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**A7-0060/2009**

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# **REPORT**

on the proposal for a Council decision providing macro-financial assistance to Georgia  
(COM(2009)0523 – C7-0269/2009 – 2009/0147(CNS))

Committee on International Trade

Rapporteur: Vital Moreira

(Simplified procedure – Rule 46(1) of the Rules of Procedure)

### ***Symbols for procedures***

- \* Consultation procedure  
*majority of the votes cast*
- \*\*I Cooperation procedure (first reading)  
*majority of the votes cast*
- \*\*II Cooperation procedure (second reading)  
*majority of the votes cast, to approve the common position*  
*majority of Parliament's component Members, to reject or amend the common position*
- \*\*\* Assent procedure  
*majority of Parliament's component Members except in cases covered by Articles 105, 107, 161 and 300 of the EC Treaty and Article 7 of the EU Treaty*
- \*\*\*I Codecision procedure (first reading)  
*majority of the votes cast*
- \*\*\*II Codecision procedure (second reading)  
*majority of the votes cast, to approve the common position*  
*majority of Parliament's component Members, to reject or amend the common position*
- \*\*\*III Codecision procedure (third reading)  
*majority of the votes cast, to approve the joint text*

(The type of procedure depends on the legal basis proposed by the Commission.)

### ***Amendments to a legislative text***

In amendments by Parliament, amended text is highlighted in ***bold italics***. In the case of amending acts, passages in an existing provision that the Commission has left unchanged, but that Parliament wishes to amend, are highlighted in **bold**. Any deletions that Parliament wishes to make in passages of this kind are indicated thus: [...]. Highlighting in *normal italics* is an indication for the relevant departments showing parts of the legislative text for which a correction is proposed, to assist preparation of the final text (for instance, obvious errors or omissions in a given language version). Suggested corrections of this kind are subject to the agreement of the departments concerned.

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## **DRAFT EUROPEAN PARLIAMENT LEGISLATIVE RESOLUTION**

**on the proposal for a Council decision providing macro-financial assistance to Georgia  
(COM(2009)0523 – C7-0269/2009 – 2009/0147(CNS))**

### **(Consultation procedure)**

*The European Parliament,*

- having regard to the Commission proposal to the Council (COM(2009)0523),
  - having regard to Article 308 of the EC Treaty, pursuant to which the Council consulted Parliament (C7-0269/2009),
  - having regard to the Report of the Independent International Fact-Finding Mission on the Conflict in Georgia of September 2009 (Tagliavini Report),
  - having regard to Rules 55 and 46(1) of its Rules of Procedure,
  - having regard to the report of the Committee on International Trade (A7-0060/2009),
1. Approves the Commission proposal;
  2. Calls on the Council to notify Parliament if it intends to depart from the text approved by Parliament;
  3. Asks the Council to consult Parliament again if it intends to amend the Commission proposal substantially;
  4. Instructs its President to forward its position to the Council and the Commission.

## **EXPLANATORY STATEMENT**

### **1. Objectives of the proposal**

The Commission proposes to provide macro-financial assistance (MFA) to Georgia in the form of grant instalments in a maximum amount of EUR 46 million. The assistance is intended to be allocated to the financing of the deficit of the state budget and is planned to be disbursed in two instalments (the first tranche before the end of 2009 and the second in early 2010). It aims at covering Georgia's residual external financing needs in 2009-2010 as identified by the International Monetary Fund (IMF). The funds will be channelled to the state budget of Georgia to help meet acute budgetary needs.

### **2. General context**

Georgia has experienced a severe economic downturn since the eruption of the military conflict with Russia in August 2008 that caused both direct and indirect damages, as well as resulted in large number of internally displaced population. In addition, the global financial crisis that broke out in the fall of 2008 further aggravated Georgia's economic situation. The proposed assistance aims at supporting Georgia's recovery in the aftermath of the armed conflict with Russia and contributes also to helping Georgia address the consequences of the global economic and financial crisis.

The proposed MFA is intended to run in parallel to the stand-by arrangement (SBA) that was approved by the IMF in September 2008. The EC disbursements are tied to the use of IMF resources and therefore have a direct link to the implementation by the beneficiary of the agreed macroeconomic and structural policies and its pace of economic recovery.

At the Brussels donors' conference of 22 October 2008, significant assistance was pledged to Georgia by the Member States and other bilateral donors and multilateral creditors, including up to EUR 500 million from the EC. The sources of EC funding include both programmed funds under the envelope of the European Neighbourhood and Partnership Instrument (ENPI) and crisis instruments, such as the Instrument for Stability, Humanitarian Aid and MFA. The MFA complements other assistance instruments by providing short-term macro-economic support to Georgia in the context of the IMF-supported economic program whereas the ENPI budget support, while also contributing to covering Georgia's financing needs, is linked to specific sectoral reforms.

At the time of the first review of the SBA (December 2008) the Georgian authorities nonetheless decided not to draw the second tranche from IMF under the SBA (in view of a relatively positive outlook for foreign direct investment in 2009 and the fear to damage investor confidence in the country). Therefore the Commission postponed the finalisation of its proposal for MFA, due to the fact that it can only be provided as complementary financing to IMF funding.

However, subsequently Georgia's economic situation worsened again and the Georgian authorities decided to seek potential external financing. Considering the second and the third review of the SBA (in March and August 2009 respectively) and considering that much of the donor support still needs to be confirmed or its timing needs to be clarified, the Commission decided to confirm the pledge of MFA made at the donors' conference in order to help

Georgia meet its financing needs.

### **3. Timing constraints**

This MFA proposal (as all past MFA proposals) has been referred to the Parliament under Article 308 of the EC Treaty, i.e. under consultation procedure. Although there is no deadline foreseen for Parliament's opinion under that Article, the Parliament has always been very quick in responding to the needs to provide MFA.

The current proposal was adopted by the Commission on 16 October 2009 (and transferred to Parliament on 20 October 2009). However, as the first instalment is planned to be disbursed already before the end of 2009, the Council has to adopt its Decision before the end of 2009, and Parliament therefore its opinion even earlier (informally the Commission has indicated that it should be adopted at plenary session of 23-26 November 2009). Thus, the Parliament has been effectively given less than a month and a half for adopting its position (whereas the Council has at the time of finalising this draft report by your rapporteur not even officially consulted Parliament yet) and that is simply not acceptable in a legislative procedure. For example, even for opposing Commission's draft implementing measures under the regulatory procedure with scrutiny the deadline for Parliament is not less than three months<sup>1</sup>. It shows complete lack of respect for Parliament's role as a legislator, as there can be no justifications for exceptions to institutional powers. Even if preparation of such proposals does not depend on the Commission alone, the Commission knew fully well that the first tranche should be disbursed already in 2009 and thus that the respective Decision would have to be adopted in sufficient time before the year's end.

At the same time, if the Decision is not adopted by the end of 2009, it would mean that EC funds would not be transferred to the Georgia's budget this financial year. Considering the factual circumstances and Georgia's strategic importance to the EU in the context of the European Neighbourhood Policy (ENP) and the newly established Eastern Partnership, your rapporteur could therefore do his utmost to accommodate Commission's request regarding timing. Stressing, however, that this does not mean accepting the timing imposed by Commission's late proposal, but only tolerating it in these exceptional circumstances.

### **4. Reasons for not proposing any amendments**

Your rapporteur has not proposed any amendments to the draft proposal for the time being. Not because the proposal for the Decision would be perfect, but because your rapporteur finds himself in a very difficult position.

Firstly, from procedural point of view, adoption of a report with amendments might turn out to be impossible under the current timetable and could thus mean no transfer of funds to the Georgia's budget in 2009.

Secondly, this "procedural reality" does not mean that your rapporteur would fully agree with the proposal. For example, your rapporteur cannot agree with the statement that "*the Treaty does not provide for the adoption of this Decision powers other than those of Article 308*" (recital 10). The reason for using Article 308 and not Article 181a is not in the Treaty, but in Declaration No. 10 attached to the Treaty of Nice, setting out that "*balance-of-payments aid*

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<sup>1</sup> Article 5a(3)(c) of Council Decision 1999/468/EC.

*to third countries falls outside the scope of Article 181a*". The Parliament has already back in 2003<sup>1</sup> referred to Article 308 as inadequate and expressed its regrets over the decision to include such a Declaration in the Treaty of Nice.

It must be also said that the proposal is very general and most of the specific details are to be agreed in the Memorandum of Understanding. At the same time your rapporteur is of the opinion that several amendments might be necessary in order to improve the clarity, transparency and accountability of the proposal (in terms of conditionality, use of external auditors for independent assessment, specific requests to Georgian government etc), for example setting out that an independent *ex post* evaluation of the MFA to Georgia provided under Council Decision 2006/41/EC of 24 January 2006 should be completed before the start of implementation of new assistance under the current proposal. Namely, having regard to the Report of the Independent International Fact-Finding Mission on the Conflict in Georgia<sup>2</sup> of September 2009 (Tagliavini Report), your rapporteur has concerns about EU budgetary assistance on one hand, and about the alleged increases of the Georgian 2008 defence budget on the other. However, the 2008 military conflict between Russia and Georgia has further increased the need for support in the priorities identified in the ENP Action Plan, and that means not only assistance for macro-financial stabilisation and economic rehabilitation and recovery, but also support for resettlement of internally displaced persons (IDPs), for democratic development, for peaceful settlement of Georgia's internal conflicts, etc. Therefore, Georgia needs our assistance but it is of utmost importance that the Commission includes adequate conditions in the Memorandum of Understanding and the Grant Agreement, ensuring that this assistance is really going to be used for what it is intended for and not for military purposes.

And thirdly, it must be repeated once more that your rapporteur simply had very limited time to reflect on the actual proposal.

Therefore, while entirely in agreement with the need to provide Georgia with exceptional MFA, your rapporteur had a difficult choice to make. Either to propose adopting the Parliament's opinion as soon as possible, in the interest of the needs of a country that has already suffered enormously. Or to defend Parliament's institutional prerogatives and refuse the unacceptable timetable for adopting a legislative proposal, thereby effectively depriving Georgia of the assistance it desperately needs and has long been looking for.

Considering the above, your rapporteur suggests accepting the proposal unamended. However, your rapporteur reserves the right to propose his amendments following the consideration of the proposal in the Committee, and exchange of views with the Council and Commission.

## **5. Parliament's role in providing MFA**

The rapporteur would also like to stress, in line with previous Parliament resolutions, that such a substantial instrument as MFA cannot be simply regarded as "exceptional". It is therefore unjustifiable that such an instrument lacks a regular legal basis and continues to be based on *ad hoc* Council decisions for each operation. A co-decided framework regulation on MFA is necessary in order to enhance transparency, accountability, monitoring and reporting

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<sup>1</sup> P5\_TA(2003)0233.

<sup>2</sup> <http://www.ceiig.ch/Report.html>



systems. In this respect it must be stressed that after the entry into force of the Treaty of Lisbon, the appropriate legal basis for a Decision granting MFA will be Article 209(1) and 212(2) of the Treaty on the Functioning of the European Union (TFEU), depending on whether the beneficiary country is classified as developing country or not by the Union institutions. In both cases, the ordinary legislative procedure applies. Article 213 TFEU should not apply to Decisions granting MFA.

Moreover, the role of the Parliament should be enhanced. In particular, the Commission should improve its reporting to Parliament as concerns the actual implementation of this aid instrument and provide Parliament with an *ex post* evaluation report (in addition to the annual reporting foreseen in Article 5 of the proposal).

## **6. Commitments by the Council and the Commission**

Even if the proposal for MFA would be accepted by the Committee without amendments, your rapporteur requests the Council and Commission to address the above concerns in statements to Parliament.

## PROCEDURE

<b>Title</b>	Macrofinancial assistance for Georgia	
<b>References</b>	COM(2009)0523 – C7-0269/2009 – 2009/0147(CNS)	
<b>Date of consulting Parliament</b>	30.10.2009	
<b>Committee responsible</b> Date announced in plenary	INTA	
<b>Committee(s) asked for opinion(s)</b> Date announced in plenary	AFET	BUDG
<b>Not delivering opinions</b> Date of decision	AFET 21.10.2009	BUDG 21.10.2009
<b>Rapporteur(s)</b> Date appointed	Vital Moreira 29.9.2009	
<b>Simplified procedure - date of decision</b>	10.11.2009	
<b>Discussed in committee</b>	10.11.2009	
<b>Date adopted</b>	10.11.2009	
<b>Date tabled</b>	13.11.2009	