EUROPEAN PARLIAMENT

DIRECTORATE-GENERAL FOR EXTERNAL POLICIES

POLICY DEPARTMENT

EU MACRO-FINANCIAL ASSISTANCE: A CRITICAL ASSESSMENT

INTA

EU MACRO-FINANCIALASSISTANCE: A CRITICAL ASSESSMENT

EN

2012

DIRECTORATE-GENERAL FOR EXTERNAL POLICIES OF THE UNION

DIRECTORATE B

POLICY DEPARTMENT

STUDY

EU MACRO-FINANCIAL ASSISTANCE: A CRITICAL ASSESSMENT

Abstract

This study analyses the ongoing experience of the Macro-Financial Assistance (MFA) instrument of the European Union since 2006, and reviews the Commission proposal for a new Framework Regulation to govern its future operations. This leads to conclusions under three headings:

i/ The substantive results for operations since 2006 are mixed, most operations showing at best only marginal economic or political impacts. The MFA is secondary in size and conditions to IMF operations which it is supplementing, while the additional conditions specific to the MFA are modest in scope and impact.

ii/ The proposed Framework Regulation would be an advance in the interests of greater speed of operations and transparency, but member states in the Council are apparently seeking to block this potential progress with burdensome procedures that would amount to micro-managing the Commission's executive role.

iii/ The present context is one of ominous macroecononomic prospects for the EU and its close neighbours as a result of the eurozone crisis, compounded for the South Mediterranean states by the economic consequences of the Arab Spring. While it is implausible that the MFA be massively expanded, this is not the time to dismantle it, and options for its possible improvement are discussed.

EXPO/B/INTA/FWC/2009-01/Lot7/22 February/2012

PE 433.868 EN

This study was requested by the European Parliament's Committee on International Trade.

AUTHOR:

Michael EMERSON, Associate Senior Research Fellow, Centre for European Policy Studies (CEPS), Belgium

ADMINISTRATOR RESPONSIBLE:

Roberto BENDINI
Directorate-General for External Policies of the Union
Policy Department
WIB 06 M 057
rue Wiertz 60
B-1047 Brussels

Editorial Assistant: Jakub PRZETACZNIK

LINGUISTIC VERSIONS

Original: EN

ABOUT THE EDITOR

Editorial closing date: 23 February 2012.

Printed in Belgium

ISBN: 978-92-823-3679-3
Doi: 10.2861/62070

The Study is available on the Internet at

http://www.europarl.europa.eu/committees/en/studies.html

If you are unable to download the information you require, please request a paper copy
by e-mail : poldep-expo@europarl.europa.eu

TABLE OF CONTENTS

TABLES

EXECUTIVE SUMMARY

The Macro-Financial Assistance (MFA). This instrument of EU external policy has operated on and off for two decades, starting in the early days of the post-communist transition in Central and Eastern Europe. The present study was asked to review developments since 2006.

After the entry into force of the Treaty of Lisbon, MFA falls under the full remit of the European Parliament (Committee on International Trade) and the Council, in accordance with Articles 209 and 212 TFEU. The Committee on International Trade is currently examining a new Framework Regulation for the MFA proposed by the Commission.

The MFA is intended for exceptional use only, to help recipient countries overcome acute external financing constraints. The MFA complements the extensive range of instruments that the EU deploys in neighbouring countries - in accession or potential candidates, and countries of the Eastern and Southern branches of the European Neighbourhood Policy (ENP).

However the MFA has less EU specificity, since it works as a supplement to macroeconomic aid programmes of the IMF. This supplement is 'secondary' both in that the amounts are usually only a small fraction of the IMF commitment (often no more than 10% of the parallel IMF operations), and in that they largely replicate the IMF's conditions. However to be following the IMF's conditions is itself not unreasonable, since the aided states cannot be subject to two different sets of macroeconomic conditions.

The MFA does add some of its own conditions, notably focusing on medium-term structural reforms, and in particular public finance management and auditing practices. These can be useful elements, but are less than strategic. The introduction of some additional EU specificity to the conditions is done in the name of 'EU value added', but this brings with it some confusion in design and purpose: implicitly it is leaving the macro-stabilisation function to the IMF, while then using the MFA to leverage in relatively minor structural or administrative reforms.

Evaluation of operations since 2006. Since the MFA is intended to be only exceptional, its activation is triggered by adverse economic developments, often stemming from the international economic context. The MFA saw few new commitments in the mid-2000s when the macroeconomic environment was relatively favourable, but then resumed a higher level of activity when the global financial crisis of 2008-9 hit some of the EU's neighbours very hard, with deep recession in some cases.

In total from 2006 the MFA has seen 10 new commitments to new operations, and 14 disbursements (of which several were committed before 2006). In total this makes a set of 14 operations which the present study has reviewed. Of these 7 have been subject to evaluation reports, while for the remainder it is too early still for evaluation. In 2008 there was a 'Meta-evaluation' report, i.e. an overview of all the individual evaluations done so far. The present study makes use of these evaluations (with quoted expressions from these reports in brackets).

The macroeconomic stabilisation impact of the MFA has been 'limited or modest in all cases'[1], both because of the small size of the MFA contribution, and also because disbursements tended to follow IMF operations with a time lag of around 12 to 18 months, by which time financial crisis conditions may have passed.

The impact on structural reforms may be positive but only slight and takes longer to materialise.

---

[1] Meta.evaluation report, p.iv.

There is mention of a broad 'political or operational reinforcing effect of the MFA' [2]through the EU adding support to the efforts of the international organisations and the EU's other instruments of aid and cooperation. However this is an intangible and speculative matter.

(A more precise account of evaluation results is set out in some detail in Chapter 3, and summarised in Chapter 7).

The new Framework Regulation proposed by the Commission would make major changes in the decision-making procedures of the institutions, and in particular facilitate and speed up the executive functions of the Commission. This would respond to the well-founded criticism of the MFA that it has involved a too lengthy and burdensome decision-making process, contradicting the need to act promptly to overcome acute external financing crises.

The essence of the proposal would see just the Framework Regulation adopted by co-decision of Council and Parliament in accordance with the Lisbon Treaty. Individual country-specific operations would be subject to relatively light Committee procedures in accordance with the new 'Comitology Regulation', without recourse to member states in the Committee for all operational details such as for the disbursement of tranches.

However apparently member states are objecting to the Commission proposal, wanting to retain the full legislative procedure for deciding all individual operations, and full committee control of every step in the process of execution, i.e. to micro-manage the Commission. The resolution of these differences will necessarily involve the Parliament.

Apart from these important procedural issues, the proposed Framework Regulation merely serves to consolidate and make more transparent existing practice that has developed in an ad hoc manner, integrating the so-called 'Genval criteria' for justifying and framing operations.

Sandwiched between the IMF and the (rest of) the EU. The MFA's operating structure and policies cannot be justified or explained by any simple macroeconomic logic. Divergent institutional interests are at play. Most ministries of finance would like to minimise any distinct international macroeconomic role of the Commission and in any case to control it or subordinate it to the IMF to the maximum extent; the Commission and Parliament are keen to build up the international role of the EU and to maximise the functionality of its instruments, and other parts of national governments may be more sensitive to this than the ministries of finance. The resulting tensions between these various interests has created the rather complicated and contrived mechanism that attempts not very convincingly to reconcile both the primacy of the IMF's role and the assurance of an EU value-added.

The organisation of evaluations. This is unusual and deontologically questionable. According to standard practice, as for example at the IMF and World Bank, evaluations of policies and projects are undertaken by a department separate from that which is responsible for the policy and project management. MFA evaluations are contracted and managed by the same department of the Commission (Directorate General for Economic and Financial Affairs). This risks introducing bias in favour of conclusions that the executing department might like to read, although the evaluations referred to in this report do include quite a number of criticisms. It would be more normal for the evaluations to be done by another department of the Commission under the responsibility of a different Commissioner, or by the Court of Auditors which has not examined the MFA since 2002, or the European Parliament. If this issue were to be addressed it would raise a host of detailed institutional questions also for other Commission programmes.

[2] Meta-evaluation report, p.iv

New demands to be anticipated. While most of the economies in the EU's neighbouring regions began to recover quite quickly after 2009, they now face a new and ominous sets of adverse economic shocks: first, the macroeconomic impact of the ongoing eurozone crisis which is pushing the EU economy towards recession, second, the specific impact of the eurozone crisis on the banking system of eastern Europe, and third, to the south the damaging economic impact of the Arab Spring, especially in the countries that are experiencing revolutionary regime changes.

These events are likely to generate a new wave of demands for the MFA. With the EU and eurozone overstretched in trying to rescue the heavily indebted eurozone economies, one may anticipate objections that there is no money available for the neighbours. Such arguments are however not convincing. The amounts of MFA operations are on a very small scale compared to the eurozone (tens or sometimes hundreds of millions for the MFA, alongside tens or hundreds of billions for eurozone rescues, i.e. a scale of one to a thousand). But the EU's interest in or responsibility for developments in its neighbourhood are of strategic political significance, and so even secondary contributions alongside the IMF can be justified.

More radical options. Given that the present MFA is occasionally useful but still of marginal macroeconomic significance overall, one may discuss whether the recommendations concerning matters of detail and EU decision-making procedure (such as in section 3 of Chapter 7 below) are adequate. Radical alternatives can be hypothesised, for example to discontinue the MFA on the grounds that this would not make a big difference, or to go to other extreme and multiply its scale of operations to become for example an equal partner of the IMF in neighbourhood operations (i.e. increase five to ten times). Neither of these options looks persuasive or plausible. Given the EU's direct responsibilities and interests in its near neighbourhood, to scrap the MFA would communicate a clearly negative political signal of lack of solidarity, and amount to a bad foreign policy move. On the other hand, with the current eurozone crisis straining the financial resources of the EU to extreme limits, a massive expansion of the MFA can hardly rank as a priority.

Still the scale of the possible economic difficulties of the EU's neighbours in the next year or two is hard to predict, and so to keep the MFA open for business in a highly uncertain economic and political environment seems the best course to follow. In addition some less drastic but still significant changes could be considered, with a view to enhancing the economic logic and effectiveness of the MFA (see sections 4 and 5 of Chapter 7). One such possibility would be to partner the IMF in a simpler manner. Another would be an opening to partner other financial institutions such as the EBRD or World Bank for financial and structural operations closer to their roles, and thus not stick to the monopoly of the IMF as partner. This would also mean diversifying the possible function of the MFA, beyond the present restriction to balance of payments support, in the case of other well identified priority or crisis needs of different types.

1. INTRODUCTION

In this first Chapter we give a very brief history of the MFA, and then outline the plan of the report.

The Macro-Financial Assistance (MFA) instrument of the European Union has been operational now for two decades.

The MFA provides loans and in some cases also grants to help beneficiary states in the European neighbourhood (candidate and potential candidate states, Eastern and Southern partner states of the European Neighbourhood Policy, and more exceptionally some Central Asian states) to overcome critical external financing problems alongside generally much large aid from the IMF.

The MFA began with a burst of operations in 1990-1992 totalling €1,538 million. These were concentrated mainly in the Central European countries that were suffering painful economic transitions after the collapse of the Berlin Wall the Soviet bloc and their communist economies, and at the same time initiating their applications to accede to the EU.

However from 1994 the focus of operations switched away from the accession candidate countries to the states of the former Soviet Union, since the economic transitions in these states were progressing much less fast than in Eastern Europe, and also because candidate states were receiving relatively very large grant aid from the EU.

After the Kosovo war in 1999 the Western Balkans became the next main theatre of operations.

In the mid-2000s operations declined to low levels, with zero new commitments in 2004 and 2008.

But also in the mid-2000s the European Neighbourhood Policy (ENP) was initiated. While this was a response to the eastern enlargement of the EU, with the intent to deepen the EU's support for the EU's 'new neighbours', it was also decided to take this opportunity to unify the EU's South Mediterranean and East European neighbourhood policies. In particular there was an integration of the former TACIS and MEDA aid programmes, which were repackaged and revised as the European neighbourhood Policy Instrument (ENPI), and endowed with €11.2 billion for the budget period 2007-2013. At the same time the EU was developing its Stabilisation and Association Process with the Western Balkan states, which includes substantial grant assistance under the pre-accession programmes, with €12.9 billion allocated for the period 2007-2013.

For the MFA the next major development was triggered by the 2008-2009 global financial crisis, which led to a renewed burst of demands for assistance from both Eastern Europe and the Balkans, and in the 2009-2010 six operations were approved totalling €1,036 million.

With the ongoing eurozone crisis the economies of Eastern Europe now seem certain to suffer new adverse shocks to their macroeconomic prospects and to their banking systems, and therefore in all likelihood to new demands for the MFA. Already there are warning signs from the banking sector, which in Eastern Europe is dominated by subsidiaries of EU banks, which are themselves in trouble.

The South Mediterranean neighbouring states have so far seen only occasional MFA operations, since these countries were less hard hit by the 2009 recession. But now the damaging economic consequences of the Arab Spring may generate substantial new demands from this region, and this risks being amplified by the ripple effect of the eurozone crisis given important economic ties that the South Mediterranean states have with the EU's deeply troubled Mediterranean member states.

A further major aspect of the emerging situation is the much more powerful role of other external financiers for countries in difficulty, namely Russia and now also China in Eastern Europe, and the rich Arab states which may aid their fellow Arab states suffering from the economic damage of the Arab

Spring. These new, or greatly expanded, external financial presences make the contributions of the MFA look even more marginal, and this accentuates the importance of the connection with IMF operations.

These momentous current developments make for a drastic change in context for MFA operations. This study will conclude therefore with some reflections on the implications for the MFA, but only after a thorough review of its recent operations and proposals for improvements in the MFA instrument.

Chapter 2 reviews the economic performance of the neighbouring regions relevant for the MFA. Medium term structural reforms are progressing only very gradually. In Eastern Europe there have been some quite rapid recoveries from the 2009 recession, but nonetheless some instances of regression in terms of democratic norms and attempts to reduce corruption. In the South Mediterranean economic trends were relatively stable, but now the outcome of the current revolutionary turmoil is highly unpredictable.

Chapter 3 reviews ex-post all MFA operations that have seen new commitments or disbursements since 2006. This has involved involved 14 operations in 10 countries. The results are summarised in the last chapter.

Chapter 4 makes a legal and institutional assessment of changes that are currently proposed by the Commission for the MFA through a draft Framework Regulation, which is however not yet agreed by the co-legislators, and objections are being raised by member states in the Council.

Chapter 5 reviews briefly but systematically the draft Framework Regulation, article by article, and in doing so comments on the so-called 'Genval criteria' which have been integrated into the draft Regulation.

Chapter 6 reviews the budgetary implications of the MFA, which involves some direct grant operations for budget support and guarantee provisions alongside loan exposure. The MFA grant operations feature alongside the growing use of budget support grants by the Commission as a general instrument of development policy, and through the ENPI instrument in particular for neighbouring states who may receive MFA support.

Finally Chapter 7 summarises the operational record of the MFA, and a number of principal issues, including the recommendations made in the report of the Court of Auditors in 2002, which were reviewed already in the 2006 assessment prepared for the Parliament (CEPS, 2006). Finally it discusses issues arising with the radically new economic and political context, with the ongoing eurozone crises coinciding with the ongoing revolutionary Arab Spring.

2. MACROECONOMIC PERFORMANCE AND PROSPECTS IN MFA PARTNER REGIONS

The macroeconomic context since 2006.

The overall macroeconomic developments in recent years in the beneficiary states can best summarised separately for each of the three regions – East Europe, Western Balkans, and South Mediterranean – and in particular how each has been, or is now being, affected by a succession of three major economic shocks: the 2008-2009 global financial crisis, the 2010-2011 ongoing Eurozone crisis, and since 2011 the economic impact of the Arab Spring. The data given below in Tables 1 to 3 average only the non-petro-states of the European neighbourhood, since the petro-states are so different structurally and as a result hardly candidates for MFA support (data for all countries are given in Annexes 5-7).

Table 1: GDP growth 2007-2011 by region, %

	2007	2008	2009	2010	2011
Eastern Europe	9.1	5.9	-7.7	5.4	5.2
Western Balkans	6.7	5.6	-1.8	4.6	..
South Mediterranean	5.1	6.2	4.4	5.0	3.2

Source: European Commission

Note: Simple averages, excluding petro-economies (Russia, Azerbaijan, Libya, Algeria). Data for all individual economies are given in Annexes E, F and G.

Eastern Europe was hit very hard by the 2008-2009 crisis. In the immediately preceding years GDP growth had been buoyant, averaging 9.1% in 2007 and 5.9% in 2008 in the (non-petro) Eastern Partnership countries. But then in 2009 the global crisis drove all these states into recession, with sudden and large scale capital outflows that put banking systems at risk. Recovery however followed quite swiftly, and was already underway in 2010 with 5.4% growth, and was continuing at least in the first half of 2011, with the Commission forecasting 5.2% growth for the year (as of January 2012). The recovery was notably helped by the fact the Northern EU member states, from Germany to the Baltics, were growing strongly.

The Western Balkan states followed a similar profile, although with cyclical movements that were a little less pronounced.

By contrast the South Mediterranean states saw only a much more moderate slowing of economic growth in response to the 2008-2009 crisis: while growth in 2007 and 2008 was averaging around 5 to 6%, in 2009 it dipped to 4.4%, recovering to 5.0% in 2010. These countries were less exposed than Eastern Europe to the EU's business cycle with less open economies and less trade interdependence with the EU, and less subject to capital outflows due to their less liberalised financial systems.

These contrasting trends would broadly explain why in 2009-2010 demands for the MFA were concentrated in Eastern and South-Eastern Europe, with no new operations in the South Mediterranean.

However looking ahead now into 2012 a very worrying constellation of circumstances is taking shape, likely to create fresh demands for MFA support from all three regions. The Commission's latest economic forecasts of November 2011 reduce GDP growth for the EU itself in 2011 from 1.7% down to 0.5%, thus almost recession.

As regards Eastern and South-Eastern Europe their recovery from the 2008-2009 shock is now being threatened by the new shock coming from the Eurozone crisis and the severe weakening of the EU's economy. The EBRD has now revised down their forecasts for 2012 for Eastern Europe from 3.4% to

1.7%, and for South-East Europe from 3.7% to 1.6%. The EBRD was involved in 2009 with the so-called 'Vienna initiative', which worked to prevent European banks from withdrawing funds from their East European subsidiaries. With the Eurozone crisis again threatening European banks the case for preparing a second initiative of this kind is manifest, and is currently advocated by the chief economist of the EBRD[3].

As for the South Mediterranean, several of their economies are already suffering severe macroeconomic losses as a result of the Arab Spring, and most clearly so in the revolutionary cases of Egypt, Tunisia, and Libya. The Commission's latest forecasts for 2011 already have Tunisia and Egypt virtually stagnating in 2011, while Libya has suffered huge economic losses. But in addition these countries are unlikely to escape a second depressing impact to hit them from the Eurozone crisis, especially since the crisis affects most strongly the Southern EU member states with their draconian austerity measures driven by the acute debt crises.

The political risks inherent in this scenario are manifest: the chances of the Arab revolutions maturing in practice into stable democracy are seriously reduced if the economy is in recession and the people only know continued hardship.

External current account balances. The MFA is intended to help cover external financing gaps, beyond anticipated funding sources. The evolution of the current account of the balance of payments is a first indicator of possible financing needs, although this data gives no guide as to what funding sources may be available and therefore what the financing gap may be.

Table 2: Current account balances by region, excluding petro-economies, 2007-2011, % GDP

	2007	2008	2009	2010	2011
Eastern Europe	-10.4	-13.3	-10.0	-9.9	-10.2
Western Balkans	-14.5	-19.9	-12.3	-10.1	..
South Mediterranean	-3.0	-2.8	-2.8	-4.9	-6.2

Source: European Commission.

Note: Simple averages, excluding petro-economies (Russia, Azerbaijan, Libya, Algeria)). Data for all individual economies are given in Annexes E, F and G.

For Eastern Europe, while the average deficit has remained steady at a high level, this masks substantial movements since 2007 among individual countries, with improvement in Georgia and Moldova, but deterioration in Armenia. The average improvement in the Western Balkans is attributable to most countries of the region except Kosovo, where the deficit amounts to 16% of GDP. In the South Mediterranean deterioration in the current account is common to all countries except Jordan, which has recovered from a period of very high deficit.

Budget balance. MFA operations aim in some cases explicitly at budget support in addition to its external financing aspect, even though the interdependence of external and budget balances is quite limited since other factors are intervening to determine these respective macroeconomic aggregates. Nonetheless the budget situation is one on the major contextual features of the macroeconomic situation for the purposes of the MFA.

[3] 'Slowdown in west leaves eastern states struggling', *Financial Times*, 1 November 2011.

Table 3: Budget balances, 2007-2011, % GDP

	2007	2008	2009	2010	2011
Eastern Europe	-1.7	-2.1	-6.6	-4.4	-2.4
Western Balkans	1.1	-1.8	-4.0	-3.7	..
South Mediterranean	-7.0	-6.0	-8.4	-6.7	-7.5

Source: European Commission.

Note: Simple averages, excluding petro-economies (Russia, Azerbaijan, Libya, Algeria)). Data for all individual economies are given in Annexes E, F and G.

In Eastern Europe there was a serious deterioration of budget balances in 2009 under the impact of recession, and then some recovery in 2010 and bigger progress forecast by the Commission for 2011. In the Western Balkans also the 2009 recession caused significant deterioration of the budget balances, from which no major recovery is yet in sight. In the South Mediterranean there was also some deterioration in budget balances in 2009, starting however from high pre-recession levels, and recent trends do not indicate that these are being substantially reversed.

Structural indicators. The MFA has the mission, through the conditions it sets, not only to contribute to funding an external financing gap, but also to advance structural reforms in the economy. It is also required to observe as a pre-condition that the recipient country "respects effective democratic mechanisms, including multi-party parliamentary systems, the rule of law and respect for human rights" (in the language of Article 6 of the draft Framework Regulation).

There are some sources that measure the state of advance of economic reforms and the quality of democracy and governance, notably the EBRD's transition indicators (Annex 8), democracy rankings as from the Economist Intelligence Unit (Annex 9), and corruption perception rankings as from Transparency International (Annex 10).

For the transition indicators the EBRD adopts a numerical scale starting at 1.00 where the transition has hardly begun, through to 4.00 as the standard of the most advanced economies. For the eight countries that saw MFA operations in the period 2006-2010, the latest evaluations of the EBRD for 2009 puts these countries in the range of 2.41 (Tajikistan) to 3.18 (Armenia), whereas for comparison Romania stands at 3.44 and Poland 3.78. More relevant for evaluation of the MFA operations are the trends over the last years, which might be influenced by the MFA. The general picture is one of slow and slight improvement: for 2006 the rankings were between 2.33 (Tajikistan) and 2.93 (Armenia). All the other countries considered here show similar small and slow advances.

However it would be unjustified to assume that the MFA conditions have been responsible for the movement in these indicators. The EBRD assesses a vast range of nine policy domains (privatisation, enterprise restructuring, price, trade and exchange rate liberalisation, competition policy, banking and financial markets and infrastructures). The MFA conditions on the other hand are narrowly targeted, and for the most part concern technical aspects of public finance management, including debt management, internal and external audit systems, and public procurement (see Annex 1 for details). The EU is also addressing a comprehensive reform agenda with neighbouring and candidate states through actions plans or pre-accession negotiations, and this may contribute to the modest improvements observed in the EBRD rankings. But the MFA conditions are quite limited in their part of the process, even if public finance management issues have their importance.

The world democracy rankings of the Economist Intelligence Unit consider none of the MFA beneficiary states here covered to be 'effective democracies'. These worldwide rankings are grouped in five categories: (i) 26 are assessed to be 'full democracies', (ii) 53 to be 'flawed democracies', (iii) 32 to be 'hybrid or semi-authoritarian regimes', and (iv) 56 to be 'authoritarian regimes'. Of the MFA recipient states listed in Table 10 and for which rankings are available, none are 'full democracies', 3 are 'flawed democracies' (Serbia, Moldova, Ukraine), 5 are 'hybrid regimes' (Albania, Bosnia, Georgia, Armenia, Lebanon), and 1 is 'authoritarian' (Tajikistan). Most MFA recipient states have defective rather than effective democratic systems.

Relative to the pre-condition of 'respect for effective democracy mechanisms' it has to be concluded that the bar is being set very low indeed. Belarus, which is an absolute dictatorship is considered ineligible, but that is setting the bar for the MFA at the level of the pariah state. This leads to the question what kind of political conditionality is appropriate or possibly functional for the MFA. Actually it is highly implausible that the limited MFA funding could act as an incentive sufficient to turn the political behaviour of the recipient state in a more democratic direction than the leadership preferred. It would be better therefore for the language of the Framework Regulation to be more realistic and meaningful, like requiring that beneficiary countries 'countries are endeavouring to move in the direction of improved democracy and human rights'. Alternatively the explicit political conditions could be dropped on the grounds that it co-finances the IMF operations which has no such conditionality.

As regards corruption there has been a far more differentiated story over the period 2006 to 2011, with four countries having progressed, and four having actually regressed. Georgia has made the most spectacular progress, now ranked in the same league as some EU member states. Albania, Bosnia and Serbia have made more limited progress. On the other hand Armenia, Moldova, Ukraine and Tajikistan have all gone backwards, and their rank order places in the world list are all beyond the 100 mark (from 129 in Armenia to 152 in both Tajikistan and Ukraine together). Ukraine saw the biggest slip backwards in 2011 of all the countries reviewed. These results are sobering. Ukraine and Moldova are prime partners for the EU, being direct territorial neighbours, and offered the fullest possible cooperation under the European Neighbourhood Policy. Neither the EU with all its instruments, nor the IMF, nor a fortiori the MFA, have been able to counter these unfavourable movements. One can also compare Georgia and Armenia, as two comparable countries that have been treated in very similar manner by the EU. The spectacular progress of Georgia has to be attributed to the strong will of the Saakashvili administration since 2005 to fight corruption, whereas Armenia is notorious for the depth of involvement of the ruling class in corrupt practices. The combined external policies of all the West were evidently not here an effective driving force.

3. EX POST ASSESSMENT OF MFA OPERATIONS

This chapter reviews all MFA operations, either commitments or disbursements, from 2006 on. The MFA initially continued at a low level of new commitments in 2006 (€83.45 million) and 2007 (€125 million) and then zero new commitments in 2008. However the global financial crisis of 2008 and 2009 led to new demands, with commitments of €446 million made in 2009 and €590 million in 2010.

In 2011 there were no new decisions, but there were two new proposals made by the Commission, in January for Georgia, and in December for Kyrgyzstan.

In total 14 operations are reviewed here. Of these most are 'regular' MFA operations. However three have been branded as *Exceptional Financial Assistance (EFA).* This is a rather confusing terminology for a few of the operations reviewed, since all MFAs are meant to be 'exceptional', and we explain the EFA at the end of this chapter. These operations are now reviewed under the regional groupings used in EU policy, namely accession candidates, potential accession candidates as in the Western Balkans, states subject to the European Neighbourhood Policy (ENP) in Eastern Europe, ENP states in the South Mediterranean, and Central Asia[4].

Table 4: MFA commitments, 2006-2011 (€ millions)

Country	2006	2007	2008	2009	2010	2011
Moldova		45			90	
Georgia	33.5			46		(46)*
Armenia				100		
Ukraine					500	
Kosovo	50.0					
Bosnia				100		
Serbia				200		
Lebanon		80				
TOTAL	**83.5**	**125**	**0**	**446**	**590**	(46)*

*Commission proposal of January 2011

[4]This section makes substantial use of the findings of the Meta-evaluation report by EPEC and GHK, which in turn reviewed the evaluation reports produced by other consultants for individual MFA operations.

Table 5: MFA disbursements, 2006-2011 (€ millions)

Country	2006	2007	2008	2009	2010	2011
Albania	22					
Kosovo					30	
Bosnia	10					
Serbia						100
Moldova		20	25		40	20
Georgia	22			15	31	
Armenia						61
Ukraine						
Tajikistan	7					
Lebanon			15	25		
TOTAL	**61**	**20**	**40**	**40**	**101**	181

Accession candidate countries. There has been no activity since 2006.

Western Balkans.

Bosnia and Herzegovina (MFA commitment 2002/2004). A package of a €20 million loan and €40 million grant was decided in November 2002 and modified in December 2004. In July 2006 a final loan tranche of €10 million was disbursed, completing the operation.

Context. In 2002 the economy was experiencing a slowdown in growth, a large external deficit and falling reserves. An IMF Standby had been agreed for $89 million. For the EU the context was marked by the beginnings of the Stabilisation and Association Process, and the MFA seems to have been viewed as an additional incentive to boost the structural reform process. However the MFA itself accounted for only around 4 to 5% of total external assistance for Bosnia over the period 2002 to 2006, with the EU's CARDS programme supplying much larger amounts (€500 million).

Assessment. The MFA specified 28 conditions in three broad areas: public finance reform, financial sector reform, and private sector development. The evaluation report (by ECORYS, summarised in the Meta-evaluation) concluded that the conditions attaching to public finance and the financial system were relatively successful because of synergies with the IMF and World Bank programmes, which pushed hard in these areas. However those elements found only in the EU reform agenda and conditions saw less success, partly because they benefitted from no synergies with IMF or World Bank conditions and also because the Bosnian authorities attaching a low priority to a majority of them (such as competition policy and veterinary and phytosanitary standards). It was also reported that the international community's programmes stipulated in all as many as 100 to 150 structural conditions, no doubt hindering the chances of success of those conditions found alone in the relatively small MFA. The evaluation report concluded that the direct effect on macro-economic indicators was 'marginal'[5].

[5] Meta-evaluation report, p. 39-

Bosnia and Herzegovina (MFA commitment 2009). The next commitment decided in November 2009 was for a loan of €100 million, shortly following agreement of an IMF Standby for a $1.15 loan to be used over a three year period. The IMF has disbursed tranches amounting to €385 million, but the MFA is not yet activated.

Context. The global economic and financial crisis of 2008-2009 hit Bosnia, which suffered recession in 2009, and according to the IMF the recession led also to substantial external financing needs.

Assessment. Due to political uncertainties and near paralysis of government structures in the period running up to the October 2010 elections, the MoU establishing the conditions for the MFA was not signed until November 2010, a year after the Council decision. Disbursement is delayed since the MoU still has not been ratified by the Bosnian side. Structural reforms are generally making slow progress, and for example Bosnia ranks 110th in the world (out of 183 countries) according to the World Bank's Ease of Doing Business survey.

The EU's overall effort to get Bosnia onto a successful reform path conducive to EU membership in due course is as yet hardly working. Bosnia's score under the EBRD's transition indicators is the weakest of all countries reviewed except Tajikistan. In this context the MFA offers only a small additional incentive, and the difficulty in getting political conditions even to begin disbursement makes the question of potential impact remote for the time being.

Albania (MFA commitment 2004). A package totalling €25 million (€9 million loan and €16 million grant) was decided in April 2004, which was the fourth MFA operation in Albania since 1992. The loan was disbursed in March 2006 and the second and final grant tranche was disbursed in July 2006. The total of these four operations amounts to €150 million, in this case almost as much as the IMF, which had programmes totalling €170 million over the same period.

Context. Albania has sustained a reasonable to good GDP growth performance in the 2000s but with a substantial external deficit (€340million in 2004 when the MFA was decided), and a very high external indebtedness level (185% of GDP in 2004). The MFA was justified by an estimated residual external financing requirement after IMF and World Bank contributions.

Assessment. However Albania's external financial position improved immediately after the Council decision, due to foreign investment flows associated with privatisations, and disbursement was postponed until 2005 and 2006. Since other receipts in the balance of payments turned out to be underestimated the Meta-evaluation report even asks the question whether the MFA was needed at all. The main element of this MFA was budget support, permitting a higher level of expenditure on infrastructure development than otherwise might have been possible. However its direct contribution was macroeconomically 'small or negligible'[6].

There were twelve structural reforms attached to the MFA as conditionalities. The ECORYS evaluation report (summarised in the Meta-evaluation) considers that these measures would have been taken in any case even without the MFA, having been also pushed by the IMF and World Bank. Albanian commentators suggest that the MFA had a useful 'reinforcing' influence on policy makers, given that the required measures were also being pursued in the National Action Plan of the Stabilisation and Association Agreement. In any case the evaluator remarks that it is impossible to disentangle the relative effects of the MFA and other instruments of the EU or the IMF.

[6] Meta-evaluation report, P. 51.

Kosovo (EFA commitment 2006). The Council decided in November 2006 to extend 'exceptional financial assistance' (EFA) to Kosovo with a grant of €50 million. However disbursement was held back since conditions set for IMF funding were not being met. Three years later, in December 2009 the Commission renewed the commitment by one year, and in September 2010 a budget support grant of €30 million was disbursed. The remaining €20 million expired (i.e. was cancelled). The 2011 budget included public sector pay increases of 30 to 50%, and thus deviated from commitments made to the IMF.

Context. Kosovo's economy remains extremely fragile, with an unemployment rate above 40%, and heavy reliance on migrant remittances. The main economic sector is retail distribution, accounting for half of all enterprises. Political uncertainties surrounding the status of northern Kosovo remain unresolved, with serious recurrent tensions on the border with Serbia. The governance of Kosovo is notorious for its high level of corruption and links with criminal gangs and trafficking.

Assessment. Overall this MFA/EFA programme has proved highly problematic. Implementation of the 2006 commitment was delayed by almost four years. The formal reason was because the IMF's programme could not advance, but it is hard to understand the justification of this 'exceptional assistance' when its conditions could not be met over this long period. Cancellation of the second tranche further points to doubts over the need for this programme, or to the weakness of leverage by the EU over political developments in Kosovo with all its instruments, of which the MFA/EFA is only a small part.

There is no evaluation yet of this operation.

Serbia and Montenegro (MFA commitments 2001, 2002). There have been three MFA operations decided since the end of the Milosevic regime in Belgrade. The first two operations, in 2001 and 2002, were to Serbia and Montenegro together, before the separation of the two states. In July 2001 there was decided a €300 million package (€225 million loan and €75 million grant, and in November 2002 in a further €130 million package (€55 million loan and €75 million grant. The IMF extended €933 million of aid in 2001 and 2002. Disbursement of the 2001 MFA was completed by August 2002, and the 2002 MFA by December 2005.

Context. These operations were of high political significance, given the paramount interest of the EU to ensure that the fall of the Milosovic regime after the Kosovo war in 1999 would be followed by a pro-European one. This political sensitivity was given renewed emphasis in the aftermath of the assassination of Prime Minister Djindic in 2003. These factors seem to explain why there were large grant elements in the packages, despite the fact that Serbia is ranked as an upper middle income country not eligible for concessional aid by the IMF or World Bank.

Assessment. These first two (2001, 2002) MFA operations were subject of evaluation by ECORYS, completed in March 2008. The summaries in the Meta-evaluation report assessment the direct macroeconomic impact of the MFA to have been 'very small', and that the MFA was also considered not to be the main driver for structural reform, despite the fact that the MFA contribution was here more comparable to that of the IMF than in other MFA operations. Most of the MFA conditionalities 'would have been implemented anyway'[7] since they were also specified in the programmes of the IMF and World Bank, and officials interviewed were not familiar with the MFA operation. The timing of disbursement of the second MFA was accelerated as a gesture of political support after the assassination of Prime Minister Djindjic.

[7] Meta-evaluation report, p. 45.

Serbia (MFA commitment 2009). In November 2009 a loan of €200 million was decided, and the MoU was signed in July 2010. The IMF had agreed initially in 2009 to a €3 billion loan, but this was later halved since by the end of 2010 Serbia's needs for external aid were sharply revised down by the IMF. As a result the Commission also decided that only half of the MFA commitment should be used. Disbursement of €100 million was made in July 2011.

Context. The third MFA was decided in the context of the global economic crisis, which pushed Serbia into recession, while the EU was concerned to support the pro-European stance of the government.

Assessment. The contribution of the MFA was quite small (€200 million) compared to the major IMF loan (€3 billion). Unlike the 2001-2 operations, there was no grant element, which gets into line with the normal income-based criteria for making grants. The halving of the IMF and MFA operations was due to the unexpectedly robust recovery of exports in 2010, keeping the central bank's foreign reserve position unimpaired. Serbia is also receiving budget support from the EU under the Instrument for pre-Accession (IPA), with €50 million grants in both 2009 and 2010. The ten MFA conditions are broadly in line with the 'usual MFA package', which has a strong emphasis on budget systems, public finance controls and audit standards.

East European states of the European Neighbourhood Policy

Moldova (MFA commitment 2007). This country has been the most actively supported by the MFA, with first operations decided in 1994, 1996 and 2000. More recently a grant of €45 million was decided in April 2007, and disbursed in three tranches (€20 million in September 2007, €10 million in April 2008, and €15 million in December 2008). The scale of the operation relative to the size of the Moldovan economy and other international aid efforts was substantial. In 2007 the disbursements accounted for 28% of all international aid, and 50% of the EU contributions; in 2008 the corresponding figures were 23% and 30%. The €45 million represented about 1% of Moldova's GDP.

Context. The request for aid was made at a time when the Moldovan economy was being subjected to multiple adverse shocks, including a Russian ban on wine imports from Moldova, a sharp rise in the price of gas imports, and a serious drought. However capital flows and migrant remittances largely compensated for these impacts on the trade deficit, and the economy proved relatively robust in the face of the shocks, with GDP growth slowing to 4.8% in 2006 and 3% in 2007, thus avoiding recession, before rebounding strongly to 7.8% in 2008.

Assessment. The twelve MFA conditions concerned social policy, public finance control, and public procurement. There was complementarity here with other grant assistance from the EU through the ENPI programme, which itself raises the question whether it is sensible to have two such instruments administered separately but coming from the same budget resources. The main macroeconomic effect was to have permitted the budget to have made extra expenditures, contributing to 0.5% higher GDP growth than otherwise might have been achieved.

The evaluation by ECORYS, completed in February 2010, criticised the long time delay of 16 months between the request from Moldova and the first disbursement, due to the length of deliberations in the institutions and the negotiation of specific conditions beyond those already agreed with the IMF. Also criticised was the discordance between the main stated objective of supplying urgent balance of payment support and the quite long time horizons necessarily attached to the structural conditions. The main positive effect was considered to be the signalling message of having the EU acting together with the IMF, thus enhancing the credibility of Moldovan government strategy in a manner that could help investor confidence.

Moldova (MFA commitment 2010). A grant of €90 million was decided in October 2010, of which a first tranche of €40 million was disbursed in December 2010, and a second tranche of €20 million in September 2011. The third tranche of €30 million was planned for December 2011, but delayed into 2012 due to insufficient implementation of conditions.

Context. The 2010 grant was decided in the light of the severe impact that the global economic crisis in 2009 had on Moldova, with a 6% loss in GDP and 30% reduction in investment and migrant remittances in that year. The latest grant parallels much larger aid from the IMF of €420 million, i.e. about five times as large.

Assessment. The conditions attached to the 2010 operation relate to improved budgetary planning and reform of the financial sector. The Commission conducts regular review of compliance of these conditions before proceeding with trance disbursements, and in September 2011 it reported to the European Parliament that all conditions had been fulfilled (European Commission, 2011,h). However by the end of 2011 it was decided to delay disbursement of the final trance until 2012 because of insufficient progress in implementing conditions.

According to the Commission's most recent analysis economic growth rebounded sharply in 2010 to 6.9%, with 6.0% forecast for 2011. The current account deficit is estimated to widen to 11.2% of GDP in 2011, but foreign exchange inflows have allowed the central bank to continue to build up reserves. The overall conclusion seems to be – pending evaluation not yet done - that the aid has helped Moldova recover from the severe 2009 recession, but the next phase starting at the end of 2011 is likely to see a fresh adverse shock from the macroeconomic impact of the eurozone crisis.

Ukraine (MFA commitment 2010). A decision in July 2010 for a loan of €500 million was the first MFA adopted under the post-Lisbon co-decision procedure, following a Commission proposal of late 2009. The Commission subsequently proposed that an undisbursed loan commitment of €110 million of a 2002 decision be merged with the €500 million, leading to a series of four tranches (of €100 million, €10 million, €250 million, and €250 million). A draft Memorandum of Understanding was drawn up after a mission in July 2010, but this has not yet been concluded, and as a result no disbursements have been made. Meanwhile the IMF approved in July 2010 a very much larger Standby of SDR 10 billion (€13 billion), and first two tranches totalling $3.4 billion were disbursed in the course of 2010. If concluded this operation would be the second largest in the history of the MFA (surpassed only by a loan to Hungary in 1990), but it still would be only a small fraction of the parallel IMF operation (20 times as big).

Context. Ukraine was one of the hardest hit economies as a result of the 2008-2009 global economic crisis, with a loss of 15% in GDP in 2009, alongside its own banking and balance of payments crises. The economy began to recover quite quickly with over 4% growth in 2010 and as also forecast by the Commission for 2011. In 2010 fiscal policy and various structural policies were deemed by the IMF to be advancing reasonably well, and Ukraine raised $2.5 billion on the Eurobond market and another $2 billion loan from the Russian state-owned VTB bank.

However in the course of 2011 there emerged delays in implementation of various reform measures, including rises in the price of gas for households and public utilities, as well as differences between the IMF and the government over budget projections. As a result no further IMF tranches have been disbursed in 2011.

As a result the MFA is also blocked. The draft MoU (the text of which we have not seen) is said to cover important structural priority areas, concerning taxation, trade policy, energy and financial regulations, but remains unsigned.

The EU's major negotiations with Ukraine have been over an Association Agreement, including a Deep and Comprehensive Free Trade Agreement (DCFTA), and at the December 2011 EU-Ukraine summit it was declared that the texts of the agreements had been concluded except for technical matters (legal language, translations). At the same time the EU's relations with Ukraine have become strained because of the politics of the Yanukovich administration, which are widely interpreted as moving in a renewed authoritarian direction. These tensions came to a head in October 2011 with the imprisonment of former Prime Minister Yulia Timoshenko, which led to postponement of an informal summit meeting in October. The European Parliament for its part adopted a Resolution on 24 October, and expressed its concern at 'the deteriorating state of democracy and the rule of law in Ukraine; and considers these to be essential for the EU-Ukraine relations in general and the conclusion of the Association Agreement in particular'. But on 30 November Parliament adopted a further Resolution recommending signing of the agreement.

Meanwhile Russia is pressurizing Ukraine to join the customs union of Russia, Kazakhstan and Belarus, while Ukraine quite reasonably sticks to its preference to have free trade with both Russia and the EU. However Russia has powerful instruments for bargaining with Ukraine, through both the price of gas and financial assistance. For example, in the absence of IMF funding Ukraine might seek a rollover of the $2 billion loan by the Russian VTB bank, or further loans from Moscow (which has recently made loans of $13 billion to Belarus). In addition there are press reports that, following the stalling of the IMF loan, China is offering Ukraine a credit that would have neither political nor economic conditions[8].

Assessment. Fundamental political issues are at stake here as regards the EU's strategic relationship with Ukraine, including the functioning of the MFA. The leaders of the Orange Revolution of 2005 and the Ukrainian political institutions proved incapable of delivering effective governance, despite the high hopes that had been created and the top priority that the EU accorded to Ukraine through the mechanisms of the European Neighbourhood Policy. As a result they provided the opportunity for Viktor Yanukovich to succeed in the generally free and fair 2010 presidential election. Since his election most independent observers consider that there has been a significant regress on account of democratic practice and the rule of law. The EU has therefore now to judge whether to go ahead first of all with the Association Agreement and DCFTA, and then also with the MFA. It is not part of the present study's mandate to take position on what political position the EU ought to take here. However the MFA is subject to the pre-condition that (as in Article 6 of the proposed Framework Regulation) "... the recipient country respects effective democratic mechanisms .... and the rule of law". It would be setting the standard quite low to say that Ukraine today respects this pre-condition. The IMF itself has no explicit political conditionality, but does have problems with Ukraine's current economic policy, so for the present the MFA is for the time blocked explicitly for these economic reasons.

Georgia (EFA commitment 2006). This is a convoluted story. A decision in January 2006 for €33.5 million grants led to disbursements of €11 million in August 2006 and another €11 million in December 2006. The remaining €11.5 million was cancelled since various conditions were not met and the time delay for activation expired. The grants were used to contribute to early repayment of debt to the European Community (EC) of a loan for €110 million that had been decided in November 1997, which had itself been refinancing an even earlier loan from the EC in 1992 in the early post-Soviet period. The 1997 decision also had a grant component of €65 million, of which €33.5 million was never disbursed. The 2006 decision, for exactly this same €33.5 million, seems therefore to have been restoring this unused part of the 1997 decision. This was an unorthodox operation from the standpoint of the usual

[8] *Chinese central bank to replace IMF in Ukraine*, Kommersant (Ukrainian edition), 21 November 2011

'Genval criteria', hence its designation as an 'Exceptional Financial Assistance' (EFA), rather than a regular MFA.

Context. After the Rose Revolution at the end of 2003 the Saakashvili administration introduced an ambitious programme of economic liberalisation and reform, including notably unilateral free trade with the whole of the world and remarkable progress in reducing corruption. The stated goal of the EFA was 'to support economic reforms and help Georgia improve debt sustainability'. Georgia was achieving a favourable macroeconomic performance at this time, without serious external funding difficulties. The Georgian request for the aid was made in 2004, and due to lack of clear support by member states it took until 2006 to be decided by the Council.

Assessment. An evaluation by ECORYS was completed in January 2010. At the time that the disbursements were being made Georgia's external indebtedness was already being substantially reduced (declining to 17.5% of GDP in 2007). However a little later, after the 2008 war with Russia, the indebtedness situation deteriorated again, and without the earlier aid from the EC the period 2009-2013 would have seen a more worrying debt service burden (but only 'moderate debt distress' according to the IMF). The evaluator describes this as an 'unexpected effect' of the operation. The conditions related to budget procedures and audit systems. The former were fulfilled, but one audit requirement, namely a new law for the Chamber of Control, was not passed on time; in addition the grant was to be made only if preceded by an early debt repayment. As a result the third tranche was cancelled. The whole operation gives an awkward impression. The need for the grant to finance certain loan repayments seems to have been less than compelling, and the cancellation of the third tranche over a relatively technical measure reinforces this impression.

Georgia (MFA commitment 2009, proposal 2011). A decision in November 2009 for a grant of €46 million led to disbursements of €15.3 million in December 2009, €7.7 million in January 2010 and finally €23 million in August 2010. At the same time the Commission was executing a much larger programme of post-war reconstruction and rehabilitation grants totalling €500 million administered under the separate instruments of the Development Aid Directorate-general. The MFA operations paralleled much larger IMF operations of $1.15 billion. In January 2011 the Commission proposed a further aid totalling €46 million, this time divided 50/50 between loan and grant.

Context. These operations were prompted by the double shock hitting the Georgian economy, first the damage suffered in the August 2008 war with Russia, and second the impact of the global economic crisis in 2009. The principle of these aid operations had been pledged at an international donor conference in October 2008, immediately following the war.

Assessment. It is widely recognised that the EC's post-war reconstruction and rehabilitation grants were executed rapidly and effectively. The Commission Annual Report of 2010 notes that Georgia has made significant progress in legal and regulatory reforms. The Commission was critical in its report of June 2011 (Commission, 2011d, p. 29) of the limited reforms in the area of trade and competition policy. However by December the Commission decided to go ahead with DCFTA negotiations[9].

The Commission's latest proposal of January 2011 for a new €46 million package of grants and loans is currently stuck in a state of inter-institutional disagreement over procedural details regarding the Council's committee work in overseeing implementation of the agreement (on which see further below in Chapter 4).

[9] The Commission's pre-conditions for opening DCFTA negotiations have been criticized as seeking to impose too costly EU standards too fast on the weak Georgian economy, but these were not explicit conditions of the MFA. See P.Messerlin et al., '*An Appraisal of the EU's Trade Policy towards its Eastern Neighbours: the Case of Georgia'*, CEPS, 2011.

Armenia (commitment 2009). A package totalling €100 million was decided in November 2009, with a loan of €65 million and a grant of €35 million. The MoU was signed a year later in February 2011. Tranches totalling of €61 million were disbursed in 2011, with the remaining €39 million now expected for the first quarter of 2012. This decision was following an IMF Standby decided in March 2009, which was subsequently in December 2010 replaced by longer term loans, the total of these IMF operations amounting to $950 million.

Context. Armenia had earlier in 1992, like Georgia and Tajikistan, received a loan to assure food supplies, and then in 1998 a loan and grant package totalling €35 million to help Armenia meet its obligations to repay the 1992 loan. This MFA was decided in the context of the global economic crisis of 2008-2009, which hit Armenia very hard, with a 14% loss of GDP in 2009. The balance of payments current account deteriorated with declining investment and remittances from then overseas diaspora.

Assessment. In addition to the IMF's conditions, MFA conditions for the 2009 commitment included measures to improve public debt management and public internal financial control, and upgrading of the tax system. The Commission's Annual Report for 2010 refers to Operational Assessments (OA) undertaken for it by external consultants in 2004-2005 and again in February 2010, checking on the correctness of the financial circuit for insertion of the MFA funds. The OA saw improvements in the area of public finance management, and made further recommendations that were taken into account in the MoU.

While the economy began to recover in 2010 the external financing need remained high, so this operation has been a classic case of balance of payments support. The MFA operation is about one sixth the size of the IMF programme, and therefore a useful but only a marginal contribution at the macroeconomic level.

No evaluation is available as yet for the 2009 operation.

Mediterranean countries

Lebanon (MFA commitment 2007). A decision in December 2007 for a €80 million package (€50 million loan and €30 million grant) led to disbursement of €15 million in December 2008, and €25 million in June 2009, leaving €40 million undisbursed. The Commission proposed to extend the availability period for disbursement of the final tranche, but this was not signed by the Lebanese government. When the government requested in December 2010 a further extension, this was rejected and the last tranche was therefore cancelled.

Context. The 2007 commitment was made in the context of the IMF's support decided in April 2007 for an Emergency Post-Conflict Arrangement (EPCA) amounting to SDR 50.75 million, based on a five year programme presented at donor conference in January 2007. In November 2008 the IMF agreed a second EPCA package amounting to SDR 25.375 million, since when there has been no fresh IMF commitment.

Unlike many economies Lebanon showed great resilience in relation to the 2008-2009 global crisis, and sustained 8-9% growth in 2009 and 2010.

Assessment. Both the IMF and MFA operations were ended without full disbursement of the original commitments because of failures by Lebanon to meet the conditionalities in a situation of continuing political instability and governmental paralysis. No evaluation is available so far.

Central Asia

The new framework regulation proposed for the MFA makes no mention of any Central Asia state. However both Tajikistan and Kyrgyzstan continue to receive conditional budget support grants under the EU's Central Asia Strategy through the Development Cooperation Instrument (DCI). These budget support grants resemble current grant operations under the MFA, but are administered differently, by the Development Aid Directorate General rather than DG ECFIN.

Tajikistan (EFA commitment 2000). A package totalling €95 million ¢€60 million loan and €35 million grant) was decided in March 2000, following a proposal made in February 1997. In October 2006 there was payment of the fifth and final grant instalment of €7 million, thus completing the operation. The conditions were mainly based on those of concurrent IMF and World Bank programmes, and were grouped under the tax system, public administration, privatisation and the banking and monetary system.

Context. This was part of an 'Exceptional Financial Assistance (EFA)' operation involving also Armenia and Georgia, all of whom received food supply loans from the EU in 1992 to help these countries survive the hardships of the immediate post-Soviet/post-communist transition. Subsequently they all faced difficulties in repaying these loans nearly a decade later. Tajikistan had in particular in 2000 an outstanding debt to the EC of €78 million at the inception of the EFA operation. The €7 million tranche paid in 2006 was linked to a €8 million debt repayment, i.e. a slightly larger amount so as to allow the formal (but economically fictional) argument that it was not a debt forgiveness operation.

Assessment. This EFA operation was exceptional in amounting mainly to a debt re-financing and forgiveness action, coupled to some supplementary grant assistance linked to structural policy conditions. The evaluation indicates that Tajikistan's balance of payments current account and official reserves improved during 2005-2006, mainly due to increased migrant remittances. This enabled larger debt repayments to be made than could have been supported in the earlier period when the EFA was being initiated. The timing of the EFA was helpful. In its absence the economic hardships might have contributed to greater political instability in a country still recovering from the 1992-1997 civil war. However the evaluation report could not determine how far or whether the EFA had any specific leverage over structural conditions. It seems safer to assume that the EFA basically co-financed IMF/World Bank operations, without specific value-added beyond the debt relief. The Meta-evaluation report observes that there are now large amounts of Chinese funds arriving in the Central Asia region with few if any policy or political conditions attached, which risks undermining the attempts by the EU and IFIs to promote structural reforms.

Kyrgyzstan. A request was received in October 2010, and the Commission adopted a proposal in December 2011 for a €30 million package, 50/50 grants and loans.

Context. This MFA is proposed as a response to the damaging economic consequences of the inter-ethnic conflict of June 2010 in the region of Osh, and in support also of moves towards 'incipient parliamentary democracy'. Kyrgyzstan is considered to be the most promising (or for independent observers the least unpromising) prospect for democracy to develop among the Central Asian states.

Assessment. It is too early for any operational assessment. The Commission has since 1996 been implementing regular budget support grants to both Tajikistan and Kyrgyzstan, in recent years funded under the Development Cooperation Instrument (DCI) and thus separately from MFA operations. The conditions for Tajikistan have focused on public health and social welfare policies, and in Kyrgyzstan on education and social protection. These operations are clearly in the category of development and poverty reduction assistance, closer to World Bank operations than those of the IMF. It is therefore questionable whether grant aid should be done also through the MFA instrument, rather than under the regular development aid programmes.

Exceptional Financial Assistance (EFA). This label has been used for some operations which depart from the standard Genval criteria, and notably for certain operations for Armenia, Georgia and Tajikistan, where the funds were refinancing with a mix of grants and loans earlier loans from the EU, and as regards the grants, they were amounting to a degree of implicit debt forgiveness. The circumstances here were that the countries were facing difficulties in repaying their debts to the EC on time, and if they were to fall into arrears this would trigger non-eligibility for IMF or World Bank funding. Given also the high political and financial sensitivity of any open debt default or restructuring, an 'exceptional' procedure indeed was devised. Loan and grant (EFA) packages were arranged in which regular MFA-type conditions were negotiated, but with one additional feature. Certain tranches were to be released only after a debt repayment of a slightly higher amounts would be completed. The amounts were deliberately slightly different so that from a formal standpoint the operation would not appear to be debt forgiveness. It is understandable therefore that the EU would not want these cases to be seen as precedents, hence their Exceptional EFA label. In addition Kosovo receives EFA, because of its lack of normal statehood.

Use of econometric techniques of evaluation. The Meta-evaluation report devotes considerable space to discussing the use of econometric modelling techniques[10], which in principle would be designed to track the macroeconomic development of the economy with introduction of the MFA financial input, compared to a hypothetical counterfactual case in which there would have been no MFA.

The overall conclusion of the report was that: 'Given the relatively small scale of the MFA intervention (smaller the input, smaller output, and vice versa), the use of econometric modelling for assessing the net impact of MFA adds little value to the evaluations'[11].

However the problems in using econometric techniques in the present context go deeper than that. As the report also correctly remarks, 'Economic models do not tend to include financial indicators and financial models tend to have only a cursory treatment of the real economy. However, the crisis has shown that there are close two-way links between financial markets and real economic outcomes, in particular through the activity of banks'[12]. Econometric models have hugely failed to capture the dynamics of today's financial crises, and notably 'bubble' and 'boom and bust' cycles that are gravely damaging the advanced economies. While MFA beneficiary states typically have much less developed financial markets, when it comes to managing financial crises in these countries there is still a critical role for confidence effects in determining whether foreign private financing becomes available, and these effects are not at all captured in simple macroeconomic models. The combination of IMF and MFA funding may indeed be important in achieving positive confidence effects, but this will not show up in models that can be tailored for MFA evaluations. In addition the data set needed for modelling is seriously deficient in beneficiary states, which adds to the problem of inadequate theory.

This leads to a third practical consideration: what would be the cost-benefit ratio in investing in econometric modelling for the purpose of MFA evaluations? The costs in terms of the time-budgets of consultants would be quite high. The benefit in terms of added value to the evaluations is going to be slight for both the reasons given in the preceding paragraphs. Econometric modelling inevitably is a 'black box' for officials who are not economists, and state of the art or 'frontier' econometric research for integrating financial variables into real economy models is a difficult matter theoretically and

[10] Meta-evaluation report, pp 60-66 of the main report, and pp 54-56 in Annex III.

[11] Meta-evaluation repport, p.66.

[12] Op.cit.

technically even for the general economist. Simple recommendations that there should be econometric support for evaluation studies may be made in the spirit of adding scientific objectivity and robustness, but in the present context the output is more likely to be pseudo-science, or output of little value.

There is also an issue of logical consistency. The MFA's specific 'value added' in terms of its conditions that are supplementary to and different from those of the IMF are mostly about relatively technical aspects of public finance control. This is justified on the grounds that the MFA should aim at measurable impacts on government policies. Such measures should in principle have a long-term beneficial impact on economic growth, but the mechanisms for this cannot be captured in simple macro-econometric models.

The Meta-evaluation report in fact reveals little tangible output from its econometric work. However the report takes a positive view of the so-called 'Delphi technique', which is based on a system of iterative interviews and questionnaires, and can be either a complement or an alternative to modelling techniques.

It goes without saying that evaluations should in any case contain the maximum relevant quantified macroeconomic analysis, irrespective of whether econometric modelling techniques can be usefully employed or not.

4. LEGAL AND INSTITUTIONAL ASSESSMENT

There have been major changes for the MFA with entry into force of the Lisbon Treaty entry in December 2009, which would be augmented by the proposal made by the Commission in July 2011 for a Framework Regulation setting out general provisions for the MFA. The Lisbon Treaty changed the institutional rules for the legislative procedure; and the proposed Framework regulation would change further the decision-making procedures.

Prior to Lisbon the legislative MFA decisions were based on Article 308 of the EC Treaty, which governed actions of the EC not covered explicitly elsewhere, and as a result required unanimity of the Member States in the Council, with only a consultative role for the European Parliament. The management decisions were prerogatives of the Commission, acting after consulting the Economic and Financial Committee (EFC). These management issues concern the setting of the terms of the operation (memorandum of understanding, and loan/grant agreements with the beneficiary state) and decisions on disbursement of tranches.

Post-Lisbon the legislative decisions are adopted by co-decision of the Council and Parliament in accordance with Article 212 of the Lisbon Treaty (TFEU) where the decision-making rules for economic, financial and technical cooperation with third countries have been changed to the 'ordinary legislative procedure'. Decisions are now taken on a proposal from the Commission jointly by the Council on a qualified majority basis and by the Parliament by simple majority.

There is also an emergency procedure under Article 213 (TFEU) where 'urgent financial assistance' is required, which allows the Council to adopt a proposal on the basis of a Commission proposal, thus excluding the Parliament. However this provision has yet to be tested in practice. The opinion of the legal services of the Commission and Council is that the circumstance should here be 'real' emergencies, going beyond the 'normal' exceptional circumstances that have to justify regular MFA operations alongside the IMF, but the concrete meaning of this distinction is not evident.

The legal base of Article 212 (TFEU) has now been used by the Commission as the legal basis for its proposed Framework Regulation for future MFA operations [Commission, 2011f). Under this proposal the operational decisions for country-specific assistance would be taken by the Commission after submission of the proposal to a Committee of Member States. The procedure is in line with the general rules of the 'Comitology' Regulation adopted in February 2011 (European Parliament and Council, 2011)[13]. The Committee would be chaired by the Commission, and able to issue either positive or negative opinions by qualified majority. With a positive opinion the Commission would be empowered to go ahead with the operation. In the case of a negative opinion the Commission could either present an amended proposal or refer the matter to the appeal committee. As foreseen in the Comitology Regulation both Council and Parliament would have access to documents concerning the proceedings of the Committee, and the right to challenge implementing actions if these go beyond the powers provided for in the Framework Regulation.

In the absence of the Framework Regulation so far, the two operational decisions taken since Lisbon (Moldova, Ukraine) were both based on Article 212 with co-decision of the Council and Parliament, thus with a clearly enhanced role for the Parliament compared to pre-Lisbon. But this procedure will no longer be used if the proposed Framework Regulation is adopted (i.e. such 'second stage' country

[13]Regulation (EU) No 182/2011 of 16 February 2011, *"laying down the rules and general principles concerning mechanisms for control by Member States of the Commission's exercise of implementing powers"*, OJ L 55/13.

specific decisions would be taken by the Commission upon a positive opinion of the Committee, and without co-decision with the Parliament).

The proposed Framework Regulation is now being discussed between a Council working party and the Commission (several sessions so far), and between the Parliament's Committee on International Trade and the Commission (one session so far). The outcome is not yet evident and there are complications being raised by member states in the Council over how the 'Comitology' procedures in relation to MFA management issues should work, or even whether the Commission should be empowered to adopt decisions under these rules (according to Article 291 TFEU).

The new 'Comitology' Regulation provides for two procedures, an 'advisory procedure' and an 'examination procedure'. The advisory procedure allows member states to deliver its opinion if necessary on the basis of a simple majority, and then the Commission decides what to do 'taking the utmost account' of the conclusions of the committee. The examination procedure allows member states to adopt an opinion on the basis of qualified majority, and where this is negative the Commission shall not implement the act. The examination procedure is clearly much more constraining on the Commission.

In the case of the Moldovan and Ukrainian decisions adopted since Lisbon, but before adoption of the new 'Comitology' Regulation, the co-legislators agreed to use the advisory procedure (as it stood then already in the prior Regulation) for the adoption of the economic conditions of the operations (as in the Memoranda of Understanding). However since adoption of the new Comitology Regulation member states are requesting that the examination procedure be used also to agree Memoranda of Understanding, but Parliament insists that the advisory procedure be retained. A practical consequence of this disagreement is that approval of the Commission's latest proposal of January 2011 for a MFA operation for Georgia remains blocked.

In its proposed Framework Regulation the Commission would have recourse to the examination procedure for the principal decision on an aid operation. For adoption of the Memoranda of Understanding setting out the conditions, the Commission proposes the advisory procedure. For decisions on adopting loan/grant agreements and to disburse specific tranches the Commission's proposal does not foresee any involvement of the committee of member states. However member states are also contesting that there should be a 'Comitology' procedure for the adoption of the principal decisions on new operations (i.e. these should be subject to the full legislative procedure with co-decision); and they are requesting that the examination procedure be used not only for Memoranda of Understanding but also for the release of tranches.

Prolonged negotiations and disagreements over these detailed issues of procedure have unfortunately not been overcome with the entry into force of the Lisbon Treaty. The overarching issue now at play is whether the Commission should be able to manage MFA operations faster, with less cumbersome control procedures, or whether member states in the Council should have constant opportunities to control and micro-manage what the Commission should be doing. In the case of the MFA it is the question whether or not to overcome a main criticism of the MFA, namely its slow implementation. More broadly it is also a small but not insignificant example of the struggle to prevent the EU's institutional decision-making processes from becoming dysfunctional because of procedural heaviness.

Finally, these squabbles over 'Comitology' look inconsistent with the general rules used for the EU's very large and complex programmes of development assistance. To take an example close to the MFA operations, the Commission has in recent years been executing a set of conditional budget support grants to Tajikistan and Kyrgyzstan as part of a Food Security Programme funded under the Development Cooperation Instrument (DCI). Tranches are disbursed if detailed conditions are shown to have been respected. In the case of operations under the DCI the decision making process is as follows. The Commission presents Annual Action Plans to the DCI Committee. These plans identify for given beneficiary states the proposed projects with a considerable amount of detail (Action Fiches of around 8 pages long). The DCI Committee takes a position at the level of endorsing or not each such project. But thereafter the Commission gets on with the execution of projects without returning to the member states. In particular, in the case of conditional budget support grants, such as the Food Security Programme in Central Asia where the amounts are large and can be comparable to MFA operations, individual tranches are disbursed by the Commission upon receipt of satisfactory reports on fulfilment of the conditions without further recourse to the committee, i.e. without anything like the 'examination procedure' being now sought by member states for the MFA.

5. BUDGETARY IMPLICATIONS

MFA operations have budgetary implications under two headings, first the direct grant component of selected operations, and secondly provisions against possible default on MFA loans that has to be transferred from the budget into a Guarantee Fund.

Table 6: MFA commitments and payments, actual and as projected for 2007-2020 (EUR)

Year	Commitments		Payments	
	Budget appropriations	Budget execution	Budget appropriations	Budget execution
2007	58,201,000	57,875,944	78,694,000	20,206,817
2008	152,000,000	17,624,351	112,000,000	40,427,563
2009	89,100,000	81,452,478	110,000,000	15,559,610
2010	98,985,000	90,103,558	90,000,000	101,036,091
2011	104,868,567	393,476	88,552,647	55,236,767
2012	95,550,000	n/a	79,050,000	n/a
2013	132,000,000	n/a	n/a	n/a
2014	85,000,000	n/a	n/a	n/a
2015	85,000,000	n/a	n/a	n/a
2016	85,000,000	n/a	n/a	n/a
2017	85,000,000	n/a	n/a	n/a
2018	84,000,000	n/a	n/a	n/a
2019	84,000,000	n/a	n/a	n/a
2020	85,000,000	n/a	n/a	n/a

Source: European Commission

From Table 6 it apparent that the Commission wish to provide for a roughly stable volume of MFA grant operations. Whereas for the period 2007-2013 the average annual commitments amounted to €104 million, actual disbursements were somewhat lower, due to time lags and also some cancellations. For 2014-2020 the Commission is proposing a steady €85 million per year. Of course these amounts cannot anticipate what emergency needs may arise, and so the constant amount of €85 million is not a forecast.

As regards the provisioning of the Guarantee Fund, the standard rule is that MFA operations have to be matched by a provision of 9% transferred from the budget into the Fund. This applies also to other external loan operation of the EU, where the European Investment Bank (EIB) is the main player. The amounts provided for the years 2011 to 2013 (under line 01 04 01 14) shown in Table 7 cover all these external operations, including the EIB and not just the MFA. As of 30 June 2010 the total outstanding credits of the MFA amounted to €460 million, whereas the total outstanding for external operations was €19.8 billion[14]. The net assets of the Guarantee Fund relating to this total amounted to €1,487 million. There were no arrears outstanding as of 30 June 2011

[14] See European Commission (2011,i) and (2011,k) for sources.

Both grant and loan guarantee provisions are subject to estimated financial impact assessments accompanying the proposed Framework Regulation, as follows:

Table 7: MFA grant and loan guarantee provisions, 2011-2013

Grant appropriations for macro-financial assistance (budget line 01 03 02), € millions

	2011	2012	2013
Commitments	104.9	101.9	137.4
Disbursements	88.7	88.5	116.0

Provisioning of the Guarantee Fund (budget line 01 04 01 14), € millions

	2011	2012	2013
Total loan appropriations	138.9	260.2	200.0
MFA-related appropriations	1.4	2.6	2.0

Source: European Commission (2011,e)

For 2014-2020 the total budgetary implications of the MFA, as proposed by the Commission, amount to €0.6 billion for grant operations and €1.3 billion for provisioning the Guarantee Fund alongside loan operations. These amounts are small compared to the entire grant programmes of the ENPI for the neighbourhood countries (€16.1 billion) and for the pre-accession states of the Western Balkans (€12.5 billion) – see Table 8.

Table 8: Budget allocation for EU external action, 2014 – 2020

Spending category	Amount (billion euro)
Under Heading IV of the Multiannual Financial Framework:	
Development Cooperation Instrument	20.6
Pre-accession instrument	12.5
European Neighbourhood Instrument	16.1
Partnership Instrument	1.0
Instrument for Stability	2.5
European Instrument for Democracy and Human Rights	1.4
Common Foreign and Security Policy	2.5
Humanitarian Aid Instrument	6.4
Civil Protection and Emergency Response Capacity	0.2
European Voluntary Humanitarian Aid Corps	0.2
Instrument for Nuclear Safety Cooperation	0.5
Macro-financial Assistance	0.6
Guarantee Fund for External Actions for MFA	0.013
Total	70.0
Outside Multiannual Financial Framework:	
Emergency Aid Reserve	2.4
Global Climate and Biodiversity Fund	
European Development Fund (ACP countries)	30.0
European Development Fund (Overseas Countries and Territories)	0.3

Source: European Commission (2011, l)

The grant operations give rise to two questions.

The first concerns the criteria for making grants. The Commission has set out its methodology in great detail (Commission, 2011,e). The criteria are average income levels, poverty ratios, and debt sustainability. The data corresponding to these criteria are given in the Commission paper, together with a listing of how the IMF and World Bank assess MFA client states for the purpose of granting concessional terms (see below Annex 4). In particular Armenia, Georgia and Moldova are eligible for concessional assistance from the IMF and the World Bank, whereas other MFA-eligible states cannot receive concessional assistance. Commission practice today is in line with that of the IMF and World Bank in extending MFA grants only to Armenia, Georgia and Moldova, although the grant element in the case of Serbia in 2001-2 was out of line with the income criterion, and presumably decided in view of the exceptional reconstruction needs of Serbia following the Kosovo war.

A second issue is raised by the fact that the Commission is making increased use of 'sectoral budget support' grants to ENP countries (Table 9). These grant operations are of considerable financial importance, comparable or sometimes greater than MFA operations, and subject to conditions concerning various sectoral policies. They are also regular programmes, not ad hoc actions for exceptional circumstances, and are administered by the Development Cooperation Directorate General, not DGECFIN as for the MFA.

Table 9: Sectoral budget support grants to eastern neighbourhood states (EUR millions)

	Commitments 2007-2010	Disbursements 2008-2011
Azerbaijan	40	11
Armenia	65	31
Georgia	174	99
Moldova	147	113
Ukraine	344	213

Source: European Commission, EuropeAid, October 2011

It could be argued that the MFA should restrict itself to loan operations alongside the IMF which does not make grants. MFA budget support grants are subject to structural policy conditions closer to development policy. Why then does the MFA provide grants alongside the loan operations, rather than use its budgetary resources for grants under the regular cooperation instruments (such as ENPI and DCI)? The answer is that in order to lend to poor and indebted states there has to be, according to internationally agreed policy rules for aid donors, a greater grant element than that which is implied in the on-lending of the EU's AAA market accessed funds. Otherwise the MFA would be limited to lending to middle income countries.

6. EVALUATION OF THE PROPOSED FRAMEWORK REGULATION FOR THE MFA

The proposed Framework Regulation has two main characteristics, first to consolidate systematically the practice that has developed in an ad hoc manner over the last two decades, and secondly to speed up and lighten the decision-making procedure and so correct one of the serious criticisms that has been made of the MFA.

The present chapter reviews the content of the proposed regulation article by article.

Article 1 – Aims and scope of the assistance

This sets out explicitly the aims of the MFA, largely repeating what have been known as the 'Genval criteria'. The MFA operations should be temporary, exceptional, untied balance of payments support, underpinning adjustment and structural reform measures, and dependent on there being an ongoing and satisfactorily functioning IMF programme. This already hints at one issue, whether the number of objectives is overloaded, and we return to this under Article 6 concerned with conditions.

Article 2 – Eligible countries

The text identifies three categories of potential recipient countries:

First, candidate and potential accession candidate countries

Second, European Neighbourhood Policy countries

Third, in exceptional circumstances other countries close to the EU 'politically, economically and geographically'.

The first two categories are clearly defined and coherent with EU policy, avoiding the hazards of excessive dispersion and dilution of effort that would be evident if the MFA were to operate world-wide.

However it is not clear what countries might be eligible under the third 'exceptional' category. Taking the language of the text at face value the only countries that would seem to answer the criteria are Russia, Norway and Switzerland, but these are hardly candidates for assistance. Maybe the Commission has Central Asia in mind, given that Tajikistan and Kyrgyzstan have exceptionally benefitted from the MFA in the past, and the EU has a 'Central Asia Strategy', using sometimes in its texts the expression 'neighbours of the neighbours'. Kyrgyzstan has recently made a new request, for which the Commission made a proposal in December 2011. However Central Asia stretches the criterion of political, economic and geographic closeness beyond recognition. It is understandable that there be this third category which leaves the door open for various other countries, but an expression such as 'neighbours of ENP countries' would be less problematic.

Article 3 – Form of the assistance

This article provides for loans, or grants, or a combination of both, depending upon economic development level and debt sustainability of the recipient. Criteria for grants are low income per capita or high poverty levels, and poor external debt sustainability. The Commission have published a detailed working paper on these criteria (Commission 2011,e), and basically the Commission is following the IMF and World Bank in their classification of countries for concessional assistance.

Generally the Commission is applying these criteria, but the case of Serbia and Montenegro operation of 2001-2 was a case where politics trumpted economics in the decision to extend grant money to this upper middle income country. A detail account of budgetary implications was given in Chapter 5.

Article 4 – Financial provisions

These are technical provisions requiring consistency with the EU's multi-annual financial framework, Guarantee Fund, and budgetary procedures, and would amount to continuation of present practice. No further comment is required.

Article 5 – Amount of the assistance

The text her follows present practice, under which assessment of the amount of aid needed would be based on an estimate of the recipient country's external financing needs, making use of IMF projections, and taking into account expected contributions from other donor sources.

There should be a 'fair burden sharing with other donors'. This broad term replaces the former 60% maximum rule which was deemed unnecessarily rigid, and was in any case much higher than actual MFA contributions than so far observed.

Economists debate the significance or reliability of the 'external financing requirement' for other than rather short-term time horizons, since in the medium-term the 'requirements' can change drastically as a function of policies and various unexpected developments. As the Meta-evaluation study relates, budget support operations can be justified in their own right, with or without external financing problems. The two balances, of the external and domestic budget accounts, only have a limited degree of interdependence. World Bank operations aim directly at poverty and development, rather than external balances, with an emphasis on long-term institutional issues. The Commission's pre-accession instruments and neighbourhood policy action plans are also emphasising long-term governance and regulatory reform objectives, which are quite apart from external financing issues. MFA operations in some cases are closer to World Bank operations in that their conditions are often about governance and institutional quality. If the MFA is to be kept strictly to external financing needs it might be better to simply co-finance the IMF operations, skipping the time-consuming elaboration of separate conditions.

Article 6 – Conditionality

This a key provision, with several aspects.

First it is required that 'the recipient country respects democratic mechanisms, including multi-party parliamentary systems, the rule of law and respect for human rights'. We have commented above (Chapter 2) on difficulties that are apparent for any straightforward implementation of this article. Taking the language quoted at face value it could be questioned whether most of the beneficiary states would qualify. In practice the bar seems to be set much lower than this wording would imply, i.e. at the level of the 'pariah' state. Inconsistency between the language of legal texts and practice should be avoided.

Second, there has to be an IMF programme, which has to be functioning in a satisfactory manner. This is a core feature of the MFA, which is put in a subsidiary position to the IMF in all essential respects (amounts of aid, conditions, timing). However given past needs for 'exceptional' operations, it might be better for the language of the text to require that 'normally' there should be an operating IMF programme, leaving open how truly 'exceptional' situations might be met.

Third, there shall be additional conditions from the EU side, concerning 'economic policy measures focusing on structural reforms... ', and 'strengthening of ... public finance management systems'. There should also be 'progress on mutual market opening', and 'consistency with existing partnership agreements' between the EU and the recipient state. This is where the conditions go beyond those of the IMF and relate more to World Bank practice and other EU policies.

The attraction of the third set of conditions is that they introduce a European specificity, aiming at 'value added', without which it could be questioned whether the MFA has a real vocation of its own. However this third set of conditions raises the problem of conditionality overload. What if only some but not all of these conditions are respected? Which of these sets of conditions are to be crucial? What is the credibility of the conditions if some are deemed more crucial than others, but without that being clear? The Commission has in recent years specialised its conditions notably in the domain of public finance management conditions (see Annex A for detail). The evaluation reports are repeatedly observing that the conditions that are most effective are those pushed by the IMF, whereas the specific EU conditions sometimes receive less priority, which is not surprising given the much smaller amounts of MFA aid.

In addition the structural conditions (World Bank type) often have long implementation time paths, which can mean problems of inconsistent time horizons with the IMF programmes which are more focused on financial crisis situations, rather than long-term development and poverty reduction.

Article 7 – Procedure

As already explained in Chapter 5 this article introduces the most important innovations, limiting the full legislative co-decision procedure to the Framework Regulation itself, and thereafter substantially empowering the Commission to go ahead with individual operations with recourse to certain Committee procedures. The actual drafting of Article 7, which links with cross-references to Article 14 about the Committee, is deplorable; it is incomprehensible to readers who do not know by heart the fine print of EU 'Comitology' legislation. Read together with the aid of paragraphs 16 and 17 of the preliminary considerations of the proposed regulation one can understand the following.

The Commission would put its proposals for country specific operations to a Committee. This would define the essential features of the operation (amount, duration, loan or grant form, general conditions). Upon a positive opinion adopted by qualified majority under the so-called 'examination procedure' the Commission would be authorised to go ahead and proceed with execution of the operation.

The Commission would return to the Committee with the proposed Memorandum of Understanding, which would detail the precise conditions. But this step would be subject only to the 'advisory procedure', under which the member states could give their opinion by simple majority, and the Commission would only have to 'take utmost account' of the opinion (i.e. not strictly binding).

Thereafter the Commission would disburse tranches on its own responsibility, after conducting whatever reviews it considers fit. It would not return to the Committee for these implementing decisions.

These proposals would indeed greatly lighten and speed up the MFA system, which is severely criticised for its slow and heavy existing procedure. As the case studies above showed, the MFA's operations are meant to be responding to pressing external financing problems, but often lag many months if not years behind the IMF operations which they are meant to be complementing, which contradicts the supposed urgency of the needs.

However member states in the Council are objecting to these proposals, and are not accepting that the principal decisions on projects be taken by the Committee procedure just described, and as regards the implementing decisions would want still to control all further steps including the release of tranches through the Committee. This would lengthen the process considerably.

Article 8 – Implementation and financial management

These technical provisions continue present practice. No further comment is required.

Article 9 – Disbursement of the assistance

This provides for disbursement by successive instalments or tranches, subject to conditions, and is a continuation of present practice. However there is an important point of procedure here, already discussed under Article 7.

Article 10 – Support measures

These are technical provisions for monitoring and evaluation studies, and would continue present practise. However there is an issue how the evaluation studies would be organised, which is taken up below under Article 12.

Article 11 – Protection of the Union's financial interests

These provisions to guard against fraud and financial irregularities would continue present practice, including the role of the Court of Auditors.

Article 12 – Evaluation

The text proposes a continuation of present practice, requiring ex-post evaluation for all operations. This in itself is fine. But there is an undesirable hazard in the system in that the Directorate General for Economic and Financial Affairs (DGECFIN) is not only responsible for proposing and executing the MFAs, but also for contracting the evaluation studies. This runs the risk of bias in the evaluations with the contracting party maybe tilting its conclusions in the direction that DGECFIN would like to see. This hazard is particularly significant when there is expected to be a continuous succession of evaluation studies. The hazard is present whether or not DGECFIN might be seeking to influence the conclusions, since the consultants will be interested in future business. It is not surprising therefore to learn that both the IMF and World Bank assure a separation of functions, with evaluation entrusted to a separate department under the responsibility of a different vice-president relative to those responsible for the policy and execution. Present practice for the MFA is therefore deontologically questionable. A natural alternative system would see another directorate general the Commission to be charged with evaluations studies, under the responsibility of a different Commissioner, although this would have wider implications for many other Commission operating programmes.

Article 13 – Annual report

This would see continuation of present practice. No further comment is required.

Article 14 – Committee

There are important innovations proposed here, at the heart of the decision-making procedure for country-specific operations, but there are problems here in getting the agreement of member states. The substance here has been covered under Article 7 above about procedure.

Article 15 – Entry into force

Technical provision, no comment is needed.

7. CONCLUSIONS AND RECOMMENDATIONS

MFA activity resumed and likely to receive increased demands

This study was asked to review MFA operations since 2006. Initially there was a quiet period with a low level of activity, and in 2008 there were no new commitments at all. This in itself is not a problem, since the MFA is tasked with responding in exceptional circumstances to critical needs for external financial support. 'No news is good news'.

Then the 2008-2009 global financial crisis hit the EU's Eastern neighbours hard and plunged the region into recession in 2009. This led to sharp resumption of new MFA commitments in Eastern Europe and the Western Balkans in 2009 and 2010. These countries generally recovered quite fast with renewed growth in 2010 and early 2011.

But now there is bad news again for all three main regions eligible for MFA assistance – Eastern Europe, Western Balkans and the South Mediterranean. The Eurozone crisis and the prospects for a stop to growth or recession in Europe in 2012 is already hurting Eastern Europe, and the South Mediterranean will be hit by both the very serious problems in the EU's southern member states and the economic consequences of revolutionary conditions in several countries consequent upon the Arab Spring. We return to the implications of this for the MFA at the end.

Ex-post evaluation

The MFA is only a secondary and relatively small instrument in relation to both the IMF operations, with which it is intimately connected, and the comprehensive array of EU instruments at work under the European Neighbourhood Policy or Pre-Accession Process. It would therefore be implausible to expect the MFA to show up as an individualised driver of major macroeconomic trends or structural reforms. It is tasked with both aiding both macroeconomic and structural policies, but when its contribution is only around 10% or less of the IMF's contributions, and similarly small fractions of the EU's overall contributions, it becomes a highly formalistic and not very fruitful question to try and identify the MFA's impact at these 'macro' levels. One might for example posit that when the MFA contributes 10% to the funding of an IMF operation it can be credited with 10% of the results. But this is not a robust argument, since where the MFA contribution is so relatively small it can be argued that the IMF would have gone ahead in any case, and the margin of error in estimating the beneficiaries' external financing needs is often way above 10%.

For these reasons it is hardly surprising that the ex-post evaluations of MFA operations are frequently assessing impacts to have been modest, or marginal. Summary assessments of all MFA operations that saw either commitments or disbursements since 2006 are given in Table 10, with detail in Chapter 3.

Table 10: Key points on MFA operations subject to commitments or disbursements since 2006

Bosnia 2002/4. Huge European and international aid not yet transforming Bosnian governance for the better. Specific MFA conditions low priority for government. Evaluated: 'limited impact; improved perceptions of risk'.

Bosnia 2009. Two years after the MFA decision, the MoU is still not signed. Unresolved problems of dysfunctional governance. At best the peace has been kept.

Albania 2004. The main impact of the MFA was as budget support, conditions would have been fulfilled in any case through IMF and World Bank operations. Evaluated: 'small or negligible impact; some confidence building effect'.

Kosovo 2006. EFA, first disbursement after four year delay, second tranche cancelled since timetable expired. Combined IMF, EU, EFA programmes had limited leverage on governance problems.

Serbia and Montenegro 2001, 2002. Highly political context, with end of Milosevic regime and assassination of Djindic. Evaluated: Macroeconomic effect of MFA 'very small'.

Serbia 2009. External position improved faster than expected, so IMF and MFA commitments were halved. Reforms advance, driven by broad pre-accession process more than MFA.

Moldova 2007. MFA response to adverse shocks hitting economy. 16 months between decision and first disbursement. Main impact as budget support. Evaluated: 0.5% growth supplement.

Moldova 2010. MFA response to impact of 2009 global recession. Economy rebounded fast, but aid allowed central bank to build reserves.

Ukraine 2010. Big MFA loan of €610million, but small alongside IMF's €13 billion. MoU not yet agreed, stuck because IMF tranches stuck, quite apart from possible political objections.

Georgia 2006. EFA Loan and grant, with grant tranches linked to debt repayment (= virtual debt forgiveness). 3rd tranche cancelled, conditions not met in time. Evaluated: helped alleviate debt burden.

Georgia 2009. MFA small part of large scale post-war assistance, executed rapidly. Some Commission conditions criticised.

Armenia 2009. Loan and grant to help overcome impact of global financial crisis, which led to a 14% loss of GDP in 2009.

Lebanon 2007. Loan and grant intended to help fiscal consolidation. 1st tranche disbursed, but second tranche cancelled because of poor implementation of conditions.

Tajikistan 2000. Loan and grant, with grant tranches linked to debt repayment (= virtual debt forgiveness). Evaluated: 'limited macro impact, but useful reputational effect in avoiding default'.

Kyrgystan 2011. A very recent proposal for a loan and grant operation, to help overcome the economic costs of inter-ethnic conflict in 2010 and support 'incipient parliamentary democracy' (not yet decided by the co-legislators).

Notes: Operations are identified by the dates of commitment through Council or co-legislator decisions. These summary comments draw on evaluation reports where available. Evaluation remarks quoted above are sourced from the Meta-evaluation report, p. 19-20.

These summary assessments of the 15 operations may be grouped as follows:

6 of them have been evaluated, and key words in the assessments of their macroeconomic and structural reform impacts were variously 'limited', 'modest', 'small', 'negligible', but in some cases included a 'useful reputational effect'. Some evaluations of the conditions are rated as 'would have been implemented anyway' in view of the leading role of the IMF. 8 operations are ongoing, and so are not yet evaluated.

2 commitments are, after a considerable time delay, not yet translated into an agreed MoU. This reflects serious governance problems in the recipient states (Bosnia and Ukraine). But there have been also recurrent problems of serious delay on the EU side in moving from receipt of the request to decisions and then to implementation.

4 saw partial cancellation, due either to more rapid economic recovery of the recipient state (Serbia), or because of non-compliance with conditions.

Given the only 'modest' impact of the MFA at the macro level the evaluation reports consider two other types of impact, one narrow and concrete, the other very broad and political.

The first type of impact concerns the specific conditions set by the MFA apart from and additional to the conditions imposed by the IMF. As detailed in Annex 1, these conditions are often of a limited technical character, for example concerning auditing systems for the public accounts. The impact on these conditions is closely monitored in order to justify the disbursement of loan or grant tranches. These developments can be useful, but are less than strategic.

The second type of impact concerns how the MFA contributes to the political perceptions of decision makers in the beneficiary states. A term used in some of the evaluation reports is about the MFA having 'a useful reinforcing effect'. The process of negotiating the MFA leads to awareness of how the IMF, EU and international community more broadly are working together and are achieving synergy in the credibility and force of the overall policy messages. The evaluators report on various conversations with officials in the beneficiary states that go along these lines. Yet these are highly intangible and speculative matters, and do not robustly answer the question what would have been the case without the MFA.

The Meta-evaluation report devoted attention to the question whether econometric modelling techniques could materially help the evaluation process. Their conclusion, which this reviewer shares, is that there are both practical and theoretical reasons why this could add little value to the evaluations.

Past criticisms and the proposed new Framework Regulation

Various criticism of the MFA have been made in the past, for example by the Court of Auditors in 2002, by the European Parliament, and an earlier independent assessment done in 2006. We now summarise these criticisms and assess how far they would corrected by the new Framework Regulation proposed by the Commission.

Long and heavy procedures. The most recurrent criticism has been over the long time delays observed in many cases between receipt of requests, decision by the legislative authority, and execution by the Commission. Indeed the delays have often been long, sometimes taking much more than a year, which runs counter to the objective to be responding to urgent needs. Part of the delays are 'normal', in that the negotiation of macroeconomic policy conditions goes to the heart of political processes, and reform packages take time to be defined and accepted politically. But this kind of delay is handled in any case by the IMF. The EU is adding two further delays, (i) that of its internal negotiations between the institutions and with much micro-management of the process by the Economic and Financial Committee of member states, and (ii) the addition of further MFA specific conditions beyond those of the IMF.

The Commission proposes to cut down on (i), since there would only be a full legislative procedure once and for all with the Framework Regulation, and thereafter specific operations would be proposed by the Commission to a Committee of member states, and for the execution of the agreed operations there would be much less recourse to the committee work of member states.

There would be consequences here for the European Parliament, which following the Lisbon Treaty becomes full co-decider for all legislative decisions such as the Framework Regulation, but would only be informed about decisions over country specific operations.

However the Commission's proposal appears to encounter serious opposition in the Council, which wants to retain the full legislative procedure for all country specific decisions, and also the heaviest committee procedure for all subsequent steps for execution.

Recommendation. While it is not our task to take position on highly political issues between the institutions, and so far as we are informed it remains for the Parliament to develop its own position, the proposal of the Commission would alleviate the problem of delays in implementation of the MFA, whereas the apparent position of the member states risks aggravating it.

EU value added. The Court of Auditors and Parliament have both in the past argued for the EU value added to be clear and significant. The Commission has responded by developing a certain specialisation in its conditionality in the broad area of public finance control. But this additional conditionality beyond that of the IMF contributes to delays in execution, and runs counter to the preceding point.

Geographic scope. The ad hoc nature of the MFA so far meant that the geographic scope was not so clearly established. This is now explicit in the Framework Regulation, except for a poorly defined category of 'other' counties close to the EU. Existing practice suggest that the text is intended to mean Central Asia, but this is stretching the definition of 'political, economic and geographic' proximity beyond recognition.

Recommendation: the text should mention either Central Asia as eligible in exceptional circumstances, or use less implausible language as the general criterion.

Harmonisation of scope. A related point raised by the Court of Auditors was the need (in 2002) for greater policy coherence as between different regions of the European neighbourhood. This point is now met by the proposed Framework Regulation, on top of the development of the European Neighbourhood Policy since 2005. The Commission's recent Communication responding to the Arab Spring specifically mentions the possible use of the MFA in this context.

Recommendation: The MFA should indeed be equally applicable for East and Southern neighbours.

Political pre-conditions. The proposed Framework Regulation retains language about the beneficiaries having to 'respect effective democracy'. This may be conventional EU normative language, but in practice the bar is being set much lower than this language would suggest, excluding only virtual pariah states such as Belarus, whereas for many other eligible states it is hard to say that they 'respect effective democracy'.

Recommendation: The language and the practice should be better aligned, since otherwise the credibility of the EU is eroded.

Evaluation. The Commission is now following earlier recommendations that all MFA operations should be evaluated independently. However the Commission is doing this in a deontologically questionable manner, since the same department (DGECFIN) is responsible for both project management and contracting the evaluations. Normal practice (as at the IMF and World Bank) has a separation of responsibilities, with a different department and senior official responsible for evaluation of the work of the executive department.

Recommendation: Evaluation of MFA operations should be managed independently of the directorate-general of the Commission (DGECFIN) responsible for its execution. Various possibilities could be considered (other directorates-general of the Commission, the Court of Auditors, Parliament), but if there were also to be consistency with other Commission operating programmes this would have wide-ranging implications organisationally going beyond the scope of the present study.

Exceptionality. The criteria for all MFA operations is that they should be 'exceptional' in responding to acute situations for aid, rather than regular in nature. This has been satisfied in practice, with specific contexts and motivations for each operation. The principle is repeated in the Framework Regulation. However the situation has been confused by the invention of 'Exceptional Financial Assistance' (EFA) for certain MFA-type operations that have unorthodox characteristics that should not become precedents, notably the loan and grant operations to Armenia, Georgia and Tajikistan which had an element of conditional debt forgiveness. These EFA operations may have ended.

Recommendation: In future the MFA should be enabled to answer more flexibly diverse needs, such as for example to respond to a possible banking crisis in Eastern Europe (see further under point 5 below). The proposed Framework Regulation should say that MFA operations should 'normally' be conditioned on the functioning of an IMF operating programme.

The MFA sandwiched between the IMF and (the rest of) the EU

The MFA has an awkward organisational design, which cannot be rationalised in terms of any simple functional economic policy logic. Debate over what if anything should be done about this has to be placed in the context of interplay between the several EU institutions and the IMF. The predominant feature of the MFA is its subordination to IMF operations, because:

the existence of an agreed IMF programme is a pre-condition for the Council to consider any Commission proposal for an MFA,

the conditions decided by the IMF dominate the processes of policy negotiation and are co-opted into the MFA conditions, with some relatively minor additions of MFA-specific conditions,

the amount of the MFA contribution tends often to be no more than 10% of that of the IMF, although it has sometimes been as high as 40%.

This subordination to the IMF is the deliberate preference and choice of the ministries of finance of the member states, both at ministerial level in the ECOFIN Council and at senior official level in the Economic and Financial Committee. The ministries of finance wish to keep the IMF in this leading role, and broadly speaking to minimise the role of the Commission and DGECFIN in these international macroeconomic and monetary affairs.

On the other hand the EU institutions more generally, in particular the Commission and Parliament but also various parts of national administrations other than ministries of finance, are more sensitive to expectations of neighbouring countries that the EU live up to its role as comprehensive and (in varying degrees) their transformational partner; and this naturally leads to presumptions that the EU should be active in macroeconomic cooperation with its neighbours. The Commission and Parliament tend to be interested in building up the institutional role of the EU in general. As a result DGECFIN in particular is forced into a state of tension as well as cooperation with ministries of finance. This also explains why the Commission is under pressure to demonstrate the EU value added of the MFA, rather than more simply add some co-financing to IMF operations.

The result of these complex institutional relationships is that the MFA has become rather a confused instrument conceptually. On the one hand the MFA is pegged onto IMF operations, but in developing its own supplementary conditions its contribution turns out to be more like World Bank aid, or a more general political symbol of support for a neighbouring country that the EU would like to see converging on EU norms. The IMF pegs its own operations on assessment of an external financing requirement, or basically support for the balance of payments in a situation of acute financial stress or crisis. The World Bank is supporting medium to long-term projects and programmes intended to strengthen the economy structurally and reduce poverty. This is decided on the basis of the level of poverty of the beneficiary, which puts the operation into the category of development assistance. The EU is executing other much larger grant as either pre-accession assistance or development cooperation. These programmes make increasing use of conditional budget support grants, which can be quite similar to the grant elements in MFA operations. However the grant element for certain MFA operations (for poor and indebted countries) is explained specifically by international policy rules to soften the terms of it loan finance, without which its on-lending of borrowing in the market, even under its current AAA terms, would be on terms harsher than the internationally agreed ceiling.

The MFA is opportunistically trying to do a bit of all these things. It often deviates from being a straightforward supplement to IMF programmes by taking years to work out its own supplementary conditionality that are added to those of the IMF, by which time the estimate of the external financing requirement may have changed to the point of making the aid no longer necessary. The procedures for the proposed Framework regulation would help reduce this problem, but as already mentioned the ministries of finance of member states oppose giving the Commission more freedom of movement. Alternative simplifications of the system would be for the MFA to align simply on IMF conditions.

A final element in this complex political equation is the relationship between the IMF and EU, which both sides regards as mutually beneficial. The IMF appreciates the political companionship and solidarity of the EU in the European neighbourhood, and the EU appreciates the IMF doing important work to avert the economic and political destabilisation of its neighbourhood. This interdependence between EU and IMF becomes all the greater now in the present context of the Eurozone crisis to which we turn in conclusion.

Recommendation: Consideration should be given to ways both of simplifying MFA operations, and allowing for a wider range of partnering relationships with the international financial institutions, and notably with the World Bank, EBRD and EIB, rather exclusively with the IMF. This would mean more clearly diversifying the purposes to which the MFA may be put. More precise options follow in the final paragraphs of this report.

Demands in the period ahead.

While the Commission's official website highlights 'a progressively smaller role' as a modest heading in its presentation of the MFA, this was dated early in 2011, and there have been major developments in the course of the year which make it opportune to discuss some major issues now surrounding the future of the MFA with an open mind.

The macroeconomic consequences of the Eurozone crisis look ominous at the time of writing, with grave concern even for global macroeconomic developments. The issue whether major non-EU economies should extend macroeconomic aid to the Eurozone reached the stage of discussion at the November G20 Summit in Cannes, even if no such decisions were taken, and various comments for example from China were along the lines that the EU both should and had the capacity to put its own house in order. One reaction would be to say that the Eurozone has such grave problems and needs of its own, that it can hardly afford to be aiding others, even in its neighbourhood.

On the other hand there is the matter of scale. While the smaller Eurozone countries have involved rescues mobilising around one hundred billion euro, in the case of the major economies the amounts might reach a trillion euro. By comparison MFA operations are often costing under one hundred million euro, with the Ukrainian case exceptionally large at €610 million. The scale of MFA is thus scaled at around 1000 times smaller than the Eurozone rescue operations. If the MFA operations are useful they do this at a cost that is not significant for the Eurozone. The EU's economy is still of huge size compared to its neighbours (60 time the Eastern Partnership states, and 18 times the South Mediterranean states).

Moreover, as pointed out above, the EU's new economic downturn is directly hitting both Eastern and Southern neighbours hard. For Eastern Europe this concern has a specific aspect, as a recent action of the Austrian banking supervisory authority has just shown, with an instruction to Austrian banks to limit future lending through their central, eastern and south-eastern subsidiaries, while possibly deepening the recessionary shock hitting these countries[15]. As regards the South, the revolutionary Arab Spring has created truly exceptional circumstances and very specific needs for financial support in the short run, at least in the cases of the non-petro states such as Tunisia and Egypt.

The EU's responsibility for alleviating the macroeconomic difficulties of these small and vulnerable neighbouring economies is thus now posed in vivid terms. The EU has itself created part of these difficulties, and the political consequences for the EU of the Arab Spring are surely going to be significantly influenced by the economic environment surrounding these revolutionary movements.

Recommendation: Now is therefore not the time to discontinue the MFA. Its scale should match the severity of economic problems for neighbouring states resulting from the eurozone crisis and the Arab Spring, which may be of a higher order of magnitude than the MFA has so far seen. Some more substantial reforms might then be as follows.

i/ For operations with the IMF the partnership mechanism could be both simplified and deepened, with a simpler co-financing formula, and with the Commission joining in negotiation missions with the IMF to work out a single set of conditions. This would be analogous with practices that have been developing in the context of the eurozone crisis (in this case with 'troika' missions of the IMF, Commission and European Central Bank). Beneficiary states would probably welcome not having to do two sets of conditionality negotiations with the IMF and then the Commission. The EU's financial contributions should normally be however somewhat higher than the recent average of under 10%, and be more often around 25 to 30%. The EU's value added would be increased through building up a reinforced joint international and European role, and the rather contrived present practice of devising separate and additional EU conditions would be abandoned. The EU's contribution could continue to include in some cases grants as well as loans, where there is the need to soften the terms of the package.

ii/ The Framework Regulation should have language saying that the MFA would normally or most often be in partnership with the IMF, but that partnership with other international financial institutions should be possible, and notably with the World Bank, EBRD and EIB, depending on the nature of the needs for aid. In the case of partnership with these other institutions the needs would be assessed on grounds relevant to the nature of the operation (i.e. other than the external financing gap used by the IMF).

---

[15] Austrian banks have major positions in the banking sector in many of these countries, yet here they are being instructed to limit their lending in these countries so as to protect Austria's triple A sovereign rating. See '*Austrian banks ordered to limit central and east Europe exposure*', Financial Times, 22 November 2011.

iii/ Some grant operations could be partnered with World Bank operations, notably in the case of budget support operations with low income countries but here the EU's contribution can alternatively be funded under the Development Cooperation Instrument (DCI).

iv/ Given that the eurozone crisis is causing acute difficulties in the banking sectors of neighbouring states, there is a case for partnering with the EBRD in such cases, given their experience in the 2008-2009 financial crisis under the so-called 'Vienna initiative'. This would be a clear example of the MFA being deployed for purposes other than balance of payments support, and adapted to current priority (and indeed crisis) needs.

v/ It is at present not at all clear how the economic consequences of the Arab Spring will play out in terms of needs for aid, and the possible contributions of other financiers (rich Arab states, major emerging economies, etc). The MFA should be assured the necessary flexibility to act with or alongside variety of players.

Bibliography

CEPS (2006), *Assessment of the European Union's Macro-Financial Assistance (MFA) to Third Countries,* Study for the European Parliament, 17 March 2006

ECORYS (2010), *Ex post evaluation of MFA operations in Georgia*, Framework contract ECFIN-160-2005, Final report, January 2010.

EPEC (2009), European Policy Evaluation Consortium) & GHK Consulting Ltd, *Meta-Evaluation of Macro-Financial Assistance Operations (2004-2008) – Final report,* October 2009.

European Commission (2011,a), Directorate-General for Economic and Financial Affairs, *'The EU's neighbouring economies – coping with new challenges'*, European Economy, Occasional Papers, (forthcoming, 2011).

European Commission (2011,b), Directorate-General for Economic and Financial Affairs, *'EU Candidate and Pre-Accession Countries Economic Quarterly*, 7 October 2011

European Commission (2011,c), Report to the Council and European Parliament, *Implementation of Macro-Financial Assistance to third countries in 2010*, COM(2011) 408 final, 7.7.2011

European Commission (2011,d), *Implementation of macro-financial assistance to third countries in 2010-Background analysis per beneficiary*, Commission Staff Working paper, SEC(2011) 873 final, 7.7.2011

European Commission (2011,e), *Implementation of macro-financial assistance to third countries - Criteria for determining the Use of Loans and Grants in EU Macro-Financial Assistance, Accompanying the document*, Commission Staff Working Paper, SEC(2011) 874 final, 7.7.2011

European Commission (2011,f), *Proposal for a Regulation of the European parliament and of the Council, laying down general provisions for Macro-Financial Assistance to third countries,*COM(2011) 396 final, 2011/0176 (COD) 4.7.2011

European Commission (2011,g), *Regulation of the European Parliament and of the Council laying down general provisions for Macro-Financial Assistance to third countries,Accompanying document*, Commission Staff Working Paper, SEC(2011) 865 final, 4.7.2011

EPEC (2009), European Policy Evaluation Consortium) & GHK Consulting Ltd, *Meta-Evaluation of Macro-Financial Assistance Operations (2004-2008) – Final report,* October 2009.

European Commission (2011,h), *Macro-financial assistance to Moldova fro 2010-11: compliance with policy conditions and disbursement of second tranche,* Information note for the European Parliament, ECFIN/D2/MM/vj Ares (2011), 19.9.2011

European Commission (2011,i), *Macro-financial assistance to Georgia for 2009-10: compliance with policy conditions and disbursement of second tranche*, ECFIN/D2/Ares(2010)423733, 13.7.2010

European Commission (2011, j), *Report from the Commission to the European Parliament and the Council on guarantees covered by the general budget, Situation 30 June 2011*, (xxx(2011 vv), *forthcoming.*

European Commission (2011, k), *Commission Staff Working paper accompanying Report from the Commission to the European Parliament and the Council on guarantees covered by the general budget, Situation 30 June 2011*, (xxx(2011 vv), *forthcoming.*

European Commission (2011, l), *Budget for Europe 2020 - Part II: Policy fiche,* 29.6.2011 COM(2011)500 final PART II.

European Parliament and Council (2011), Regulation (EU) No 182/2011 of 16 February 2011, *"laying down the rules and general principles concerning mechanisms for control by Member States of the Commission's exercise of implementing powers",* OJ L 55/13.

P.Messerlin et al., '*An Appraisal of the EU's Trade Policy towards its Eastern Neighbours: the Case of Georgia*', CEPS, 2011.

List of abbreviations

DCFTA	Deep and Comprehensive Free Trade Agreement
DCI	Development Cooperation Instrument (DCI)
DG ECFIN	Directorate-General for Economic and Financial Affairs
EBRD	European Bank for Reconstruction and Development
EC	European Community
EFA	Exceptional Financial Assistance
EFC	Economic and Financial Committee
EIB	European Investment Bank
ENP	European Neighbourhood Policy
ENPI	European Neighbourhood Policy Instrument
EPCA	Emergency Post-Conflict Arrangement
EU	European Union
GDP	Gross Domestic Product
IFI	International Financial Institutions
IMF	International Monetary Fund
MEDA	Community Assistance Programme for the Mediterranean Countries
MFA	Macro-Financial Assistance
MoU	Memorandum of Understanding
OA	Operational Assessment
TACIS	Community Technical Assistance Programme for the Commonwealth of Independent States
TFEU	Treaty on the Functioning of the European Union (Lisbon Treaty)

Annex 1: Conditions in the Memoranda of Understanding – Structural Reform Criteria (summarised & edited)

Kosovo 12 December 2007

First tranche

Condition 1: Implement macroeconomic policies consistent with IMF understanding and development needs

Condition 2: Update Medium Term Expenditure Framework (MTEF)

Condition 3: Implement strategy for Internal Audit Function

Condition 4: Ensure completeness and accuracy of data in the Treasury software, and carry out staff training

Condition 5: Continue to ensure compliance of use of privatisation proceeds with legislation in force

Second tranche

Condition 1: Ensure fiscal impact analysis by Ministry of Finance for sustainability of social policies

Condition 2: Establish annual targets for billing of electricity utility

Condition 3: Develop privatisation strategy, with strengthening of corporate governance and reducing subsidies

Condition 4: Further develop debt management capacity

Condition 5: Set up a public procurement help desk

Condition 6: Accelerate liquidation of socially owned enterprises and continue with privatisation

Condition 7: Establish roadmap for comprehensive statistics on national accounts and labour market

Serbia 5 July 2010

First loan instalment

Condition 1: Government to approve Budget System Law with establishment of quantified fiscal rules

Condition 2: Government to approve provisions for Public Internal Financial Control

Second loan instalment

Condition 1: Enactment of Budget System Law

Condition 2: Circulate draft PEFA report in preparation of a PFM roadmap

Condition 3: Approve bye-laws regulating extra-budgetary funds

Condition 4: Recruit Ministry of Finance internal auditor

Condition 5: Begin implementation of new public debt strategy with T-bills of at least 18 months

Condition 6: Further integration of MTEF into budget process, with 3-year budget ceilings

Condition 7: Adoption of public accounting standards in line with international standards

Condition 8: Enact revised law on State Audit Institution

Condition 9: State Audit Institution, draft audit report on 2009 financial statements, audit 3 state-owned enterprises

Condition 10: Develop capacity of Ministry of Finance to deal with EU integration issues

Bosnia and Herzegovina 8 November 2010

For first instalment

Condition 1: Global Framework of Fiscal Policies to be approved by Fiscal Council

Condition 2: Government Budget Management System to be tendered

For second instalment

Condition 1: Draft Law on Fiscal responsibility to be approved by Government

Condition 2: Internal control and audit: appointments to be made, Coordination Board established

Condition 3: New cash management system for public finances for Federation

Condition 4: public domestic debt, updated overview for Federation

Condition 5: Enhanced surveillance of banking sector by Central Bank and agencies

Condition 6: Modalities to be agreed for developing quarterly national accounts

Condition 7: Ministry of Finance of RS to adopt rule books on a chart of public finance accounts

Condition 8: Parliament of RS to adopt strategy on pension reform

Armenia 15 February 2011

Condition 1: Debt management, Ministry of Finance to acquire new debt management system

Condition 2: Debt management, Ministry of Finance to specify internal regulations and job descriptions

Condition 3: Government to submit pension reform legislation to Parliament

Condition 4: Ministry of Finance to supply government with guidance for financial control and internal audit

Condition 5: Chamber of Control to adopt Action Plan for external audit

Condition 6: Public procurement, Government to submit legislation for compliance with EU & internat. Standards

Condition 7: Government to adopt Action Plan for upgrading tax administration

Condition 8: Government to ensure non-discriminatory taxation of domestic and imported tobacco products

Condition 9: Government to implement WTO compatible customs valuation system

Georgia 5 July 2006

Second instalment

Condition 1: Develop and implement Medium Term Expenditure framework (MTEF)

Condition 2: Improve policy content of annual budget

Condition 3: Strengthen capacities of Ministry of Finance to support MTEF

Condition 4: Strategy to produce annual financial statements compliant with international accounting standards

Condition 5: Amend Chamber of Control law for compliance with international standards (INTOSAI)

Third instalment

Condition 1: Develop and implement Medium Term Expenditure framework (MTEF)

Condition 2: Improve policy content of annual budget

Condition 3: Strengthen capacities of Ministry of Finance to support MTEF

Condition 4: Complete centralisation of Treasury Service of Ministry of Finance, with GFS2001 classification

Condition 5: Establish database for all legal entities of public law, define financial reporting requirements

Condition 6: External audit, implement new law for Chamber of Control and re-organisation plan

Condition 7: External audit, develop audit methodology compliant with INTOSAI standards

Condition 8: Internal audit, develop strategy for organisation and functions of internal audit in central government

Condition 9: Internal audit, develop strategy for internal control frameworks, with generic minimum requirements

Georgia 18 December 2009

Condition 1: Public finance management: Ministry of Finance to prepare and publish Action Plan for reform

Condition 2: Internal audit, Parliament adopts law, Ministry of Finance publishes Action Plan

Condition 3: External audit, Chamber of Control adopts plan on organisational needs

Condition 4: Public procurement, state agency prepares Action Plan for e-procurement, and personnel training

Condition 5: Budget process: parliament adopt Budget Code for program-based budgeting

Condition 6: Budget process: Ministry of Finance prepares timetable for program-based budgeting

Georgia (awaiting signature) 2011

Condition 1: Public procurement, increase share of competitive tenders and publish data

Condition 2: Gradually introduce risk-based monitoring of tender procedures

Condition 3: External audit: Chamber of Control to assure training for at least 60% of staff

Condition 4: Internal audit: law and methodology to be aligned on international standards (INTOSAI)

Condition 5: Internal audit: Government unit to get sufficient qualified staff

Condition 6: Internal audit: at least three audits of line ministries in line with INTOSAI standards

Condition 7: Competition law to be submitted to Parliament, consistent with EU and international requirements

Condition 8: Competition agency to make substantial progress in recruiting qualified staff

Condition 9: Revenue service to develop risk-based audit system for 60% of field audits, adopt procedure manuals

Condition 10: Renewable energy: legislation and Action Plan in line with EU standards

Condition 11: Financial supervision: gradual move towards risk-based system

Condition 12: Central bank introduces liquidity risk framework based on Basle III rules

Condition 13: Central bank to strengthen monitoring of compliance of International Financial Reporting Standards

Moldova 27 September 2007

Second grant instalment

Condition 1: Social benefits, prepare legislation on a new system of targeted income support

Condition 2: Social benefits, prepare regulations for implementing new legislation

Condition 3: Social benefits, integrate new targeted allowances in 2008 budget

Condition 4: Public internal financial control, prepare action plan

Condition 5: Public procurement, prepare Action plan for implementing new legislation of July 2007

Third grant instalment

Condition 1: Social benefits, adopt new legislation for targeted income support for start by September 2008

Condition 2: Social benefits: integrate new targeted allowances into MTEF for 2009-2011

Condition 3: Public internal financial control, prepare draft framework legislation

Condition 4: Public internal financial control, prepare implementation plan

Condition 5: Public procurement, start implementing new legislation

Condition 6: Public procurement, prepare Action Plan for strengthening Procurement Agency

Condition 7: Public procurement, develop monitoring system for procurement Agency

Moldova 16 December 2010

Second grant tranche

Condition 1: Implement new Financial Management Information System by 1.1.2012

Condition 2: Prepare census of the number of public sector employees and o paid wage bill

Condition 3: Memo. of Agreement on decision-making processes, supervisory responsibilities for financial sector

Condition 4: Public procurement agency to produce Action Plan, including alignment on EU standards

Third grant instalment

Condition 1: Implement new Financial Management Information System by 1.1.2012

Condition 2: Government to approve Medium-Term Budget Framework (MTBF) for 2012-14

Condition 3: Ministry of Finance to approve medium-term debt management strategy

Condition 4: Government to conduct census of number of public sector employees and paid wage bill

Condition 5: Government to prepare changes in financial regulation and supervision for leasing and micro-credit

Condition 6: Action plan to ensure medium term sufficient capitalisation of National Bank of Moldova

Condition 7: Government to prepare changes in public procurement law in line with EU directive

Condition 8: Government to prepare adaptation of Central Bank law, ensuring compliance with EU norms

Lebanon 18 December 2008 (second instalment)

Condition 1: Public finance management, develop operational mandate for Cash Management Unit

Condition 2: Ministry of Finance to identify public entities' accounts in Central Bank and commercial banks

Condition 3: Decree to require approval of Ministry of Finance for new accounts

Condition 4: Council of Ministers to approve fiscal accountability law

Condition 5: Higher Council for Privatisation to complete valuation of assets of Electricite de Liban

Condition 6: Action Plan to eliminate duplication between programs of social, health and education ministries

Condition 7: Strengthen poverty focus of the social safety net programs

Annex 2: MFA amounts authorised

Table 1: MFA amounts authorised by year during 2001-2010 in EUR million

	2001	2002*	2003	2004	2005	2006	2007	2008	2009	2010	Total
By region											
Western Balkans	393	190	70	25		50			300		1028
NIS		18				33,5	45		146	590	832,5
Mediterranean							80				80
Total amounts authorised[1]	**393**	**208**	**70**	**25**	**0**	**83,5**	**125**	**0**	**446**	**590**	**1940,5**
Loans	225	78	25	9		0	50	0	365	500	1252
Grants	168	130	45	16		83,5	75	0	81	90	688,5

* Net amount for Ukraine taking into account new loan of EUR 110 million together with simultaneous cancellationof EUR 92 million out of the EUR 150 million decided in 1998 and grant for Moldova of EUR 15 million and simultaneous cancellation of the EUR 15 million loan decided in 2000

[1] More detailed information is available in the statistical data of the working document

Chart 1a: MFA amounts authorised by year during 2001-2010 in EUR million

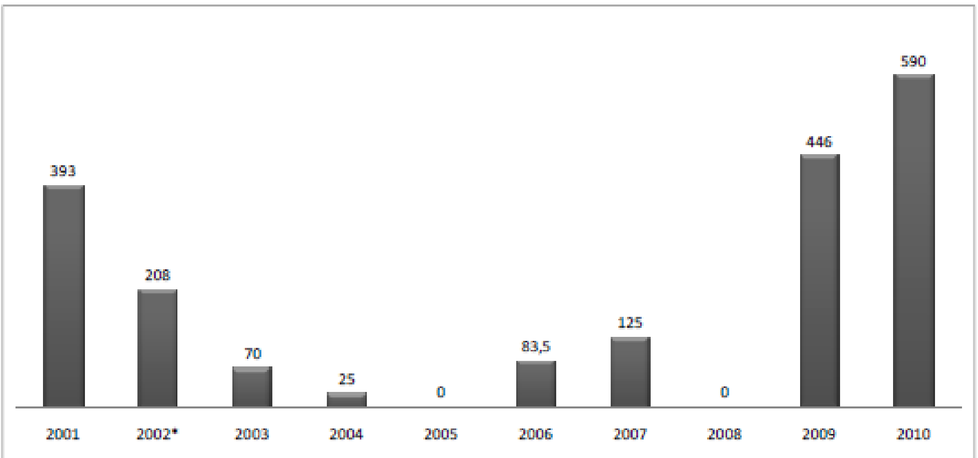
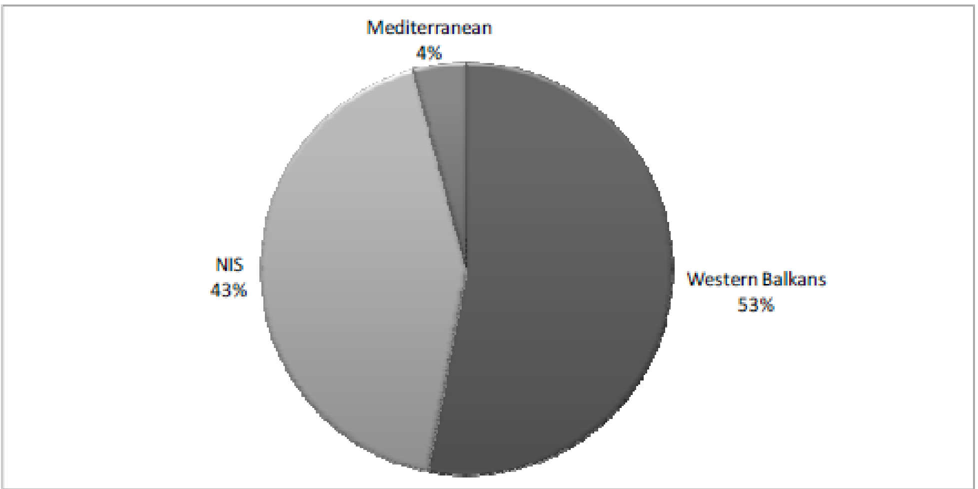


Chart 1b: MFA amounts authorised by regions in 2001-2010



Annex 3: MFA amounts disbursed

Table 2: MFA amounts disbursed by year during 2001-2010 in EUR million

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
By region											
Central European Candidate Countries			50								50
Western Balkans	312	130	146	20	58	32				30	728
NIS	80	11	7	12	8,5	29	20	25	15,3	70,7	279
Mediterranean								15	25		40
Total amounts disbursed[1]	**392**	**141**	**203**	**32**	**66,5**	**61**	**20**	**40**	**40,3**	**100,7**	**1.097**
Loans	287	0	118	10	15	19	0	0	25	0	474
Grants	105	141	85	22	51,5	42	20	40	15,3	100,7	623

[1] More detailed information is available in the statistical data of the working document

Chart 2a: MFA amounts disbursed by year during 2001-2010 in EUR million

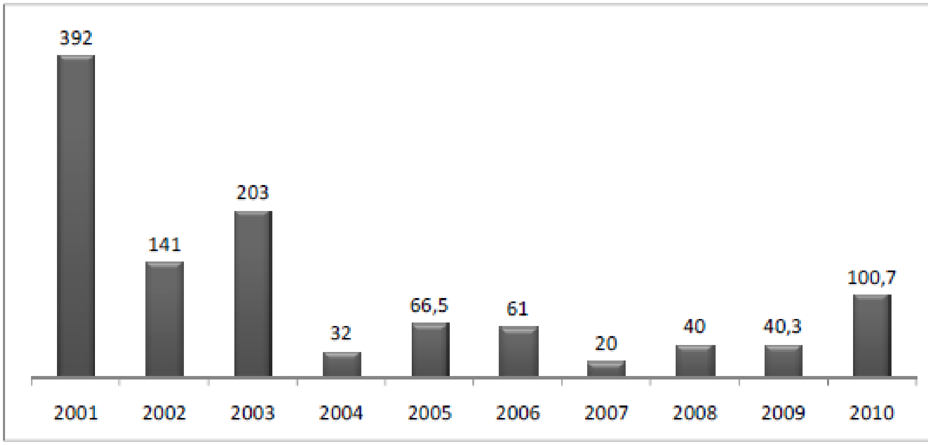
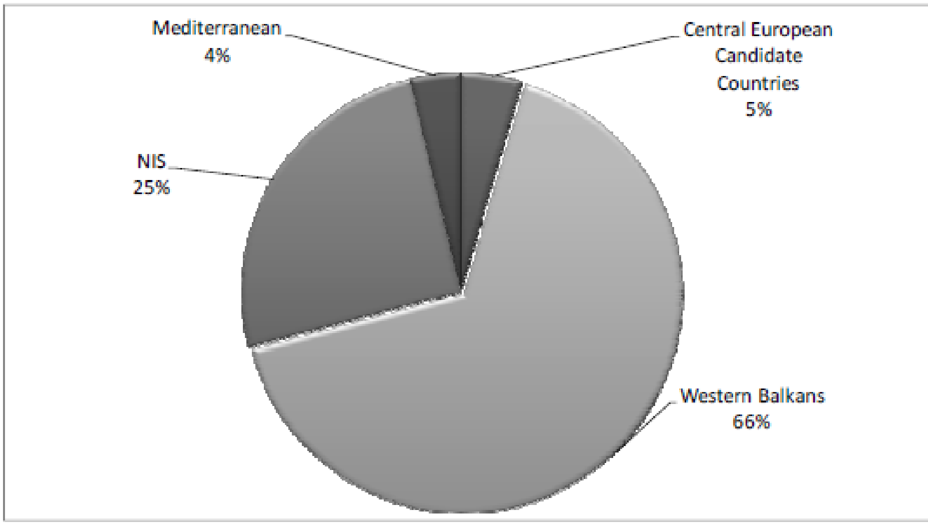


Chart 2b: MFA amounts disbursed by regions in 2001-2010



Annex 4: Categorisation of MFA-eligible countries/territories by other international organisations

Country	World Bank IDA list (January 2011)	IMF PRGT list (March 2011)	OECD DAC list (September 2009)
Albania	IBRD	Not eligible	Lower Middle Income
Algeria	IBRD	Not eligible	Lower Middle Income
Armenia	Blend	Eligible*	Lower Middle Income
Azerbaijan	Blend	Recently graduated	Lower Middle Income
Belarus	IBRD	Not eligible	Upper Middle Income
Bosnia and Herzegovina	Blend	Not eligible	Lower Middle Income
Croatia	IBRD	Not eligible	Upper Middle Income
Egypt	IBRD	Not eligible	Lower Middle Income
Georgia	Blend	Eligible*	Lower Middle Income
Iceland	Not eligible	Not eligible	High Income OECD
Israel	Not eligible	Not eligible	High Income OECD
Jordan	IBRD	Not eligible	Lower Middle Income
Kosovo (UNSCR 1244)	IDA	Not eligible	Lower Middle Income
Lebanon	IBRD	Not eligible	Upper Middle Income
Libya	IBRD	Not eligible	Upper Middle Income
Macedonia (FYR)	IBRD	Not eligible	Lower Middle Income
Moldova	IDA	Eligible	Lower Middle Income
Montenegro	IBRD	Not eligible	Upper Middle Income
Morocco	IBRD	Not eligible	Lower Middle Income
Palestinian Territories†	Not a World Bank member	Not an IMF member	Lower Middle Income
Serbia	IBRD	Not eligible	Upper Middle Income
Syria	IBRD	Not eligible	Lower Middle Income
Tunisia	IBRD	Not eligible	Lower Middle Income
Turkey	IBRD	Not eligible	Upper Middle Income
Ukraine	IBRD	Not eligible	Lower Middle Income
Memorandum items:			
Kyrgyz Republic	IDA	Eligible	Low Income
Tajikistan	IDA	Eligible	Low Income

* Continued eligibility only due to short-term vulnerabilities; otherwise graduated.

† World Bank funding to the Palestinian Territories is provided primarily by the special-purpose Trust Fund for Gaza and West Bank. IMF activity in the Palestinian Territories is limited to technical assistance.

Sources: World Bank, IMF, OECD

Annex 5: Eastern neighbourhood

Source: European Commission Directorate-General for Economic and Financial Affairs. *The EU's neighbouring economies: coping with new challenges.*

Real GDP growth (domestic currency, % change)

Country	2007	2008	2009	2010 prelim.	2011 proj.
Armenia	13.7	6.9	-14.2	2.1	4.6
Azerbaijan	25.0	10.8	9.3	5.0	1.5
Belarus	8.6	10.2	0.2	7.6	5.0
Georgia	12.3	2.3	-3.8	6.4	5.5
Moldova	3.0	7.8	-6.0	6.9	6.0
Russia	8.1	5.6	-7.9	4.0	3.7
Ukraine	7.9	2.3	-14.8	4.2	4.7
East countries Region (simple average)	11.2	6.6	-5.3	5.2	4.4

Current account balance (% GDP)

Country	2007	2008	2009	2010 prelim.	2011 proj.
Armenia	-6.4	-11.8	-16,0	-14,0	-11.5
Azerbaijan	28,9	33,6	23.7	26.1	28.5
Belarus	-6.7	-8.6	-13.0	-15.5	-13.4
Georgia	-20.0	-22.6	-11.2	-9.6	-10.8
Moldova	-15.2	-16.2	-8.5	-8.3	-11.2
Russia	6.1	6.2	7.4	9.5	10.8
Ukraine	-3.7	-7.1	-1.5	-2.1	-3.9
East countries Region (simple average)	-2.4	-3.8	-2.7	-2.0	-1.6

Budget balance (% GDP)

Country	2007	2008	2009	2010 prelim.	2011 proj.
Armenia	-2.2	-1.2	-7.9	-4.6	-3.9
Azerbaijan	-0.2	0.2	-0.7	-0.9	-1.3
Belarus	0.4	1.4	-0.7	-1.8	0.0
Georgia	-4.7	-6.3	-9.2	-6.6	-3.6
Moldova	-0.2	-1.0	-6.3	-2.5	-1.9
Russia	5.6	7.1	-4.3	-4.0	-2.7
Ukraine	-2.0	-3.2	-8.7	-6.5	3.5
East countries Region (simple average)	-0.5	-0.4	-5.4	-3.8	-1.4

Annex 6: Southern neighbourhood

Source: European Commission Directorate-General for Economic and Financial Affairs. *The EU's neighbouring economies: coping with new challenges.*

Read GDP growth (domestic currency, % change)

Country	2007	2008	2009	2010 prelim.	2011 proj.
Algeria	3.0	2.4	2.4	3.3	3.7
Egypt	7.1	7.2	4.7	5.1	1.2
Israel	5.3	4.2	0.8	4.7	4.7
Jordan	8.9	7.2	2.3	3.4	4.2
Lebanon	7.5	8.5	9.0	8.0	2.5
Libya	6.0	2.8	-2.3	4.2	-28.0
Morocco	2.7	5.6	4.9	3.2	3.7
Palestinian Territories	-1.2	7.1	7.4	9.3	9.0
Syria	4.2	5.2	2.9	3.2	0.2
Tunisia	6.3	4.5	3.1	3.1	0.0
MED Region (simple average)	5.0	5.5	3.5	4.8	0.1

Current account balance (% GDP)

Country	2007	2008	2009	2010 prelim.	2011 proj.
Algeria	22.8	20.2	0.3	8.5	9.3
Egypt	0.4	-0.8	-1.7	-1.4	-2.4
Israel	2.9	0.8	3.9	2.7	1.2
Jordan	-17.6	-9.6	-5.0	-7.0	-8.3
Lebanon	-7.6	-9.7	-9.7	-11.3	-11.2
Libya	41.7	41.7	15.6	19.9	-11.4
Morocco	-0.3	-6.4	-5.9	-7.0	-11.0
Palestinian Territories	-0.8	8.7	1.9	-8.9	-8.9
Syria	1.1	-1.4	-2.8	-1.3	-3.4
Tunisia	-2.4	-3.8	-2.8	-4.8	-5.7
MED Region (simple average)	4.0	4.0	-0.6	-1.1	-5.2

Budget balance (% GDP)

Country	2007	2008	2009	2010 prelim.	2011 proj.
Algeria	4.4	7.7	-6.8	-3.8	-3.3
Egypt	-7.3	-6.8	-6.6	-8.0	-10.5
Israel	-0.4	-2.6	-5.5	-4.3	-3.2
Jordan	-5.8	-5.4	-8.5	-6.2	-5.5
Lebanon	-10.8	-9.6	-8.1	-8.7	-9.6
Libya	28.6	30.3	7.0	12.9	-7.3
Morocco	0.2	0.4	-2.1	-4.3	-6.2
Palestinian Territories	-26.0	-21.6	-25.9	-16.0	-12.8
Syria	-3.1	-1.9	-8.0	-3.2	-7.7
Tunisia	-2.8	-0.7	-2.6	-3.1	-4.1
MED Region (simple average)	-2.3	-1.0	-6.7	-4.5	-7.0

Annex 7: Candidate and pre-accession countries

Source: European Commission Directorate-General Economic and Financial Affairs (2011). *EU Candidate and Pre-accession Countries Economic Quarterly.*

GDP (in real terms, annual % change)

Country	2007	2008	2009	2010	2011
Croatia	5.1	2.2	-6.0	-1.2	1.1
Macedonia	6.2	5.1	-1.0	1.8	2.5
Montenegro	10.7	6.9	-5.7	2.5	2.4
Albania	5.9	7.5	3.3	4.1	
Bosnia and Herzegovina	6.2	5.7	-2.9	0.7	
Serbia	6.2	4.7	-2.9	1.9	
Kosovo	6.3	6.9	2.9	4.0	
Western Balkans (simple average)	6.7	5.6	-1.8	4.6	
Iceland	6.0	1.3	-6.7	-4.0	1.5
Turkey	4.7	0.7	-4.8	9.0	6.1

Current account balance (% GDP)

Country	2007	2008	2009	2010	2011
Croatia	-7.3	-8.9	-5.3	-1.2	-2.2
Macedonia	-7.1	-12.8	-6.7	-2.8	-3.1
Montenegro	-39.6	-51.3	-30.1	-25.1	-27.3
Albania	-10.5	-15.5	-15.1	-11.9	
Bosnia and Herzegovina	-10.7	-14.0	-6.3	-6.1	
Serbia	-16.1	-20.6	-7.4	-7.6	
Kosovo	-10.4	-16.3	-15.4	-16.0	
Western Balkans (simple average)	-14.5	-19.9	-12.3	-10.1	
Iceland	-15.7	-24.5	-11.7	-11.2	-6.2
Turkey	-5.9	-5.6	-2.3	-6.5	-7.7

Budget balance (% GDP)

Country	2007	2008	2009	2010	2011
Croatia	-2.5	-1.4	-4.1	-4.9	-6.0
Macedonia	0.6	-1.0	-2.7	-2.5	-2.5
Montenegro	6.6	0.5	-4.4	-5.0	-3.1
Albania	-3.5	-5.5	-7.0	-3.1	
Bosnia and Herzegovina	1.2	-2.2	-4.5	-2.5	
Serbia	-2.0	-2.6	-4.5	-4.9	
Kosovo	7.1	-0.1	-0.7	-2.8	
Western Balkans (simple average)	1.1	-1.8	-4.0	-3.7	
Iceland	5.4	-13.5	-9.9	-10.1	-4.9
Turkey	-1.0	-2.2	-5.7	-3.6	-2.8

Annex 8: EBRD Transition indicators: country data

Source: EBRD Transition Report, 1989-2005.

Transition Indicator	Country/Region	2005	2006	2007	2008	2009
Large scale privatization	Albania	3.00	3.00	3.00	3.33	3.67
	Bosnia and Herzegovina	2.67	2.67	3.00	3.00	3.00
	Serbia	2.67	2.67	2.67	2.67	2.67
	Armenia	3.67	3.67	3.67	3.67	3.67
	Georgia	3.67	3.67	4.00	4.00	4.00
	Moldova	3.00	3.00	3.00	3.00	3.00
	Tajikistan	2.33	2.33	2.33	2.33	2.33
	Ukraine	3.00	3.00	3.00	3.00	3.00
	Poland	3.33	3.33	3.33	3.33	3.33
	Romania	3.67	3.67	3.67	3.67	3.67
Small Scale privatization	Albania	4.00	4.00	4.00	4.00	4.00
	Bosnia and Herzegovina	3.00	3.00	3.00	3.00	3.00
	Serbia	3.33	3.67	3.67	3.67	3.67
	Armenia	4.00	4.00	4.00	4.00	4.00
	Georgia	4.00	4.00	4.00	4.00	4.00
	Moldova	3.67	3.67	3.67	4.00	4.00
	Tajikistan	4.00	4.00	4.00	4.00	4.00
	Ukraine	4.00	4.00	4.00	4.00	4.00
	Poland	4.33	4.33	4.33	4.33	4.33
	Romania	3.67	3.67	3.67	3.67	3.67

Enterprise restructuring	Albania	*2.00*	*2.33*	*2.33*	*2.33*	*2.33*
	Bosnia and Herzegovina	*2.00*	*2.00*	*2.00*	*2.00*	*2.00*
	Serbia	*2.33*	*2.33*	*2.33*	*2.33*	*2.33*
	Armenia	*2.33*	*2.33*	*2.33*	*2.33*	*2.33*
	Georgia	*2.33*	*2.33*	*2.33*	*2.33*	*2.33*
	Moldova	*2.00*	*2.00*	*2.00*	*2.00*	*2.00*
	Tajikistan	*1.67*	*1.67*	*1.67*	*1.67*	*2.00*
	Ukraine	*2.00*	*2.00*	*2.00*	*2.00*	*2.33*
	Poland	*3.67*	*3.67*	*3.67*	*3.67*	*3.67*
	Romania	*2.33*	*2.67*	*2.67*	*2.67*	*2.67*
Price liberalisation	Albania	*4.33*	*4.33*	*4.33*	*4.33*	*4.33*
	Bosnia and Herzegovina	*4.00*	*4.00*	*4.00*	*4.00*	*4.00*
	Serbia	*4.00*	*4.00*	*4.00*	*4.00*	*4.00*
	Armenia	*4.33*	*4.33*	*4.33*	*4.33*	*4.33*
	Georgia	*4.33*	*4.33*	*4.33*	*4.33*	*4.33*
	Moldova	*4.00*	*4.00*	*4.00*	*4.00*	*4.00*
	Tajikistan	*3.67*	*3.67*	*3.67*	*3.67*	*3.67*
	Ukraine	*4.00*	*4.00*	*4.00*	*4.00*	*4.00*
	Poland	*4.33*	*4.33*	*4.33*	*4.33*	*4.33*
	Romania	*4.33*	*4.33*	*4.33*	*4.33*	*4.33*

Trade & Forex System	Albania	4.33	4.33	4.33	4.33	4.33
	Bosnia and Herzegovina	3.67	3.67	3.67	4.00	4.00
	Serbia	3.33	3.33	3.33	3.67	4.00
	Armenia	4.33	4.33	4.33	4.33	4.33
	Georgia	4.33	4.33	4.33	4.33	4.33
	Moldova	4.33	4.33	4.33	4.33	4.33
	Tajikistan	3.33	3.33	3.33	3.33	3.33
	Ukraine	3.67	3.67	3.67	4.33	4.00
	Poland	4.33	4.33	4.33	4.33	4.33
	Romania	4.33	4.33	4.33	4.33	4.33
Competition Policy	Albania	2.00	2.00	2.00	2.00	2.00
	Bosnia and Herzegovina	1.00	1.67	2.00	2.00	2.00
	Serbia	1.00	1.67	2.00	2.00	2.00
	Armenia	2.33	2.33	2.33	2.33	2.33
	Georgia	2.00	2.00	2.00	2.00	2.00
	Moldova	2.00	2.00	2.33	2.33	2.33
	Tajikistan	1.67	1.67	1.67	1.67	1.67
	Ukraine	2.33	2.33	2.33	2.33	2.33
	Poland	3.33	3.33	3.33	3.33	3.33
	Romania	2.33	2.67	2.67	2.67	2.67

Banking reform & interest rate liberalisaton	Albania	*2.67*	*2.67*	*2.67*	*3.00*	*3.00*
	Bosnia and Herzegovina	*2.67*	*2.67*	*2.67*	*3.00*	*3.00*
	Serbia	*2.67*	*2.67*	*2.67*	*3.00*	*3.00*
	Armenia	*2.67*	*2.67*	*2.67*	*2.67*	*2.67*
	Georgia	*2.67*	*2.67*	*2.67*	*2.67*	*2.67*
	Moldova	*2.67*	*2.67*	*3.00*	*3.00*	*3.00*
	Tajikistan	*2.00*	*2.33*	*2.33*	*2.33*	*2.33*
	Poland	*3.67*	*3.67*	*3.67*	*3.67*	*3.67*
	Romania	*3.00*	*3.00*	*3.33*	*3.33*	*3.33*
Securities markets & non-bank financial institutions	Albania	*1.67*	*1.67*	*1.67*	*1.67*	*1.67*
	Bosnia and Herzegovina	*1.67*	*1.67*	*1.67*	*1.67*	*1.67*
	Serbia	*2.00*	*2.00*	*2.00*	*2.00*	*2.00*
	Armenia	*2.00*	*2.00*	*2.00*	*2.33*	*2.33*
	Georgia	*1.67*	*1.67*	*1.67*	*1.67*	*1.67*
	Moldova	*2.00*	*2.00*	*2.00*	*2.00*	*2.00*
	Tajikistan	*1.00*	*1.00*	*1.00*	*1.00*	*1.00*
	Ukraine	*2.33*	*2.33*	*2.67*	*2.67*	*2.67*
	Poland	*3.67*	*3.67*	*3.67*	*3.67*	*3.67*
	Romania	*2.33*	*2.33*	*2.67*	*3.00*	*3.00*

Overall Infrastructure Reform	Albania	2.00	2.00	2.33	2.33	2.33
	Bosnia and Herzegovina	2.33	2.33	2.33	2.33	2.33
	Serbia	2.00	2.00	2.00	2.33	2.33
	Armenia	2.33	2.33	2.33	2.67	2.67
	Georgia	2.33	2.33	2.33	2.33	2.67
	Moldova	2.33	2.33	2.33	2.33	2.33
	Tajikistan	1.33	1.33	1.33	1.33	1.33
	Ukraine	2.00	2.00	2.33	2.33	2.33
	Poland	3.33	3.33	3.33	3.33	3.33
	Romania	3.33	3.33	3.33	3.33	3.33
EBRD 9 Average Transition Indicator	Albania	2.89	2.93	2.96	3.04	3.07
	Bosnia and Herzegovina	2.56	2.63	2.70	2.78	2.78
	Serbia	2.59	2.70	2.74	2.85	2.89
	Armenia	3.11	3.11	3.11	3.18	3.18
	Georgia	3.04	3.04	3.07	3.07	3.11
	Moldova	2.89	2.89	2.96	3.00	3.00
	Tajikistan	2.33	2.37	2.37	2.37	2.41
	Ukraine	2.89	2.93	3.00	3.07	3.07
	Poland	3.78	3.78	3.78	3.78	3.78
	Romania	3.26	3.33	3.41	3.44	3.44

Annex 9: Democracy rankings of MFA beneficiary states in 2010 and 2006

Country	Year	Rank	Overall score	I Electoral process and pluralism	II Functioning of government	III Political participation	IV Political Culture	V Civil liberties
SOUTHEAST EUROPE								
Albania	2010	84	5.86	7.42	5.07	4.44	5.00	7.35
	2006	83	5.91	7.33	5.07	4.44	5.63	7.06
Bosnia and Herzegovina	2010	94	5.32	7.33	3.29	3.33	5.00	7.65
	2006	87	5.78	8.25	3.29	4.44	5.00	7.94
Macedonia	2010	73	6.16	7.75	4.64	6.11	4.38	7.94
	2006	68	6.33	8.25	4.50	7.22	3.75	7.94
Romania	2010	56	6.60	9.58	6.43	5.00	3.75	8.24
	2006	50	7.06	9.58	6.07	6.11	5.00	8.53
Serbia	2010	65	6.33	9.17	4.64	6.11	4.38	7.35
	2006	55	6.62	9.17	5.36	5.00	5.63	7.94
CIS								
Armenia	2010	109	4.09	4.33	3.21	3.89	3.13	5.88
	2006	110	4.15	4.33	3.21	3.89	3.13	6.18

Georgia	2010	103	4.59	7.00	2.14	3.89	3.75	6.18
	2006	104	4.90	7.92	1.79	3.33	5.00	6.47
Moldova	2010	65	6.33	8.75	5.71	6.11	3.13	7.94
	2006	62	6.50	9.17	4.29	6.11	5.00	7.94
Tajikistan	2010	149	2.51	1.83	0.79	2.22	6.25	1.47
	2006	149	2.45	1.83	0.79	2.22	6.25	1.18
Ukraine	2010	67	6.30	9.17	5.00	5.00	4.38	7.94
	2006	52	6.94	9.58	5.71	5.56	5.63	8.24

Source: Economist Intelligence Unit

Annex 10: Corruption perception indicators, 2006-2011

Country	2006		2010		2011	
	CPI Score	Rank	CPI Score	Rank	CPI score	Rank
Albania	2.6	111	3.3	87	3.1	95
Bosnia and Herzegovina	2.9	93	3.2	91	3.2	91
Serbia	3.0	90	3.5	78	3.3	86
Armenia	2.9	93	2.6	123	2.6	129
Georgia	2.8	99	3.8	68	4.1	64
Moldova	3.2	79	2.9	105	2.9	112
Tajikistan	2.2	142	2.1	154	2.3	152
Ukraine	2.8	99	2.4	134	2.3	152
Poland	3.7	61	5.3	41	5.5	41
Romania	3.1	84	3.7	69	3.6	75

Source: Transparency International data base

Annex 11: Summary of MFA approvals, 1990-2010 (EUR million)

	Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total	Number of operations
New Member States	Bulgaria		290	110					250		100												750	4
	Czech & Slovak Fed. Rep.		375																				375	1
	Estonia			40																			40	1
	Hungary	870	180																				1050	2
	Latvia			80																			80	1
	Lithuania			100																			100	1
	Romania		375	80		125					200												780	4
	Slovakia					130																	130	1
Med	Algeria		400			200																	600	2
	Israel		187.5																				188	1
	Lebanon																		80				80	1
NIS	Armenia+								58												100		158	2
	Belarus						55																55	1
	Georgia+								175									33.5			46		254.5	3
	Moldova					45		15				15		15					45			90	225	6
	Tajikistan+											95											95	1
	Ukraine					85	200			150				110								500	1045	5
Western Balkans	Albania			70		35					20					25							150	4
	Bosnia & Herzegovina										60			60							100		220	3
	Kosovo (UNSCR 1244)+											35	30					50					115	3
	Macedonia (FYR)								40		80		18										138	3
	Montenegro+											20											20	1
	Serbia																				200		200	1
	Serbia & Montenegro												345	130	70								545	3
	Amount approved	870	1808	480	0	620	255	15	555*	150	460	180*	393	315	70	25	0	83.5	125	0	446	590	7440	
	No. of operations approved	1	6	6	0	6	2	1	4	1	5	4	3	4	1	1	0	2	2	0	4	2		55

Source: European Commission, Annual Reports on Macro-Financial Assistance

* Decision 97/787/EC of 17.11.1997 made available an overall amount of MFA of EUR 265 million to Armenia and Georgia. This Decision was modified by Decision 00/244/EC of 28.03.2000, which added Tajikistan to the list of beneficiary countries and increased the total combined amount to EUR 375 million. EUR 47 million of this combined amount was never allocated to any of the three eligible countries and therefore does not appear in the country rows. However, it is included in the column totals.

+ The figures for Armenia, Georgia, Tajikistan, Kosovo (under UNSCR 1244) and Montenegro include exceptional financial assistance.

EUROPEAN PARLIAMENT

BB-30-12-438-EN-N

DIRECTORATE-GENERAL FOR EXTERNAL POLICIES

POLICY DEPARTMENT

Role

Policy departments are research units that provide specialised advice to committees, inter-parliamentary delegations and other parliamentary bodies.

Policy Areas

- Foreign Affairs
  - Human Rights
  - Security and Defence
- Development
- International Trade

Documents

Visit the European Parliament website: **http://www.europarl.europa.eu/studies**

EU MACRO-FINANCIAL ASSISTANCE: A CRITICAL ASSESSMENT

PHOTO CREDIT: iStock International Inc.

ISBN 978-92-823-3679-3
9 789282 336793

ISBN 978-92-823-3679-3
doi: 10.2861/62070

Publications Office