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REPORT

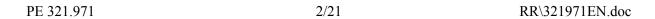
on the implementation of macro-financial assistance to third countries (2002/2265(INI))

Committee on Industry, External Trade, Research and Energy

Rapporteur: Bastiaan Belder

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PROCEDURAL PAGE

At the sitting of 16 January 2003 the President of Parliament announced that the committee on Industry, External Trade, Research and Energy had been authorised to draw up an own-initiative report, pursuant to Rule 163 of the Rules of Procedure, on the implementation of macro-financial assistance to third countries and the committee on Foreign Affairs, Human Rights, Common Security and Defence Policy and the committee on Budgets had been asked for their opinions.

The committee on Industry, External Trade, Research and Energy appointed Bastiaan Belder rapporteur at its meeting of 11 September 2002.

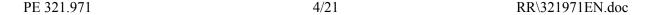
The committee considered the draft report at its meetings of 28 January 2003, 20 February 2003, 23 April 2003, and 22 May 2003.

At the last meeting it adopted the motion for a resolution with 1 abstention.

The following were present for the vote: Carlos Westendorp y Cabeza, chairman; Yves Piétrasanta and Jaime Valdivielso de Cué, vice-chairmen; Bastiaan Belder, rapporteur; Konstantinos Alyssandrakis, Sir Robert Atkins, Luis Berenguer Fuster, Felipe Camisón Asensio (for Guido Bodrato), Giles Bryan Chichester, Willy C.E.H. De Clercq, Marie-Hélène Descamps (for Concepció Ferrer), Harlem Désir, Christos Folias (for Angelika Niebler), Neena Gill (for Massimo Carraro), Norbert Glante, Michel Hansenne, Roger Helmer (for John Purvis), Pierre Jonckheer (for Nuala Ahern pursuant to Rule 153(2)), Bashir Khanbhai, Hans Kronberger (for Daniela Raschhofer pursuant to Rule 153(2)) Werner Langen, Armin Laschet (for Konrad K. Schwaiger pursuant to Rule 153(2)), Rolf Linkohr, Caroline Lucas, Eryl Margaret McNally, Erika Mann, Hans-Peter Martin (for Reino Paasilinna), Marjo Matikainen-Kallström, Bill Newton Dunn (for Nicholas Clegg), Arie M. Oostlander (for W.G. van Velzen pursuant to Rule 153(2)), Paolo Pastorelli, Elly Plooij-van Gorsel, Samuli Pohjamo (for Colette Flesch), Godelieve Quisthoudt-Rowohl, Bernhard Rapkay (for Myrsini Zorba), Imelda Mary Read, Mechtild Rothe, Paul Rübig, Umberto Scapagnini, Esko Olavi Seppänen, Gary Titley, Claude Turmes, Dominique Vlasto, Olga Zrihen Zaari .

The opinions of the Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy and the Committee on Budgets are attached.

The report was tabled on 23 May 2003.





MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on the implementation of macro-financial assistance to third countries (2002/2265(INI))

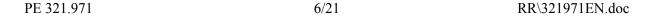
The European Parliament,

- having regard to the report from the Commission to the EP and Council on the implementation of macro-economic assistance to third countries in 2001 (COM(2002) 532),
- having regard to the Communication from the Commission to the Council and the European Parliament on EC/Euratom lending and guarantee capacity for external actions COM (2002) 20),
- having regard to the report from the Commission to the Council and to the EP on the borrowing and lending activities of the Community in 2001 (COM(2002) 685),
- having regard to the report from the Commission on the stabilisation and Association process for South East Europe, Second Annual Report, COM(2003) 139,
- having regard to the special Report N°1/2002 from the Court of Auditors concerning macro-financial assistance (MFA) to third countries and structural adjustment facilities (SAF) in the Mediterranean countries,
- having regard to Rule 163 of its Rules of Procedure,
- having regard to the report of the Committee on Industry, External Trade, Research and Energy and the opinions of the Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy and the Committee on Budgets (A5-0192/2003),
- A. whereas after more than twelve years of implementing macro-financial assistance to third countries (MFA) in an ad hoc manner, without a solid legal base, nor well-defined framework, the time is now ripe to review its present status with the aim of proposing modifications to this Community instrument in an enlarged European Union (EU);
- B. whereas until now the MFA has been an untied and undesignated balance-of-payments support from the European Community (EC), usually in the form of either medium or long term loans, and combined with grants when considered necessary; noting with interest that the total MFA to third countries from 1990 to 2002, according to the Commission, amounted to €5 313 million, of which €4 134,5 million has been disbursed, €1 048,5 million has not been disbursed, €2 211 million repaid and €1 457 outstanding;
- C. considering the fact that Community MFA has so far been granted on a case-by-case basis to a selective number of non-member States with which the EU has maintained close political, economic and commercial links, while taking into account their geographical proximity, and has helped recipient countries undertake economic reforms and structural changes consistent with the approach of the IMF and World Bank;
- D. pointing out that the European Community is willing to contribute to the stability in the regions proximate to the European Union, for which macro-financial assistance has

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become an important emergency instrument; noting that lending operations to third countries can be an effective instrument with limited cost to the general budget of the Community, and that the amount of defaults has been relatively low in comparison to the overall lending capacity while the provisional figures for the technical adjustment of the financial perspective project a ceiling of EUR 217 million in current prices;

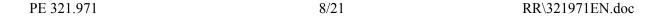
- E. noting that, instead of a uniform framework for financial assistance, the EU has many different arrangements, i.e. macrofinancial assistance (for the Balkans and Eastern Europe), structural adjustment aid (third countries in the Mediterranean region), general financial aid (the ACP developing countries in Africa, the Caribbean and the Pacific), assistance with the budget of the Palestinian authority, which is a special case, and, according to the proposal for a new regulation governing EU cooperation with Asian and Latin American countries currently under consideration by the Council and Parliament, soon a new framework for them as well. Recalling, in this respect, the demand of dividing the framework for the cooperation with these two regions into two separate regulations, as established in Parliament's resolution of 15 November 2001;
- F. whereas Article 308 of TEC has been its legal base, implying ad hoc unanimous decisions by the Council on a Commission proposal and after consultation with the European Parliament;
- G. recalling that the Guarantee Fund mechanism has successfully fulfilled its role to shield the general budget of the Community from the risk in connection with possible defaults; taking the view that it remains imperative to ensure that the shielding capacity of the Guarantee Fund is maintained;
- H. stressing that unilateral decisions from Council on the use of the Guarantee Fund are not acceptable and that Parliament must be given its right to provide oversight;
- I. whereas the culmination of the choice of legal base together with the active involvement of the Economic and Financial Committee in the design of MFA, the selection of recipient countries and its assistance to the Commission implementing MFA, have all resulted in the relatively lengthy implementation of these decisions from the date of the inception of MFA to the first disbursement it usually takes six months and final disbursement possibly two years;
- J. whereas the effort of the Council to attach eligibility and conditionality criteria, dating back to the first MFA in 1990, is worth noting; the so-called Genval principles do not take account of the evolving nature of the EU, in particular its new frontiers after enlargement, the implications of having twenty-five Member States deciding by unanimity and the work-in-progress of the European Convention in the field of international economic relations;
- K. whereas the European Parliament gave the Nice Treaty a guarded reception, notably its Article 181a on Community economic, financial and technical cooperation measures with third countries, on the grounds, well-known to the Heads of State or Governments, that qualified majority voting (QMV) in the Council should be accompanied by codecision with the European Parliament, and not with consultation as the TEC Article 181a provides for;



- L. whereas the draft Article 12 and, in particular, its paragraph 6 of the Constitutional Treaty proposed to the European Convention recommends a 'shared competence' to be exercised by the Union and the Member States in the area of 'development cooperation and humanitarian aid';
- M. considering that financial assistance from the EU to third countries can perform an important function in certain circumstances, primarily in seeking to stabilise previously conflict-stricken areas and in promoting processes of economic and political change when there appear to be good opportunities to facilitate progress through the provision of additional resources;
- N. whereas regretting the decision of the Intergovernmental Conference to attach Declaration N°10 to the Nice Treaty irrespective of its legal status which excludes MFA on grounds of balance-of-payments difficulties from the decisional procedure of Article 181a, essentially maintaining MFA in the remit of TEC Article 308;
- O. whereas the draft Articles 28 and 29 of the Constitutional Treaty, Part II, Title B, would provide the new legal base if the Constitutional Treaty were to be endorsed by the next Intergovernmental Conference and ratified by the Member States for 'economic, financial and technical cooperation measures' and for 'urgent financial aid'.
- P. emphasising that financial assistance is one of many instruments which the EU can employ to achieve these objectives; stressing that each choice of instrument must be properly considered and that financial assistance must be coordinated with aid and the political dialogue with the countries in question and subject to a strict conditionality so that maximum effect can be achieved;
- Q. whereas the evolution of macro-financial assistance from the EC to a third country, both in terms of the modalities of preparation, implementation of decisions, monitoring of assistance and accountability, has resembled 'budgetary support' practices rather than balance of payments assistance;
- R. whereas macro-economic assistance from the Union to third countries, as it has been implemented by the EU Institutions, under the terms of the Constitutional Treaty, it would fall in the competence of Article 28 on economic, financial and technical cooperation measures intended to confront economic, financial or social crises;
- S. emphasising the importance of a rational allocation of tasks between the International Monetary Fund, the EU and its Member States in the matter of macro financial assistance to third countries:
- T. whereas the need for an evaluation of balance-of-payments support differs from the need for an evaluation of budgetary support; assistance to the balance-of-payments covers only existing deficits often caused by external factors, whereas budget support covers expenditures that are still to be effectuated and therefore need to be monitored and evaluated closely;
- 1. Considers the current legal arrangement concerning the design, modalites of preparation, implementation of decisions, transparency and accountability of Community Macro-Financial Assistance to third countries (MFA) to be *inefficient* due to its lengthy decision

procedure at the Council level, *ineffective* due to the fact that disbursement of funds may take up to two years and *lacking a solid legal base* owing to the insistence of the Council to use TEC Article 308 as its legal base;

- 2. Calls upon the Commission, as the institution vested with the right to propose the appropriate legal instrument in the field of MFA, to consider submitting a legislative proposal which will take account of the suggestions made in this resolution;
- 3. Stresses that each choice of instrument must be properly considered and that macro-financial assistance must be coordinated with other Community aid in the context of a political dialogue with the countries in question so that maximum effect can be achieved;
- 4. Is aware of the fact that balance-of-payments difficulties are an important indicator and indispensable criterion for granting Community MFA; however, the objective goes beyond the macro-financial sphere, offering stimuli for economic and political stability in the recipient country;
- 5. Believes, therefore, that MFA and other EC-instruments, operational in the recipient country, should contribute, each in its own right, to the economic and political stability in the country concerned; being supplementary to resources of the IMF and other multilateral donors, the objective of the MFA-instrument is to offer assistance to countries in crisis which are in close proximity to the EU, and should be considered as complementary to EC-instruments for structural aid and prevention of economic, financial and socially-driven crises;
- 6. Agrees with the ECOFIN Council that clearly-defined criteria are needed, which should be duly met prior to commencing the first phase of MFA; consequently the so-called Genval criteria of eligibility should be appropriately modified to take account of the recommendations by the Court of Auditors' Special Report N°1/2002, enabling efficient and effective scrutiny by the European Parliament and national parliaments;
- 7. Stipulates that MFA must not degenerate into remuneration of poor policy pursued by the recipient country;
- 8. Considers the Council's conclusions of 8 October 2002 on MFA useful and proper and is of the view that these conclusions could be stated as criteria for granting MFA to third countries in the forthcoming legal instrument called for in this resolution, paying attention to the following modifications:
 - a) the *exceptional character* criterion be defined by reference to the objective of the MFA to offer countries in crisis a last resort, complementary to EC-instruments for structural aid and prevention of economic, financial and socially driven crises; the discontinuity clause should be retained;
 - b) the *political pre-conditions* criterion be the same as those used by the EU to conclude international agreements, coupled with a clearly-defined clause on geographical proximity;
 - c) the *complementarity* criterion invites three comments: firstly, an independent quantitative assessment by the Commission should be undertaken, secondly, MFA

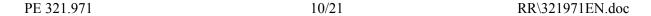


- should be duly co-ordinated with other EC-instruments, thirdly, MFA should be granted as a supplement to the resources provided by the IMF and other multilateral institutions:
- d) in view of the considerable international debate concerning the nature of IMF and World Bank conditionality, the reference in the Council conclusions to arangements with the IMF should not be understood to prejudice or preclude the adoption by the EU of its own view on the structural reforms to be undertaken by the recipient country; the *conditionality* criterion should pay due attention to the interdependence of the recipient country's economy with the EU, and the fulfilment of measurable macroeconomic criteria and of quantitative indices on the reform programme of the beneficiary country;
- e) the *financial discipline* criterion be stated on the annual budget of the Community and not be a separate criterion;
- 9. Believes that MFA, as evolved over the last twelve years and as implemented by the EU institutions, falls under the scope of the draft Article 28 on economic, financial and technical cooperation to be concluded between the EU and third countries, of the Constitutional Treaty as proposed by the Convention; recognises, however, that until ratification by Member States of the Constitutional Treaty is completed, a solution to the current ad hoc arrangement should be found; invites the Commission, therefore, to submit a legislative proposal having a dual legal base meeting two criteria:
 - a) MFA should be considered as an assistance to third countries confronted by a crisis originating in economic, financial or social situations;
 - b) the decisional procedure should be based on co-decision;

is of the view that this legal instrument on MFA should be in force only for a transitional period until the entry into force of the Constitutional Treaty;

- 10. Calls upon its committee responsible for the budget and given the interinstitutional agreement of 6 May 1999 on budgetary discipline and improvement of the budgetary procedure to consider the possibility of deferring any approval of budgetary appropriations concerned with MFA until a proper legislative proposal called for in the preceding paragraphs is submitted to the Council and European Parliament by the end of October 2003;
- 11. Reminds the Council and the Commission of the provisions of the Treaty concerning the TEC Article 192; recalls that its Rule 59 of its Rules of Procedures could be invoked by a subsequent resolution by Parliament in case of a failure by the Commission to examine the need for an appropriate proposal in the field of MFA;
- 12. Remains convinced that a reduction of the provisioning rate from 9% to 8% would not undermine the shielding capacity of the Guarantee Fund and would increase the lending capacity without having to change the ceiling of the financial perspective; is also in favour of reducing the blanket guarantee given to the European Investment Bank from 65% to 50%; points out that a reduction of the blanket guarantee would have no negative consequences on the EIB, given that in practice the totality of each loan is guaranteed until 65% of the total portfolio is reached;

- 13. Notes with concern that only an amount of EUR 170, 4 million were used to provision the Guarantee Fund in 2002 and that, consequently, an amount of EUR 42,51 million remained unused; recalls that a much more ambitious use of the lending capacity was still envisaged for 2002 at the end of the 2001 exercise; regrets that the EIB adopted a scaled-down programming for 2002 which further delayed the implementation of some facilities into the future;
- 14. Calls on the Commission, therefore, to submit a formal proposal that includes revised parameters for the use of the Guarantee Fund, which on the one hand do not reduce the shielding capacity of the Fund for the Community Budget, but on the other hand increase the lending capacity of the Community;
- 15. Instructs its President to forward this resolution to the Council, Commission and national parliaments.



EXPLANATORY STATEMENT

The rapporteur wishes to examine the logic underlying macro-financial assistance to third countries (MFA), and raise questions relevant to its future status if different from its present one. Thus he would focus on whether the case for a *more structured approach* to MFA could be made

The following considerations should be borne in mind:

- After more than 12 years, the experience of the MFA as implemented has shown that the procedures are lengthy, from the moment a decision by the Council is made until final disbursement is effectuated.
- The proper legal base for MFA is not yet agreed.
- The principles, conditions and implementation modalities of MFA need to be streamlined, taking into consideration the work in progress in the European Convention
- There could be *no* EU initiative without democratic legitimacy and accountability. A stronger foreign policy at European level in areas where the clause of "national vital interest" is not invoked, cannot be disassociated from parliamentary scrutiny at the EU level.

The 1995 Genval Criteria Revised

The ECOFIN on 6 April 1995 decided on five criteria upon which it would base its decisions concerning MFA (the so-called Genval Criteria). These were: 1) Exceptional character 2) Political pre-conditions 3) Complementarity 4) Conditionality 5) Financial discipline.

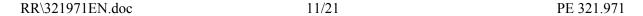
The appraisal of the MFA by the Court of Auditors in its Special Report N° 1/2002 was based on these Genval Criteria, and it has made useful recommendations. The ECOFIN decided on 8 October 2002 on giving more substance to them by adopting a number of conclusions regarding MFA (see <u>annex</u>).

The rapporteur has examined these conclusions and has the following comments to make. The *absence* of a framework Regulation has been an issue in discussions between the Council and Commission. The Court of Auditors has pointed out the lack of clarity in the application of the criteria related to the existing ad hoc legal instrument while discussing the general criteria.

We do not know *how the MFA is handled*. MFA goes *directly* into the beneficiary's central bank's budget on grounds of either balance of payments difficulties <u>or</u> budget support. If this is the case, one may claim that MFA in its form of grants or loans, or a combination of both might act as a relief mechanism, and thus the recipient country may pursue a policy other than the one intended (to play a constructive role in the economic reform process of the beneficiary country). This problem arises if there is no mechanism guaranteeing that MFA is directly linked to successful and continuing macro-economic performance.

In this context it is crucial to note that there is no monitoring mechanism. Once the disbursement is effectuated, the EU is unable to follow up, relying mainly on what the IMF and the World Bank would do. Subsequently the Commission would re-assess the situation, inform the Economic and Financial Committee, and the ECOFIN would act. The EP plays no role.

The *exceptional character* is <u>not</u> defined in the ECOFIN conclusions. It is meant to mean that the EU would grant MFA only on a case-by-case basis as a *supplement* to any amount of loans or grants or combination of both that the country under question would be able to negotiate with



the IMF, World Bank and individual country donors. MFA may be discounted if the recipient country can rely on financing from these institutions and private sources of capital.

If this condition is taken seriously then the 'exceptional nature' of MFA is of a short duration, very rare and not repetitive. According to Annex 1B of the report from the Commission (COM(2002) 352), a number of countries have received MFA on a continuous basis. This inherent contradiction has to be avoided.

The *political pre-conditions* are defined by reference to respect of effective democratic mechanisms, rule of law, and guarantees of human rights. The same clauses are used in all international agreements (Association, Partnership or Cooperation) that the EU concludes with third countries. Under these international agreements, the political pre-conditions have *rarely* been called on. Under MFA, disbursements have been withheld.

The *complementarity principle* invites two comments. First, the EU relies on the *quantitative assessment* undertaken by the IMF or World Bank in order to grant the residual external financing gap. Then, where is the independent *assessment* by the Commission, itself to be held to account? Another aspect requiring a solution is the question how to approach cases where both International Financial Institutions (IFIs) hold a different view. Or, what to do when IFIs disburse under a waiver of performance criteria?

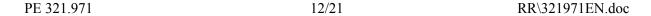
Second, the ECOFIN recognises that complementarity also means *coordinating MFA with other EU instruments*, such as technical assistance and external aid under different instruments. Hence one may claim that whereas MFA is very general in character while other aid instruments are very specific, coordination and complementarity would increase efficiency.

Conditionality has been a safeguard clause of all IMF and World Bank assistance. MFA has followed the IMF practice and method. That is to say that disbursement of MFA is conditional upon meeting the criteria concerned with macro-economic performance and structural adjustment. MFA should remain primarily an instrument for macro-economic support, in order to support the stability of the regions surrounding the EU. The extent to which the recipient country's economy is interwoven with the EU economy is an important condition. However, before a support request can be dealt with politically, the need for MFA support should be proven. In that respect macro-financial criteria should always constitute the base for a possible application of the instrument as such.

The criteria of *financial discipline* are linked to the interinstitutional agreement on the budget (1999-2006). Both the Guarantee Fund relevant to guaranteed loans <u>and</u> the budget lines associated with grants would be evaluated annually by the Commission, and the EP would receive an annual report on the matter, including other aspects of MFA. The interinstitutional agreement of 6 May 1999 on budgetary discipline classifies MFA expenditure as 'noncompulsory' (see its Annex IV, Heading 4).

Possible legal base

The entry into force of the Nice Treaty has seemingly created a new situation for the MFA. An innocent reading of a new Title XXI on economic, financial and technical cooperation with third countries would have persuaded any layman that the legal provisions of Article 181a apply to MFA as well. Article 181a(1) states the principles, objectives and scope of economic, financial and technical cooperation measures. Qualified majority voting would be the rule, on



the basis of a proposal from the Commission and after consulting the European Parliament. Yet there is a Declaration N°10 adopted by the Conference on the Treaty of Nice, which *excludes* 'balance-of-payments aid to third countries' from the scope of Article 181a.

One may question the legal status of such declarations on legal grounds. Or one may argue that consistency with the logic of the commitments undertaken by the EU with respect to third countries faced with serious economic, financial or social crises would have rendered Declaration 10 inapplicable. Yet the Commission seems to argue that it accepts the logic of Declaration 10 and therefore MFA falls outside the scope of Article 181a. Hence Article 308 still applies. Article 308 requires unanimity and consultation with the European Parliament.

It is of interest to note the satisfaction expressed by the ECOFIN Council of 8 October 2002 concerning the decision-making procedure of Article 308. Yet it added: "Nevertheless, the procedures are relatively lengthy and normally several months elapse from the Commission proposal until final disbursement. Enlargement may further lengthen decision-making given the unanimity requirement."

However, the *draft* of Articles 1 to 16 and 24 to 33 of the Constitutional Treaty as presented by the European Convention support the view of the rapporteur that Community MFA falls in the competence of the EU. It is not an exclusive competence but a *shared competence*: 'the Union shall share competence with the Member States'. Article 12 defines the scope of shared competence. Its paragraph 6 stipulates: "in the areas of development cooperation and humanitarian aid, the Union shall have competence to take action and conduct a common policy".

For all areas falling into the shared competence, the EU will follow the *legislative procedure*, as defined by Article 25 on legislative acts. That is to say that the EP and the Council would adopt European laws or European framework laws by **codecision**.

It is also difficult to foresee the changes that would be brought about by the forthcoming intergovernmental conference on the Constitutional Treaty, or the entry into force of the European Constitution. Hence we have a problem associated with this transitional period: *what should the EU do in the interim?*

The rapporteur has proposed an interim solution in the resolution of this report. It is based on three considerations. First, after 12 years in existence it's the MFA's legal ad hoc exceptional nature has been eroded, it has become in some cases regular and continuous rather than exceptional. Second, the overall objective of MFA falls in the scope of Title XXI of the TEC, and it is granted for 'balance-of-payments aid' and for budgetary support to third countries faced with **serious economic, financial or social crises leading to a detrimental effect on the balance of payments.** Third, even current legislative procedures allow for QMV and codecision. It is up to the Commission to come up with the proper legislative interim arrangement, as the motion for a resolution adopted by this committee has called for.

If this is the case then the following section argues why the MFA should entail specific characteristics.

What is the structured approach to MFA?

It entails two elements. The first is about a careful consideration of the ECOFIN Council conclusions on MFA of 8 October 2002. It may lead to the EP adopting certain recommendations made by it. The second element is related to the type of a *possible* legal instrument that may be preferable to the current ad hoc arrangement, as it will provide for the necessary clarity on criteria and implementation.

The rapporteur would tend to look favourably to the ECOFIN Council's *principles* governing MFA with the proviso that a number of modifications or clarifications are made. For example, the principle of *exceptional character* of MFA is not defined but described. If MFA is *exceptional in nature* then one is bound to know the circumstances that explain why an exceptional character is considered to exist.

Besides, one may counter-argue that the two main criteria: balance of payments crisis <u>and</u> depletion of foreign exchange, if invoked, would indicate that there had been an on-going *crisis* associated with either economic or financial factors. However, if this counter-argument is accepted then one deals with the effects of a crisis, <u>not</u> with the causes. Hence the MFA is not pro-active.

It is reasonable to argue that if the crisis had been foreseen, the MFA procedure should have started at an early stage. The criteria for taking action of a more preventive character should be linked to concrete macro-economic evidence. The pre-condition would be that it is proven on the basis of complete quantitative assessment and of transparent background information. In such a way the criteria ensure that action can be undertaken without the need to wait until the problem itself becomes unattainable. Further delaying MFA would *probably* result in a bigger need for financial support once the problem has had its detrimental effect on the balance of payments.

If the above argument is accepted, a second thought is provoked. Is there a standard by which the added value entailed in MFA exceeds the added value associated with an international financial institution's contribution? Hence the need for a better definition of the *exceptional character* principle is ever present.

Take another principle, *political pre-conditions*. It essentially entails three aspects: geographical proximity, commercial and economic relations and multi-party parliamentary systems respecting the rule of law and guaranteeing of human rights. There have been discussions to use a *three-tier system*. However, we neither know which countries would be eligible, nor what criteria would be used for their eligibility.

Without knowing all the details of this three-tier system, one may not take a definitive position on it. Suppose that there would be support for a third group, besides the first group of candidate countries and countries with Stabilization and Association Agreements and a second group of countries in the Barcelona process and three CIS-countries. That third group would need to be accompanied by factual evidence of the presence of a quantifiable effect on the EU economy in case MFA would be granted. If were impossible to demonstrate a quantifiable effect on the EU economy, the MFA should be a matter for the foreign policy of the individual Member States, since the complementary aspect of the EU competence vis-à-vis the Member States would be absent in this case.

A fundamental principle is invoked in this context of criteria. Irrespective of the low (or high)

Community funding for MFA, both in terms of grants and guaranteed loans, the political and economic criteria used for MFA should be made public so that the exercise of accountability could become meaningful and effective. The decision-making procedure as well as the monitoring and evaluation should be made *transparent*. *Accountability* should be exercised at the EU level.

In an enlarged EU of 25 Member States, the existing arrangements would fall short of effective management of Community funding, since they make use of imprecise criteria and unclear objectives. As a result of these two defects, neither monitoring, nor implementation could be effective and efficient. It is imperative therefore to launch the debate on the *appropriate* form that the MFA may take in an enlarged EU. If a more structured approach would be favoured on grounds of efficient and transparent management of EC funding, then the debate on the *appropriate* form of MFA should be launched now by asking the executive body of the EU to present a legislative proposal for a framework regulation on MFA, as called for in the motion for a resolution of this report.

Annex: Update of the criteria for Community macrofinancial assistance to third countries

The (Ecofin) Council:

Reviewed the Community's macro-financial assistance to third countries provided through (Ecofin) Council decisions;

Noted that the Community since 1990 has committed some €5,8 billion of macro-financial assistance to third countries, mainly the current candidate countries, some other eastern European and Mediterranean countries and the Western Balkans in the form of untied and undesignated balance of payments assistance, or budget support, taking the form of medium and long-term loans or grants or a combination thereof;

Agreed that this assistance has in most cases usefully contributed to the implementation of comprehensive macroeconomic adjustment and structural reform programmes supported by the IMF and the World Bank;

Reconfirmed the following principles to which this assistance shall respond:

1. Exceptional character

The Community not being an international financial institution, its assistance must remain exceptional in nature and be discontinued when the recipient country can rely on financing from these institutions and private sources of capital.

2. Political pre-conditions

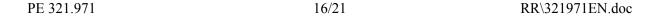
The assistance is provided to third countries with which the Community maintains close political and economic links, taking into account especially their geographical proximity and the Union's economic, commercial and political interests. A precondition is that they fully respect effective democratic mechanisms, including multi-party parliamentary systems, the rule of law and guarantees of human rights.

3. Complementarity

A prerequisite for the mobilisation of this assistance shall be the existence of a significant and commonly identified residual external financing gap, which is based on a comprehensive and complete quantitative assessment and transparent background documentation, over and above the resources provided by the IMF and other multilateral institutions and despite the implementation of strong economic stabilisation and reform programmes. The Community is providing macro-financial assistance in co-ordination with bilateral donors. The amounts of the Community assistance will be decided, case-by-case, taking into account the factors in paragraph 2, the maximum potential amounts available from the international financial institutions and a fair burdensharing with bilateral donors as well as the level of private sector involvement. Complementarity will also be sought between macro-financial assistance, the use of other EU instruments of macro-economic nature, and the use of the Community's technical assistance and project related instruments.

4. Conditionality

The assistance will generally be released in successive tranches, the disbursement of each of





them being conditional upon the fulfilment of clear and measurable macroeconomic performance and structural adjustment criteria, based on the economic programmes of the beneficiary countries, as agreed in upper credit tranche arrangements with the IMF. With a view of streamlining conditionality, the Community will mostly base its criteria on the recipient country's adjustment and reform programme agreed with the IMF and where appropriate the World Bank. Progress on mutual market opening, and other priorities in the context of the Community's external policy, should also be taken account of.

5. Financial discipline

The amounts of the assistance shall comply with the annual budget ceilings established by the Community's Financial Perspective, and with the rules and the agreed ceilings of the Guarantee Fund Mechanism for external actions, in particular the reserve designed to provide for the provisioning of the Fund, and in the case of grants with the relevant annual budget appropriations.

At least once a year and when submitting a new proposal for macro-financial assistance the Commission will provide detailed information on the reserve for guarantees (and the corresponding residual lending and loan guarantee capacity), details on total outstandings and past interventions under the Guarantee Fund mechanism, as well as on the remaining budget resources available for macro-financial assistance in the form of grants.

The Economic and Financial Committee will examine regularly the use of macro-financial assistance for third countries taking also into account the situation regarding other Community initiatives. The Commission will provide an annual report to the Council and to the Parliament on the implementation of macro-financial assistance (which shall include a systematic evaluation of the effectiveness of conditionality, an assessment of actual burdensharing and private sector involvement, the implementation of the adjustment programme, and the contribution of macro-financial assistance to the implementation of the economic and stabilisation programmes of the beneficiary countries on the basis of transparent performance indicators). The Commission services are invited to report regularly to the Economic and Financial Committee on the state of play of macro-financial assistance."

OPINION OF THE COMMITTEE ON FOREIGN AFFAIRS, HUMAN RIGHTS, COMMON SECURITY AND DEFENCE POLICY

for the Committee on Industry, External Trade, Research and Energy

on implementation of macrofinancial assistance to third countries (2002/2265(INI))

Draftsman: Lennart Sacrédeus

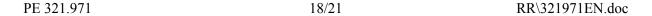
PROCEDURE

The Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy appointed Lennart Sacrédeus draftsman at its meeting of 4 November 2002.

It considered the draft opinion at its meetings of 17-19 March 2003 and 24-25 March 2003.

At the last meeting it adopted the following conclusions by 27 votes to 1, with no abstentions.

The following were present for the vote Elmar Brok, chairman; Geoffrey Van Orden and Christos Zacharakis, vice-chairmen; Lennart Sacrédeus, draftsman; Ole Andreasen, Per-Arne Arvidsson, Alexandros Baltas, André Brie, John Walls Cushnahan, Jas Gawronski, Alfred Gomolka, Vasco Graça Moura (for Gerardo Galeote Quecedo), Efstratios Korakas, Joost Lagendijk, Pedro Marset Campos, Emilio Menéndez del Valle, Philippe Morillon, Pasqualina Napoletano, Arie M. Oostlander, Reino Paasilinna (for Raimon Obiols i Germà), Jacques F. Poos, Jacques Santer, Amalia Sartori, Jürgen Schröder, Ioannis Souladakis, Charles Tannock, Karl von Wogau, Matti Wuori.



CONCLUSIONS

The Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy calls on the Committee on Industry, External Trade, Research and Energy, as the committee responsible, to incorporate the following points in its motion for a resolution:

- Considers that financial assistance from the EU to third countries can perform an
 important function in certain circumstances, primarily in seeking to stabilise previously
 conflict-stricken areas and in promoting processes of economic and political change when
 there appear to be good opportunities to facilitate progress through the provision of
 additional resources;
- 2. Emphasises that financial assistance is one of many instruments which the EU can employ to achieve these objectives; stresses that each choice of instrument must be properly considered and that financial assistance must be coordinated with aid and the political dialogue with the countries in question and subject to a strict conditionality so that maximum effect can be achieved;
- 3. Notes that, instead of a uniform framework for financial assistance, the EU has many different arrangements, i.e. macrofinancial assistance (for the Balkans and Eastern Europe), structural adjustment aid (third countries in the Mediterranean region), general financial aid (the ACP developing countries in Africa, the Caribbean and the Pacific), assistance with the budget of the Palestinian authority, which is a special case, and, according to the proposal for a new regulation governing EU cooperation with Asian and Latin American countries currently under consideration by the Council and Parliament, soon a new framework for them as well. In this respect, recalls the demand of dividing the framework for the cooperation with these two regions into two separate regulations, as established in Parliament's resolution of 15 November 2001;
- 4. Feels it is regrettable that it has not even been possible in the subsector of macrofinancial assistance to frame a clear and consistent approach for the different measures as pointed out by the Court of Auditors in its Special Report 1/2002;
- 5. Urges the Commission to present to Parliament proposals for an overall reform of EU third-country financial assistance which currently is lacking transparency and is probably rendered more complicated to manage by the absence of a single framework;
- 6. Notes that the EU's imminent enlargement and the general development of its institutions tend to render problematical the decision-making procedure involving unanimity in the Council but only consultation with Parliament; urges therefore the Convention to propose to the IGC reformed procedures with majority decision-taking;
- 7. Emphasises the importance of a rational allocation of tasks between the International Monetary Fund, the EU and its Member States in the matter of financial assistance to third countries.

24 March 2003

OPINION OF THE COMMITTEE ON BUDGETS

for the Committee on Industry, External Trade, Research and Energy

on the implementation of macro-financial assistance to third countries (2002/2265(INI))

Draftsman: Esko Olavi Seppänen

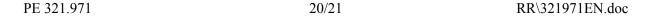
PROCEDURE

The Committee on Budgets appointed Esko Olavi Seppänen draftsman at its meeting of 21 January 2003.

It considered the draft opinion at its meeting of 24 March 2003.

At the latter meeting it adopted the following conclusions unanimously.

The following were present for the vote Terence Wynn, chairman; Reimer Böge, Anne Elisabet Jensen and Franz Turchi vice-chairmen; Esko Olavi Seppänen draftsman; Ioannis Averoff, Kathalijne Maria Buitenweg, Joan Colom i Naval, Den Dover, James E.M. Elles, Göran Färm, Catherine Guy-Quint, María Esther Herranz García, Juan Andrés Naranjo Escobar, Joaquim Piscarreta, Giovanni Pittella and Brigitte Wenzel-Perillo.



CONCLUSIONS

The Committee on Budgets calls on the Committee on Industry, External Trade, Research and Energy, as the committee responsible, to incorporate the following points in its motion for a resolution:

- having regard to the Communication from the Commission COM (2002) 20 to the Council and the European Parliament on EC/Euratom lending and gurantee capacity for external actions,
- 1. Points out that macrofinancial assistance has become an important foreign policy instrument for the Community; notes, in particular, that lending operations to third countries can be an effective instrument with limited cost to the general budget of the Community; notes also that the amount of defaults has been relatively low in comparison to the overall lending capacity; notes that the provisional figures for the technical adjustment of the financial perspective project a ceiling of EUR 217 million in current prices;
- 2. Recalls that the Guarantee Fund mechanism has successfully fulfilled its role to shield the general budget of the Community from the risk in connection with possible defaults; takes the view that it remains imperative to ensure that the shielding capacity of the Guarantee Fund is maintained; notes, however, that there is no point in provisioning the Guarantee Fund in excess either, especially as this reduces the lending capacity of the Community;
- 3. Remains convinced that a reduction of the provisioning rate from 9% to 8% would not undermine the shielding capacity of the Guarantee Fund and would increase the lending capacity without having to change the ceiling of the financial perspective; is also in favour of reducing the blanket guarantee given to the European Investment Bank from 65% to 50%; points out that a reduction of the blanket guarantee would have no negative consequences on the EIB, given that in practice the totality of each loan is guaranteed until 65% of the total portfolio is reached;
- 4. Notes with concern that only an amount of EUR 170, 4 million were used to provision the Guarantee Fund in 2002 and that, consequently, an amount of EUR 42,51 remained unused; recalls that a much more ambitious use of the lending capacity was still envisaged for 2002 at the end of the 2001 exercise; regrets that the EIB adopted a scaled-down programming for 2002 which further delayed the implementation of some facilities into the future;
- 5. Calls on the Commission, therefore, to submit a formal proposal that includes revised parameters for the use of the Guarantee Fund, which on the one hand do not reduce the shielding capacity of the Fund for the Community Budget, but on the other hand increase the lending capacity of the Community;
- 6. Stresses that unilateral decisions from Council on the use of the Guarantee Fund are not acceptable and that Parliament must be given its right to provide oversight;

