by 14.7% against the US dollar in 2019. To moderate the appreciation and support reserves, the National Bank intervened in the forex market and bought USD 7.9 billion from domestic banks in 2019, up from USD 1.4 billion in 2018.

The EU disbursed a total of EUR 3.3 billion to Ukraine in 2014-2018 in the form of low-interest loans under four consecutive MFA programmes. The current MFA programme of EUR 1 billion in loans was approved in July 2018. The programme's policy conditionality focuses primarily on improving public finance management, fighting corruption, and on reforms in state-owned enterprises and social policies. The first instalment of EUR 500 million was disbursed in November 2018. The second and final instalment of EUR 500 million was disbursed in May 2020, successfully completing the programme.

The IMF reached a staff-level agreement in December 2019 on a new programme for Ukraine (three-year Extended Fund Facility of USD 5.5 billion). Furthermore, in 2019 the government issued UAH 227.6 billion of debt on the domestic primary market, i.e. 114% more than in 2018, at average yields, all maturities included (which declined from 19% in January to 11.6% in December). During the same period, the cost of funding in US dollar and euro also decreased from 6.5% to 3.7% and from 4.5% to 2.2% respectively.

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

3.1 Operational assessments

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

Operational assessments focus on public financial management systems, in particular how finance ministries and central banks are organised and what procedures they implement, and – more specifically – 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 how effective their controls are. Public procurement procedures at central level are also examined.

In 2019, no operational assessments in the context of new MFA programmes were initiated. For the new Jordan MFA-III programme, an operational assessment will be carried out in the first semester of 2020.

3.2 *Ex post* evaluations

In line with the EU Financial Regulation and the corresponding MFA decisions, the Commission conducts *ex post* evaluations[9] after completion of MFA programmes to assess their impact. The main objectives of these evaluations are:

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

ii. to assess the added value of the EU action.

In 2019, the staff working documents on the *ex post* evaluations of the MFA-II programme for Georgia and the MFA programme for the Kyrgyz Republic were completed and were published in December that year. A summary of the main results of these evaluations was also presented in the 2018 MFA Annual Report. During 2019, the Commission also received the external contractors' report on the *ex post* evaluation for the MFA-I programme in Tunisia. The accompanying staff working document produced by the Directorate-General for Economic and Financial Affairs will be completed and published in the first half of 2020.

Lastly, in 2019 the Commission initiated the *ex post* evaluations for the third MFA programme in Ukraine. The external contractors' reports on these *ex post* evaluations and the accompanying Staff Working Documents are expected to be finalised and published in the course of 2020.

3.2.1 <u>Tunisia MFA I</u>

The *ex post* evaluation of the MFA-I programme in Tunisia (implemented in 2014-2017) concluded that the EU's MFA was relevant, coherent, effective and efficiently implemented.

[9] 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

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In absolute terms, at the time of its adoption, the MFA programme to Tunisia was the third largest MFA programme since 2000, corresponding to around 0.5% and 0.3% of GDP in 2015 and 2017 respectively. There was consensus among the key consulted stakeholders that increasing the MFA from the EUR 250 million initially proposed to EUR 300 million was an appropriate decision. The MFA was provided in the form of a EUR 300 million loan on highly concessional terms that could not have been obtained on the market. While the implementation of the MFA encountered delays, these did not impair its relevance given the prevailing macro-economic conditions and increased budgetary needs of the Tunisian state following the terrorist attacks in 2015 and its debt servicing obligations.

Hence, the size, form and timing of the MFA-I programme were found relevant and appropriate to Tunisia's financing needs. The MFA had a positive impact, albeit small, on debt sustainability and provided the Tunisian authorities with increased fiscal room. Its conditionality was relevant and in line with the country's priorities, playing a key role in focusing the authorities' attention on reforms.

The evaluation concludes that the programme provided clear EU added value by easing pressures on the balance of payment and increasing fiscal headroom for public authorities. It also generated financial savings thanks to the concessional interest rates and longer maturities of the MFA loan compared to financial markets. The programme was designed and implemented efficiently, in close coordination with the Tunisian authorities and key international partners.

Finally, the evaluation finds that the MFA-I had a positive but limited social impact, both through sustaining macroeconomic conditions (helping smooth the adjustment and supporting social expenditure) and the direct effects of the conditionality. However, this social impact was limited somewhat by the incomplete targeting in social expenditure,although this has been addressed as part of policy conditionality of the MFA-II programme.

3.2.2 <u>Georgia MFA-II</u>

The e*x post* evaluation of the MFA-II programme in Georgia (implemented in 2015-2017) concluded that the EU's MFA was relevant, coherent, effective and efficiently implemented.

The MFA-II was a coherent part of a comprehensive package of EU assistance to Georgia, reflecting close coordination of these interventions. The EU's added value was most apparent in stimulating the structural reform process in Georgia as it covered relevant reform challenges in the country. The evaluation found that some additional policy measures in healthcare and banking could also have been relevant, yet this had to be balanced with the need to keep the list of MFA conditions focused. Measures in these areas have subsequently been included as policy conditions in the current MFA programme to Georgia approved in 2018.

The evaluation concluded that the MFA programme helped improve the sustainability of Georgia's public debt and resulted in significant savings due to the longer maturity and lower interest rates of the MFA. The programme was designed and implemented efficiently, and in close coordination with the Georgian authorities, the IMF and the World Bank. The delay in adoption was caused by procedural disagreements between the co-legislators. However, the evaluation found that this exceptionally long timeline of approving the programme did not result in efficiency losses, because from late 2010 until July 2014 and from mid-2015 until April 2017, Georgia did not have a disbursing IMF

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programme (a precondition for granting MFA). This would have prevented any disbursements of MFA even if the programme had been approved earlier.

Lastly, the evaluation found that the MFA-II had a positive social impact overall. It helped to improve the quality and efficiency of the public healthcare services, although progress in this area is uneven and is being addressed as part of policy conditionality of the current MFA programme approved in 2018. The MFA programme also helped to smooth the macroeconomic adjustment path and, in this way, maintain social spending.

4 General developments related to the MFA instrument

4.1 Functioning of the MFA instrument

The 2013 Joint Declaration of the European Parliament and the Council on MFA[10] frames the assistance as being of a macroeconomic and financial nature and clearly states that its aim is 'to restore a sustainable external finance situation for eligible countries and territories facing external financing difficulties. It should underpin the implementation of a policy programme that contains strong adjustment and structural reform measures designed to improve the balance of payment position, in particular over the programme period, and reinforce the implementation of relevant agreements and programmes with the Union'.

In line with principle 6(a) of the same Joint Declaration, 'a pre-condition for granting macro-financial assistance should be that the eligible country or territory respects effective democratic mechanisms, including a multi-party parliamentary system and the rule of law and guarantees respect for human rights'. Throughout the lifecycle of the MFA programme, the Commission and the European External Action Service monitor the fulfilment of these political preconditions, and each disbursement is conditional on their fulfilment.

In 2018, as part of the legislative process for the new proposals for Georgia MFA-III and Ukraine MFA-IV, the European Parliament's Committee on Foreign Affairs (AFET) proposed a number of amendments pertaining to the political pre-conditions to the Commission proposal, which followed the agreed template of the 2013 Joint Declaration. The special report from the European Court of Auditors (ECA) on EU assistance to Tunisia in 2016 stated that a protracted decision-making process could jeopardise the main objective of MFA, which is to provide support swiftly in a balance of payments crisis situation.

In 2019 and early 2020, as part of the legislative process for the new proposal for the Jordan MFA-III, the European Parliament and the Council accepted the Commission's proposal (published on 6 September 2019), which was built upon the agreed template of the 2013 Joint Declaration. The legislative process was efficient and enabled the Commission to start negotiations on the MoU with the Jordanian authorities already in January 2020.

The Commission considers it important that the MFA instrument remains grounded in well-established and widely shared principles and decision-making processes that all

[10] Joint Declaration by the European Parliament and the Council adopted together with the decision providing further macro-financial assistance to Georgia (Decision (EU) 2013/778 of 12 August 2013). Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013D0778&from=EN

institutions adhere to and feel bound by, in the absence of a formal legal basis for the instrument across all programmes.

Furthermore, the geopolitical, security and economic developments beyond the EU's borders highlight the need for a stronger, multilateral Europe. In response to these challenges, one of the six headline ambitions of the new Commission is to strengthen the role of Europe in the world. The EU's ability to respond quickly and efficiently, including through the MFA instrument, will be paramount to achieving this goal.

It is in this context and looking forward, that in 2020 the Commission will carry out a **meta-evaluation** of the MFA programmes implemented in 2010-2020. The evaluation will assess the principles and characteristics governing the MFA instrument, and aim to provide input on how to improve its relevance, effectiveness, efficiency, value added and its ability to respond to the priorities of EU external action as well as the day-to-day management of MFA interventions. The Commission will also initiate a discussion on the scope of the MFA instrument, including its geographical coverage, and how it interacts with other EU external policies.

4.2 Future developments: MFA in the next multiannual financial framework

As the EU's neighbourhood continues to experience geopolitical and economic instability, further reinforced by the humanitarian and economic fallout from the escalating spread of the coronavirus in 2020, the need for the EU to provide MFA is likely to remain high and even escalate in the years to come. As part of the mid-term review of the 2014-2020 multiannual financial framework (MFF), the Commission had therefore proposed strengthening MFA as an instrument of macro-financial support and increasing its the annual lending capacity from EUR 500 million to EUR 2 000 million. This was endorsed by the European Parliament and the Council.

On 2 May 2018, the Commission adopted a Communication on the 2021-2027 MFF. For EU external action, the Commission proposed to streamline existing instruments to better communicate what the EU does, avoid overlaps, make processes less cumbersome and increase efficiency and complementarity, all while better demonstrating the EU's added value. It is proposed that several instruments under the 2014-2020 MFF will be integrated into the new Neighbourhood, Development and International Cooperation Instrument (NDICI). However, the specific MFA programmes will continue to be activated as needed on the basis of separate ad hoc decisions, as it is acknowledged that the decision-making process of MFA programmes should remain distinct. MFA will thus continue to be governed by the ordinary legislative procedure, which requires the European Parliament and the Council to approve each specific programme.

MFA loans will be guaranteed by the new External Action Guarantee (EAG) to be created by the NDICI. The EAG will cover guarantess in the private, sovereign and sub-sovereign sector ('EFSD+'), MFA-loans as well as external Euratom loans. The EAG will be backed by the new Common Provisioning Fund, which will incorporate the existing Guarantee Fund for external actions as well as the other Guarantee Funds in the external as well as the internal EU domain. The Commission proposed in May 2018 that the total volume of operations under the EAG should amount to up to EUR 60 billion, of which EUR 14 billion is earmarked for MFA loans to be provisioned at a rate of 9%, as is currently the case. This is consistent with the EUR 2 billion annual lending volume for MFA agreed in the mid-term review of the 2014-2020 MFF, confirming the strong European value added and high leverage of the instrument. Additionally, MFA grants will continue to be provided to eligible countries with exceptionally high vulnerabilities.

On 27 May 2020, the Commission presented a **revised proposal for the 2021-2027 MFF** as well as an emergency European Recovery Instrument ('Next Generation EU') in response to the consequences of the COVID-19 pandemic, amounting to EUR 750 billion (in 2018 prices). In the external area, this would mean an additional EUR 16.9 billion (in current prices), of which EUR 11.4 billion for the EAG and EUR 5.5 billion for Humanitarian Aid. The proposed reinforcement would raise the EAG ceiling from the previously proposed EUR 60 billion to EUR 130 billion, more than doubling the potential capacity for EFSD+ guarantees and MFA-loans.

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

2020 will first and foremost be characterised by the implementation of ongoing MFA programmes, as described above. These include disbursement of the final instalment for Georgia MFA-III, as well as the remaining disbursements of the Moldova programme, provided the necessary conditions are fulfilled. Furthermore, depending on how swiftly negotiations on the MoU progress, the first two instalments for Jordan MFA-III could also be disbursed during 2020.

5.1 The use of MFA to enlargement and neighbourhood partners in the context of the COVID-19 crisis

The coronavirus outbreak has evolved into a global pandemic, requiring a fast, coordinated global response to protect people, save lives and tackle the economic fallout.

Against this background, on 22 April 2020 the Commission adopted a proposal for a EUR 3 billion MFA package to 10 enlargement and neighbourhood partners to help them to limit the economic fallout of the coronavirus pandemic. The proposal came on top of the 'Team Europe' package, the EU's robust and targeted response strategy to support partner countries' efforts in tackling the coronavirus pandemic. The decision was adopted by the European Parliament and the Council on 25 May 2020.

As part of this package, the EU agreed on MFA loans to be distributed as follows: the Republic of Albania (EUR 180 million), Bosnia and Herzegovina (EUR 250 million), Georgia (EUR 150 million), the Hashemite Kingdom of Jordan (EUR 200 million), Kosovo (EUR 100 million), the Republic of Moldova (EUR 100 million), Montenegro (EUR 60 million), the Republic of North Macedonia (EUR 160 million), the Republic of Tunisia (EUR 600 million) and Ukraine (EUR 1.2 billion).

This MFA package, and its quick adoption by the European Parliament and Council, is an important demonstration of the EU's solidarity with partner countries at a time of unprecedented crisis.

Table 2 provides an overview of commitments and payments of MFA grants and the disbursement of MFA loans for 2018, 2019 and (provisionally) 2020. Total disbursements of MFA loans are expected to amount to EUR 860 million in 2020 (or to EUR 3 860 million if the MFA COVID-19 Decision of 25 May 2020 is disbursed in full in 2020).

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Table 2:

Commitments and payments for MFA grants and disbursements of MFA loans 2018-2020 (EUR)

	2018	**2019**	**2020 (provisional)**
Commitment appropriations for grants in the budget	42 086 000	27 000 000	20 000 000
Operational assessments, PEFA studies, *ex post* evaluations	408 677	125 900	500 000
Georgia MFA-II (decision adopted)	10 000 000	-	-
Other possible MFA programmes			TBD
Commitments, total	**10 408 677**	**125 900**	**500 000**
Uncommitted budget allocations	31 677 323	26 874 100	19 500 000
Payment appropriations for grants in the budget	42 086 000	27 000 000	27 000 000
Operational assessments, PEFA studies, *ex post* evaluations	102 133	304 949	-
Georgia MFA-II (decision adopted)	5 000 000	-	5 000 000
Moldova MFA (decision adopted)	-	10 000 000	30 000 000
Other possible MFA programmes	-	-	TBD
Payments, total	**5 102 133**	**10 304 949**	**35 000 000**
Unused allocations for grant payments	36 983 867	16 695 051	-8 000 000[11]
Disbursements of MFA loans			
Georgia MFA-II (decision adopted)	15 000 000	-	20 000 000
Tunisia MFA-II (decision adopted)	-	300 000 000	-
Ukraine MFA-IV (decision adopted)	500 000 000		500 000 000
Jordan MFA-II (decision adopted)	-	100 000 000	-
Moldova MFA (decision adopted)	-	20 000 000	40 000 000
Jordan MFA-III (decision adopted)	-	-	300 000 000
COVID-19 MFA programmes (decision adopted)			3 000 000 000
Disbursements of MFA loans, total	**515 000 000**	**420 000 000**	**3 860 000 000**

[11] Possible payment deficit that would need to be covered (normally by redeployment) should the two remaining tranches (and grant component therein) of the Moldova MFA programme be disbursed.