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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 2018**

# Introduction

Macro-financial assistance, or MFA, is an EU financial instrument[[1]](#footnote-2) designed to address exceptional external financing needs of countries that are geographically, economically and politically close to the EU. Its prime objective is to restore macroeconomic and financial stability in candidate and potential candidate countries and in countries in the European neighbourhood, while encouraging macroeconomic adjustment and structural reforms. It takes the form either of loans, for which the Commission borrows the necessary funds on capital markets and on-lends them to the beneficiary country, or, under certain circumstances, grants financed through the EU budget.

MFA complements and is conditional on the existence of an adjustment and reform programme agreed with the International Monetary Fund (IMF). It is also conditional on respect for human rights and effective democratic mechanisms in the beneficiary country. It is released in instalments, strictly dependent on the successful implementation of strong reform measures aiming to put the beneficiary country’s economy on a long-term sustainable path. In this way, MFA complements regular EU cooperation assistance and contributes to the wider goal of preserving stability and promoting prosperity beyond the EU. Against a backdrop of persisting macroeconomic and political instability in the EU’s neighbourhood, MFA has been widely recognised as an effective instrument to respond to crises, enabling the EU to intervene in a visible and flexible manner and with considerable policy leverage.[[2]](#footnote-3)

MFA volumes made available to non-EU countries grew from EUR 1.2 billion in 2000-2008 to EUR 6.3 billion in 2009-2018. Political and economic upheaval in Arab Mediterranean partner countries has led to increased demand for MFA since 2012, with operations implemented in Jordan and Tunisia. In 2014, the conflict in eastern Ukraine and the marked deterioration of the country’s economic and financial situation triggered MFA support at an unprecedented level. In 2014-2018, a total of EUR 4.4 billion was made available to Ukraine under four MFA operations, the largest amount of EU macro-financial assistance ever granted to a non-EU country in such a short period of time.

To address the region’s persisting geopolitical and economic instability, the maximum lending volume for MFA loans has been increased from EUR 0.5 billion to EUR 2 billion per year for the remainder of the 2014-2020 multiannual financial
framework. The Commission has proposed to retain the EUR 2 billion lending volume per year in the 2021-2027 multiannual financial framework.

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

# Macro-financial assistance operations in 2018

## Overview

2018 saw the adoption of decisions granting further MFA assistance to Georgia and Ukraine, with the Commission disbursing the first instalments of both programmes by the end of the year. There was also progress in the implementation of the ongoing MFA programmes in Jordan and Tunisia (approved in 2016) and in Moldova (approved in 2017). Disbursements under these MFA programmes have been delayed, however, for reasons beyond the EU’s control.

The implementation status of MFA programmes was as follows at the end of 2018:

* **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[[3]](#footnote-4) to be disbursed in three instalments. The memorandum of understanding (MoU) and loan facility agreement (LFA) 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 remaining instalment is expected to be made available by end of 2019, provided that the remaining policy conditions are fulfilled and the IMF programme remains on track.
* **Jordan MFA II**: On 14 December 2016, the co-legislators adopted a decision[[4]](#footnote-5) to provide additional MFA to Jordan (MFA II) of up to EUR 200 million, entirely in loans, as a follow-up to the EUR 180 million operation completed in 2015. The MoU between the EU and Jordan was signed on 19 September 2017. The assistance was disbursed in two instalments of EUR 100 million, respectively in October 2017 and in June 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, LFA and Grant Agreement between the EU and Moldova entered into force in January 2018. The assistance will be disbursed in three instalments. In 2018, the release of the first EUR 30 million instalment was put on hold because the political preconditions were not met. This followed a number of worrying developments, including the invalidation of the results of the mayoral elections in Chisinau, which pointed to serious democratic backsliding in Moldova. Disbursment is now expected to take place over the course of 2019 and 2020, provided that the political preconditions and the remaning policy conditions are fulfilled and the IMF programme remains on track.
* **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, EUR 35 million of which 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, and disbursement of the second instalment of EUR 25 million (EUR 20 million in loans and EUR 5 million in grants) is planned for mid-2019, provided that the remaning policy conditions are fulfilled and 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 LFA by the Ukrainian parliament in November 2018. The first instalment of EUR 500 million was disbursed in December 2018, and the second is expected to be disbursed in the first half of 2019, provided that the remaning policy conditions are fulfilled and the IMF programme remains on track.

In 2018, a total of EUR 1 045 million of new MFA operations were approved and EUR 520 million were disbursed. Annex 1A and 1B provide more detail on the status of effective disbursements by country and by region at the end of 2018.

## Individual MFA operations in the beneficiary countries in 2018

### *Georgia*

Georgia has experienced a solid recovery following the slowdown of 2015-2016. External vulnerabilities persist, however, particularly a large current account deficit and high external debt. These vulnerabilities are further amplified by regional and global factors, such as the risks associated with a global economic slowdown.

In 2018, Georgia’s real GDP is estimated to have increased by 4.8%, driven by both domestic and external demand. The general government fiscal deficit is estimated to have been reduced from 3.9% of GDP in 2017 to 3.3% of GDP in 2018 on the back of economic growth and consolidation efforts. This also allowed Georgia to slightly reduce its public debt to 43% of GDP in 2018, down from 45% of GDP in 2017. Georgia’s balance of payments remains vulnerable, however, due to a decreasing but still large current account deficit (6.7% of GDP in the first three quarters of 2018, down from 7.5% of GDP in the same period of 2017) and high external debt (109% of GDP in 2018, down from 113% of GDP in 2017). Georgia’s international reserves have been increasing in recent years, and totalled USD 3.3 billion at the end of 2018 (3.4 months of import cover). Reserve needs have also been increasing, however, and reserves are currently below the level regarded as adequate by the IMF.

In this context, in April 2017 Georgia and the IMF agreed a three-year (2017-2020) extended arrangement of USD 285 million under the Extended Fund Facility (EFF) . The EFF programme is well on track. The first three programme reviews were completed as planned in December 2017, June 2018 and December 2018. Georgia has met all targets for these reviews. The IMF and the Georgian authorities reached a staff-level agreement on the fourth programme review in May 2019. Completion of the review will make about USD 41.6 million available to Georgia.

Georgia requested further MFA from the EU[[5]](#footnote-6) in June 2017. In September 2017, the Commission submitted a proposal to the EU co-legislators for up to EUR 45 million (EUR 10 million in grants and EUR 35 million in loans) in additional MFA to Georgia. The European Parliament and the Council adopted the Decision in April 2018. The MoU, Grant Agreement and LFA relating to the current MFA operation were signed by exchange of letters in August 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 to Georgia in December 2018. The next step in implementing the MFA programme will be the disbursement of the second, and final, instalment of EUR 25 million (EUR 5 million in grants and EUR 20 million in loans), planned for mid-2019. In addition to the political preconditions and good progress on the IMF programme, the second instalment will also be subject to specific policy conditions agreed between Georgia and the EU in the MoU. These policy conditions aim to strengthen the Georgian economy in public financial management, the financial sector, social and labour market policies and the business environment.

### *Jordan*

The Syrian crisis has continued to act as a drag on Jordan’s economy and to weigh on its external and fiscal positions. Real GDP increased modestly by an estimated 2.1% in 2018, effectively the same rate since 2016. Economic growth remained insufficient to contain unemployment, which rose slightly to 18.7% in Q4 2018 from 18.5% in Q4 2017 and 15.3% in 2016. The overall fiscal deficit (including grants) narrowed to 2.4% of GDP in 2018, helped by fiscal measures taken by the authorities at the beginning of the year. The fiscal position remains dependent on foreign grants, which amounted to 3% of GDP in 2018. Total gross public debt was slightly reduced to 94% of GDP from 94.3% at the end of 2017. Given its low growth and unfavourable external conditions, Jordan needs to attract greater support from the international and regional donor community to keep public debt on a downward path. Similarly, despite adjustment in recent years, the current account deficit remains very large (around 10.2% of GDP in the first 9 months of 2018, excluding foreign grants).

On 24 August 2016, the IMF Board approved a three-year EFF programme of USD 723 million (150% of quota). The first IMF programme review was approved by the IMF Board in June 2017. As a result of delays in implementing agreed tax reforms, the second programme review took longer than expected, and was finally approved on 6 May 2019 by the Executive Board of the IMF.

On 14 December 2016, the European Parliament and the Council adopted a decision on a second programme of macro-financial assistance (MFA-II) of EUR 200 million in loans. The MFA-II programme, which is in addition to the EUR 180 million of the MFA-I which was disbursed in 2015, aims to help Jordan face its increased external and fiscal financing needs, which are in part related to regional instability, including the presence of a large number of Syrian refugees in Jordan.

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

The Commission released the first EUR 100 million instalment on 25 October 2017. The second and final EUR 100 million instalment was disbursed in June 2019.

### *Moldova*

Moldova has experienced a period of relative stability in recent years as it has continued to recover from the 2014-2015 banking crisis. Economic growth, supported by a recovery of investment and strong growth in domestic trade, industry and construction, stood at 4.0% in 2018 (down from 4.7% in 2017). Economic performance is expected to remain solid over the medium term, with steady growth, moderate inflation and a sound fiscal situation.

In 2018, annual inflation was as low as 0.9% (below the target corridor of 5% ± 1.5 percentage points) due to the combined effect of regulated prices and strong currency appreciation. In the medium term, inflation is expected to move towards the lower end of the target corridor. The fiscal situation has been improving significantly in recent years. The fiscal deficit of 0.9% of GDP for 2018 was significantly below the target of 2.9% of GDP, following better-than-expected revenue performance and delays in spending.

The current account deficit continued to widen in 2018 to 10.5% of GDP due to growth in non-energy imports fuelled by a recovery in domestic demand. Exports, in particular to the EU following the introduction of the Deep and Comprehensive Free Trade Agreement, are also showing strong growth. Remittances have picked up in recent years, but remain below 2014 levels.

In the wake of the 2014 crisis, Moldova requested support from the IMF, and a three-year ECF/EFF arrangement of USD 183 million was approved by the IMF in November 2016. After completing the third programme review in July 2018, the IMF confirmed that the programme was broadly on track. Following the introduction of a package of fiscal policy reforms in July 2018, however, concerns were expressed, especially in relation to a capital and tax amnesty. The IMF considers that additional measures are needed to address the governance and fiscal concerns posed by this law. The fourth programme review was postponed awaiting the formation of the new government.

In September 2017, the European Parliament and the Council adopted a decision to provide MFA to Moldova. A MoU 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 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 DCFTA.

In June 2018, the release of the first of three MFA instalments of EUR 30 million (of which EUR 20 million in loans and EUR 10 million in grants) was put on hold. This was because the political preconditions were not met, following a number of worrying developments, including the invalidation of the results of the mayoral elections in Chisinau, which pointed to serious democratic backsliding in Moldova. For the same reason, payments to Moldova under the Budget Support Instrument have also been put on hold in 2018. The EU called for parliamentary elections held in February 2019 to be conducted in a credible, inclusive and transparent manner, and the formation and programme of a new government which is representative of the results of the elections. Disbursement of the first MFA instalment will continue to be on hold until the political preconditions are considered met. The EU is commited to working with those in the Republic of Moldova who support the reform process that is at the core of our Association Agreement, in particular as regards fighting corruption, ensuring the independence of the judiciary and de-politicising the state institutions.

### *Tunisia*

Tunisia has experienced a protracted economic downturn over the past 8 years due to the complex political and economic transition that took place following the 2011 revolution and regime change. The country is also 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.

Tunisia’s economy experienced a slight improvement in 2018, with GDP growth estimated at 2.5% overall, after 1.9% expansion in 2017 and almost zero growth in 2015 and 2016. Unemployment is stable at around 15.5%, and inflation reached a decade high of 7.8% in June 2018, to end the year at 7.5%. The recovery of tourism and a good export performance were entirely offset by the rise in oil prices and the depreciation of the Tunisian Dinar, pushing the current account deficit to 11.2% of GDP at the end of 2018 (against 10.2% at the end of 2017). External debt is expected to have reached about 85% overall in 2018. International reserves reached a record low of 69 days of imports in September, to marginally increase to about 80 days of imports later in the year following the issue of international bonds and the disbursement of loans from international financial institutions. The fiscal deficit in 2018 was estimated at around 5.3%, exceeding the initial target anticipated by the authorities of 4.9%, while public debt is expected to have reached about 72% of GDP.

Tunisia first entered a stand-by arrangement of USD 1.75 billion with the IMF in June 2013. The arrangement ended in December 2015. In May 2016, the IMF Board approved a 48-month EFF programme for Tunisia of USD 2.9 billion (375% of quota) to support the country’s economic and financial reform programme. So far, about USD 1.5 billion have been disbursed following approval of the programme (June 2016) and the four first programme reviews (June 2017, March 2018, July 2018 and September 2018). The IMF and the Tunisian authorities reached a staff level agreement on the fifth programme review on April 2019. Tunisia will benefit from a sixth disbursement of USD 247 million following the IMF Executive Board’s approval on 12 June 2019.

The EU provided Tunisia with a first MFA operation (MFA I) of EUR 300 million in loans between 2014 and 2017. A second MFA operation (MFA II) was requested by the Tunisian authorities in August 2015, approved by the co-legislators in July 2016, and launched in October 2017, with the first disbursement of EUR 200 million (of EUR 500 million in total in loans). The second and third instalments (EUR 150 million each) are conditional on the implementation of a number of economic and social policy measures aiming to improve the efficiency and fairness of the tax system, strengthen the country’s social security system, foster employment and encourage private investment. Subsequently, the second instalment was released in June 2019 and the third instalment is expected to be disbursed by end of 2019.

### *Ukraine*

Ukraine’s economy has returned to growth after the deep recession in 2014-2015. Real GDP growth in 2018 is estimated at 3.2-3.3%. Inflation slowed from 13.7% in December 2017 to 9.8% in December 2018, mainly due to the contractionary monetary policy of the central bank. Ukraine’s current account balance widened in 2018 to 3.6% of GDP, spurred by fast-rising imports and dividend payments, partially counterbalanced by increasing remittances from Ukrainians working abroad. Public finances were consolidated over the last years: the general government deficit in 2018 was 2% of GDP and the ratio of public debt fell to 61% of GDP at the end of the year. However, repayment of public debt remains the main short-term challenge to the Ukrainian economy.

In 2014-2017, the EU disbursed a total of EUR 2.8 billion through three consecutive MFA programmes for Ukraine in the form of low-interest loans. The last instalment of the third MFA programme was cancelled in January 2018 because Ukraine had not fulfilled all the conditions before the expiration of this programme. Following a new request by the Ukrainian authorities, the Commission proposed a fourth MFA programme of up to EUR 1 billion in March 2018, since Ukraine fulfilled the economic and political criteria required to benefit from an MFA programme, including the existence of an external financing gap and a challenge in repaying public debt. It was also considered that a new MFA would incentivise Ukraine to maintain its reform momentum, with disbursements linked to reform implementation.

The European Parliament and the Council adopted this proposal in July 2018. The Commission and Ukraine signed the MoU setting specific policy conditions for the MFA programme and the LFA in September 2018. The first disbursement of EUR 500 million was made in December 2018 after Ukraine had fulfilled the policy conditions, which covered the fight against corruption, public financial management, governance of state-owned companies and privatisation of small companies. The second instalment (a further EUR 500 million) is expected to be disbursed in 2019, if the relevant conditions are fulfilled.

The EU’s support to Ukraine is an integral part of the international financial package. In parallel with the new EU MFA programme, the IMF negotiated, and in late 2018 signed, a new programme (a 14-month stand-by arrangement) of USD 3.9 billion for Ukraine, subject to a number of conditions. The first disbursement of USD 1.4 billion was made in December 2018. At the same time, the World Bank approved a policy-based guarantee which will enable Ukraine to borrow up to USD 1 billion in international markets. Of this amount, Ukraine raised USD 400 million in December 2018.

## Overview of reforms supported by MFA operations

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

For the MFA programmes implemented in 2018, the agreed conditions differed in number and type for eastern and southern neighbourhood countries. In the eastern neighbourhood, the most frequent conditions concerned improving public sector governance, the fight against corruption and money laundering, and improving the business climate. MoU conditions in the southern neighbourhood countries were fewer in number and focused particularly on public sector governance and on social protection and the social safety net and labour market. Table 1 provides more details.

**Table 1: Overview of reforms supported by ongoing MFA operations [the figures refer to the number of conditions]**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|   | Public sector governance | Fight against corruption and money laundering | Energy sector | Business climate | Financial sector | Social safety net and labour market | Other |
| Tunisia II | 5 | 0 | 0 | 2 | 1 | 6 | 1 |
| Jordan II | 6 | 0 | 0 | 0 | 0 | 4 | 1 |
| Moldova | 5 | 6 | 5 | 7 | 5 | 0 | 0 |
| Georgia III | 3 | 0 | 0 | 3 | 2 | 3 | 0 |
| Ukraine IV | 4 | 6 | 1 | 2 | 2 | 3 | 0 |
| Southern neighbourhood  | 11 | 0 | 0 | 2 | 1 | 10 | 2 |
| Eastern neighbourhood | 12 | 12 | 6 | 12 | 9 | 6 | 0 |

# Ensuring the proper use of MFA funds: operational assessments, *ex post* evaluations and audits

## 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 2018, the Commission carried out an operational assessment of Ukraine, in preparation for the new MFA operation. The assessment was completed in September 2018, and it concluded that the procedures in Ukraine provided sufficient guarantees to allow the planned MFA operation to go ahead. The operational assessment preceding the new MFA operation in Georgia, carried out in September 2017, concluded that although some weaknesses remain, the current status of the Georgian administrative and financial circuits are adequate for managing an MFA operation.

## Ex post evaluations

In line with the EU Financial Regulation and the corresponding MFA decisions, the Commission conducts *ex post* evaluations[[6]](#footnote-7) after completion of MFA programmes to assess their impact. The main objectives of these evaluations are:

1. to analyse the impact on the beneficiary country’s economy and in particular on the sustainability of its external position;
2. to assess the added value of the EU action.

The staff working documents on the *ex post* evaluations of the MFA I and MFA II operations for Ukraine and the MFA I operation for Jordan were completed and published in August 2018. In 2018, the Commission also initiated the *ex post* evaluation for the MFA operation provided to the Kyrgyz Republic in 2015-2016. The external contractors’ report was completed in February 2019, and the accompanying staff working document, produced by Directorate-General for Economic and Financial Affairs, will be completed and published by mid-2019.

Finally, in 2018, the Commission also initiated the *ex post* evaluations for the MFA operations in Georgia II and Tunisia I. 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 2019.

### Ukraine MFA I and MFA II

The *ex post* evaluation of the Ukraine MFA I and II operations[[7]](#footnote-8) concluded that the main added value of the two programmes was the mobilisation of significant financial assistance, urgently needed by the country, at a speed and on a scale that could not be matched by individual Member States.

The macro-financial assistance proved critical to preventing deeper contraction, and ultimately paved the way for Ukraine’s economic stabilisation, including by promoting important structural reforms in public financial management, anti-corruption, energy policy, financial sector restructuring and social policy. The MFA programmes also added value through their signalling effect to the population and civil society, and their confidence-boosting effect on the private sector. The operations, both directly and indirectly, helped improve the sustainability of Ukraine’s public debt, due to the longer maturity and lower interest rates of the MFA. The operations acted as a catalyst for additional bilateral donor support and raised investor confidence. The MFA also had a positive social impact in Ukraine by strengthening the social safety net, and more generally, by containing the crisis and thus preventing higher growth in unemployment and more loss of household income.

In general, this MFA operation was found to be completely aligned with key principles and measures taken in the EU external actions towards Ukraine. According to the evaluation, public visibility and awareness of the specific conditions attached to the MFA programmes could be improved.

### Jordan MFA I

The *ex post* evaluation[[8]](#footnote-9) concluded that the programme was relevant to Jordan’s economic challenges and in line with EU priorities. It helped the country address immediate external and fiscal financing needs, and helped sustain economic stability by tackling structural weaknesses. It also showed that MFA I was effective in achieving its objectives: on completion of the programme, the current account and fiscal deficits were significantly smaller, while foreign reserves had been replenished, which helped stabilise Jordan’s external and fiscal position. However, despite the above results, in 2016 the country sought new IMF and MFA programmes and also applied to other creditors to cover its external financing needs, which grew following the escalation in 2016 of the conflicts in Syria and Iraq and the persistence of the refugee crisis.

The MFA I operation was implemented efficiently and in close coordination with the Jordanian authorities, the IMF and the World Bank, which allowed the EU to draw on the expertise of partner institutions. The operation was also found to be consistent with other EU policies or instruments, especially the Budget Support Instrument. It provided added value for the EU, as it enabled a neighbourhood country with increasing geopolitical importance to deal in an orderly way with pressing economic and social issues such as refugee flows. Due to its longer maturity and lower interest rates, MFA I made a clear contribution to Jordan's public debt sustainability and enhanced confidence in the country’s economy.

The evaluation indicated that the MFA I programme had a positive social impact. It helped preserve macro-economic stability and supported Jordan’s currency and its peg with the US Dollar, thus protecting Jordanians’ standard of living. It also strengthened the social safety net and protected the most vulnerable from the impact of the abolition of energy subsidies.

The evaluation also pointed out the need for closer cooperation with authorities, and further guidance on operational issues to eliminate the risk of delays. In this context, and if the country so requests, the provision of technical assistance to facilitate and more effectively steer the implementation of reforms would be desirable. Finally, the visibility and public perception of this EU intervention could be improved by proactive efforts to communicate with a wider audience on the potential benefits of specific reforms supported through the MFA programme.

### Kyrgyz Republic MFA

The *ex post* evaluation, carried out by external contractors, of the EU’s exceptional MFA to the Kyrgyz Republic in 2015-2016 concluded that the EU MFA overall was relevant, coherent, effective and efficiently implemented.

The EU’s added value was most apparent in the strengthened promotion of structural reforms in several priority areas. The MFA conditions generally complemented the numerous actions already undertaken by key international donors such as the IMF, which reinforced the rationale for certain adjustment measures and the need to swiftly advance reforms in targeted sectors. The MFA operation was also found to be coherent with other EU external actions towards Kyrgyzstan, including budget support programmes. It also served important political objectives in the Kyrgyz context, and the actual disbursement of the MFA is likely to have had a significant positive impact on bilateral political relations. The report concludes that the size and form of assistance was adequate. An important attribute of the EU MFA versus alternative sources of financing was its highly concessional terms, which entailed a grant element and loans bearing long maturity and very low interest rates.Finally, the report acknowledges that although the MFA operation was not designed to directly promote social reform, it provided the EU with (added) leverage to prevent the enactment of various contested laws, notably the anti-LGBTI and ‘foreign agents’ laws.

At the same time, the report argues that the lengthy negotiation process characteristic of this MFA instrument[[9]](#footnote-10) delayed the disbursements and somewhat reduced the EU’s added value. These delays were believed to have adversely impacted the extent of awareness/visibility surrounding the operation. Nevertheless, the timing of the disbursements in June 2015-April 2016 was still relevant, owing to economic difficulties faced by the Kyrgyz Republic at the time in the wake of the Russian crisis.

# General Developments RELATED TO the MFA instrument

## Functioning of the MFA instrument

The 2013 Joint Declaration of the European Parliament and the Council on MFA[[10]](#footnote-11) 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 operation, the Commission monitors the fulfilment of these political preconditions together with the European External Action Service, 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 (and during the approval process for the proposal for Moldova in 2017), the European Parliament's **Committee** on Foreign Affairs (AFET) proposed a number of amendments to the Commission proposal which led to more protracted decision-making for both Georgia and Ukraine. This tendency to introduce amendments to the agreed template of the 2013 Joint Declaration could jeopardise the main objective of MFA, which is to provide support for the balance of payments in a crisis situation when it is most needed (something which was also stated in the European Court of Auditor (ECA)’s special report on EU assistance to Tunisia in 2016).

Following up on the findings of the ECA, the Commission has, as in previous years, continued to work with co-legislators to explore ways of making the current decision-making process more effective and efficient.

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

In 2018, the Commission remained fully committed to giving practical effect to the principle of equal treatment of the European Parliament and of the Council in accordance with Article 9 of the Framework Agreement on Relations between the European Parliament and the European Commission by sharing information on MFA with the Committee on International Trade (INTA Committee) under the 2017 information-sharing arrangement between INTA and DG ECFIN.

## Future developments: MFA in the next multiannual financial framework

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

On 2 May 2018, the Commission adopted a Communication on the multiannual financial framework (MFF) beyond 2020. For EU external action, there are plans to significantly 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 multiannual financial framework be integrated into the new Neighbourhood, Development and International Cooperation Instrument (NDICI). The specific MFA operations will, however, continue to be activated on the basis of separate ad hoc decisions as needed, as it is acknowledged that the decision-making process of MFA operations should remain distinct. MFA will thus continue to be governed by the ordinary legislative procedure, which requires the approval of the European Parliament and the Council for each specific operation.

At the same time, guarantee provision for MFA loans will be covered by the new External Action Guarantee to be created within the NDICI, which will incorporate the existing Guarantee Fund for external actions. The Commission proposed that the total volume of operations under the External Action Guarantee 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 very high vulnerabilities.

# New requests for assistance and future Commission proposals — budgetary situation

2019 will be characterised by the implementation of ongoing MFA operations, as described above. These include disbursement of the final instalments for Jordan MFA II, Tunisia MFA II, Georgia MFA III and Ukraine MFA IV, as well as the start of disbursement of the Moldova operation, provided the necessary conditions are fulfilled.

Total disbursements of MFA loans are expected to amount to EUR 960 million in 2019, up from EUR 515 million in 2018. Table 2 provides an overview of commitments and payments of MFA grants for 2017, 2018 and (provisionally) 2019. The forecast for 2019 is preliminary and includes only MFA operations for which a decision has been adopted by the co-legislators.

Finally, in line with earlier commitments, in 2019 the Commission will further investigate the financing needs of eligible countries currently benefiting from an IMF programme (particularly Jordan, Tunisia, and Ukraine) and if appropriate will propose additional MFA operations for these countries.



1. The legal basis for macro-financial assistance to third countries other than developing countries is Article 212 of the Treaty on the Functioning of the European Union (TFEU). [↑](#footnote-ref-2)
2. MFA also complements other EU external actions or instruments towards the Neighbourhood, including budget support. The 2018 Budget Support report is available at: <https://ec.europa.eu/europeaid/sites/devco/files/budget_support_-_trends_results_2018_final_1.pdf> [↑](#footnote-ref-3)
3. 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). [↑](#footnote-ref-4)
4. 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). [↑](#footnote-ref-5)
5. The first and second MFA operations for Georgia were pledged at the International Donor Conference in Brussels in October 2008. These operations of EUR 46 million each were implemented in 2009-2010 and 2015-2017. [↑](#footnote-ref-6)
6. 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> [↑](#footnote-ref-7)
7. <https://ec.europa.eu/info/evaluation-reports-economic-and-financial-affairs-policies-and-spending-activities/ex-post-evaluation-mfa-operations-ukraine_en> [↑](#footnote-ref-8)
8. <https://ec.europa.eu/info/evaluation-reports-economic-and-financial-affairs-policies-and-spending-activities/ex-post-evaluation-mfa-operations-jordan_en> [↑](#footnote-ref-9)
9. The Commission adopted the proposal in December 2011, but approval by the co-legislators was delayed until October 2013. The operation was only disbursed in full, in two instalments, in 2015 and 2016, due to delays largely beyond the EU’s control. [↑](#footnote-ref-10)
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> [↑](#footnote-ref-11)