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## REPORT

on the proposal for a Council decision on Providing Community macro-financial assistance to Moldova  
(COM(2006)0579 – C6-0342/2006 – 2006/0184(CNS))

Committee on International Trade

Rapporteur: Béla Glattfelder

### ***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***. 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). These suggested corrections 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 on Providing Community macro-financial assistance to Moldova  
(COM(2006)0579 – C6-0342/2006 – 2006/0184(CNS))

### (Consultation procedure)

*The European Parliament,*

- having regard to the Commission proposal to the Council (COM(2006)0579)<sup>1</sup>,
  - having regard to Article 308 of the EC Treaty, pursuant to which the Council consulted Parliament (C6-0342/2006),
  - having regard to Rule 51 of its Rules of Procedure,
  - having regard to the report of the Committee on International Trade and the opinion of the Committee on Budgets (A6-0013/2007),
1. Approves the Commission proposal as amended;
  2. Calls on the Commission to alter its proposal accordingly, pursuant to Article 250(2) of the EC Treaty;
  3. Calls on the Council to notify Parliament if it intends to depart from the text approved by Parliament;
  4. Asks the Council to consult Parliament again if it intends to amend the Commission proposal substantially;
  5. Instructs its President to forward its position to the Council and Commission.

Text proposed by the Commission

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Amendments by Parliament

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Amendment 1  
Recital 9 a (new)

***(9a) Transdnistria has a significant role in trade, expanded recently by the ban imposed by Russia on wine imports of Moldovan origin which does not apply to wine originating from Transdnistria.***

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<sup>1</sup> Not yet published in OJ.

Amendment 2  
Recital 9 b (new)

***(9b) Transdnistria obtains considerable revenue from trade in terms of customs duties and taxes, which does not constitute revenue for the State budget of Moldova.***

Amendment 3  
Recital 9 c (new)

***(9c) The EU's macro-financial assistance should not merely supplement programmes and resources from the Bretton Woods institutions but ensure the added value of Community involvement.***

Amendment 4  
Recital 9 d (new)

***(9d) The Community should ensure that the EU macro-financial assistance is legally and substantially coherent with the different areas of external action and other relevant Community policies. Such coherence shall be ensured in formulating policy, including the Memorandum of Understanding and the Grant Agreement and in its implementation.***

Amendment 5  
Recital 9 e (new)

***(9e) The Community should ensure that the EU's macro-financial assistance is exceptional and limited in time, complementary to the assistance from the Bretton Woods institutions, bilateral donors and the Paris Club creditors, as well as conditional on meeting clearly identified requirements, including***

*political pre-conditions, and is carefully monitored and evaluated in order to prevent fraud and financial irregularities.*

Amendment 6  
Recital 9 f (new)

*(9f) Russia has explained that the ban on wine imports from Moldova had been imposed because of non-compliance with certain phytosanitary requirements.*

Amendment 7  
Recital 9 g (new)

*(9g) The Community should provide financial assistance to Moldova in order to improve quality and food-security in the wine-making sector.*

Amendment 8  
Recital 10

(10) The release of this grant assistance is without prejudice to the powers of the budgetary authority.

(10) The release of this grant assistance is without prejudice to the powers of the budgetary authority. *This financial assistance should be provided after verifying whether the conditions to be agreed with the authorities of Moldova have been satisfactorily fulfilled. The conditions for the release of the instalments of the exceptional assistance which should be laid down in a Memorandum of Understanding and a Grant Agreement should include specific targets to be achieved in the following areas: improved transparency and increased sustainability of public finances; the application of macro-economic and budgetary priorities on the basis of the satisfactory implementation of the economic programme supported by the International Monetary Fund under the Economic Growth and Poverty*

***Reduction Strategy Paper and of the reforms identified under the EU-Moldova European Neighbourhood Policy Action Plan; and full compliance with international democratic and human rights standards, including respect for minorities and the fundamental principles of the rule of law. Real progress in attaining the above targets should provide the basis for the disbursement of the instalments of this assistance.***

Amendment 9  
Article 1, paragraph 1

1. The Community shall make available to Moldova macro-financial assistance in the form of a grant of up to EUR 45 million with a view to supporting Moldova's balance of payments and, in this way, alleviating the financial constraints on the implementation of the government's economic programme.

1. The Community shall make available to Moldova ***exceptional*** macro-financial assistance in the form of a grant of up to EUR 45 million with a view to supporting Moldova's balance of payments ***in the context of a severe deterioration of Moldova's trade and current account balances*** and, in this way, alleviating the financial constraints on the implementation of the government's economic programme.

Amendment 10  
Article 1, paragraph 2

2. This Community financial assistance shall be managed by the Commission in consultation with the Economic and Financial Committee and in a manner consistent with the agreements or understandings reached between the International Monetary Fund (IMF) and Moldova.

2. This Community financial assistance shall be managed by the Commission in consultation with the Economic and Financial Committee and in a manner consistent with the agreements or understandings reached between the International Monetary Fund (IMF) and Moldova. ***The Commission shall regularly inform the European Parliament of the Economic and Financial Committee proceedings and provide it with the relevant documents.***

Amendment 11  
Article 1, paragraph 3



3. The Community financial assistance shall be made available for two years starting from the first day after the entry into force of this decision. *However, if circumstances so require, the Commission, after consultation of the Economic and Financial Committee, may decide to extend the availability period by a maximum of one year.*

3. The Community financial assistance shall be made available for two years starting from the first day after the entry into force of this decision.

Amendment 12  
Article 2, paragraph 1

1. The Commission is empowered to agree with the authorities of Moldova, after consultation with the Economic and Financial Committee, the economic policy and financial conditions attached to this assistance, to be laid down in a Memorandum of Understanding and a Grant Agreement. These conditions shall be consistent with the agreements or understandings referred to in Article 1(2).

1. The Commission is empowered to agree with the authorities of Moldova, after consultation with the Economic and Financial Committee *and the European Parliament*, the economic policy and financial conditions attached to this assistance, to be laid down in a Memorandum of Understanding and a Grant Agreement. These conditions shall be consistent with the agreements or understandings referred to in Article 1(2). *The Memorandum of Understanding and the Grant Agreement shall immediately submitted be to the Council and the European Parliament. These conditions shall include specific targets in the following areas: improved transparency and increased sustainability of public finances; the application of macro-economic and budgetary priorities on the basis of the satisfactory implementation of the economic programme supported by the IMF under the Economic Growth and Poverty Reduction Strategy Paper and of the reforms identified under the EU-Moldova European Neighbourhood Policy Action Plan; and full compliance with international democratic and human rights standards, including respect for minorities and the fundamental principles*

*of the rule of law. Real progress in attaining the above targets shall provide the basis for the disbursement of the instalments of this assistance. In order to increase transparency and accountability, the conditionalities of the EU's micro-financial assistance shall be made public.*

Amendment 13  
Article 3, paragraph 3

3. The second and any further instalments shall be released on the basis of a satisfactory implementation of the economic programme supported by the IMF under the Poverty Reduction and Growth Facility and of the EU-Moldova European Neighbourhood Policy Action Plan, and any other measures agreed with the Commission as set out in Article 2(1), and not before one quarter after the release of the previous instalment.

3. The second and any further instalments shall be released on the basis of a satisfactory implementation of the economic programme supported by the IMF under the Poverty Reduction and Growth Facility and of the EU-Moldova European Neighbourhood Policy Action Plan, and any other measures agreed with the Commission as set out in Article 2(1), ***in particular the making of satisfactory progress towards attaining the targets set out in the Memorandum of Understanding provided for in Article 2(1)***, and not before one quarter after the release of the previous instalment.

Amendment 14  
Article 3, paragraph 4

4. The funds shall be paid to the National Bank of Moldova. The final recipient of the funds will be the Ministry of Finances of Moldova.

4. The funds shall be paid to the National Bank of Moldova ***and recorded under the heading "Exceptional financial assistance from the European Union"***. The final recipient of the funds will be the Ministry of Finances of Moldova.

Amendment 15  
Article 4

The implementation of this assistance shall take place in accordance with the provisions of the Financial Regulation

The implementation of this assistance shall take place in accordance with the provisions of the Financial Regulation

applicable to the General Budget of the European Communities and its implementing rules. In particular, the Memorandum of Understanding and the Grant Agreement to be agreed with the authorities of Moldova shall provide for **appropriate** measures by Moldova related to the prevention of and the fight against fraud, corruption and other irregularities linked to this assistance. It shall also provide for controls by the Commission, including the European Anti-Fraud Office (OLAF), with the right to perform on the spot checks and inspections, and for audits by the Court of Auditors, where appropriate, to be carried out on the spot.

applicable to the General Budget of the European Communities and its implementing rules. In particular, the Memorandum of Understanding and the Grant Agreement to be agreed with the authorities of Moldova shall provide for **specific** measures **to be implemented** by Moldova related to the prevention of and the fight against fraud, corruption and other irregularities **that may be** linked to this assistance. **In order to ensure greater transparency in the management and disbursement of funds**, it shall also provide for controls by the Commission, including the European Anti-Fraud Office (OLAF), with the right to perform on-the-spot checks and inspections, and for audits by the Court of Auditors, where appropriate, to be carried out on the spot.

Amendment 16  
Article 5

By 31 August of each year the Commission shall submit to the European Parliament and to the Council a report, including an evaluation on the implementation of this Decision in the previous year.

By 31 August of each year the Commission shall submit to the **relevant Committees of the** European Parliament and to the Council a report, including an evaluation on the implementation of this Decision in the previous year. **That report shall specify the linkage between the targets set out in Article 2(1), Moldova's ongoing economic and fiscal performance and the Commission's decision to release the instalments of this assistance.**

Amendment 17  
Article 5 a (new)

**Article 5a**

**No later than two years after the expiry of the implementation period of the assistance provided for in this Decision, the Commission shall submit to the European Parliament and the Council an**

*ex-post evaluation report.*

## **EXPLANATORY STATEMENT**

### **1. The rationale of the Commission's proposal**

The Commission proposal intends to provide macro-financial assistance to Moldova (in the form of a grant of a maximum amount of EUR 45 million) with a view to supporting Moldova's balance of payments and the reserve build-up.

The proposed assistance will help Moldova alleviate the financial constraints on the implementation of its economic programme. It will also encourage the authorities' efforts to implement reforms under the EU-Moldova European Neighbourhood Policy Action Plan and the Economic Growth and Poverty Reduction Strategy Paper.

The proposed macro-financial assistance which is intended to be exceptional and limited in time, also tackles the recent deterioration of country's economy and the declining trade balance mostly due to external factors such increase of energy prices and import restrictions on certain key agricultural products (wine) imposed by Russia.

In the past the EU has provided on several occasions macro-financial assistance (MFA) to Moldova aimed at responding to balance-of-payments shocks.

### **2. Background and the role of the IMF**

In May 2006 the IMF Board approved a three-year financing arrangement under the Poverty Reduction and Growth Facility (PRGF). The approval of the arrangement was followed by an agreement with the Paris Club of Moldova's official creditors on a restructuring of accumulated arrears and current payments falling due in the period of the programme on the so-called Houston terms. Helping the government normalise Moldova's relations with the official creditors was one of the key objectives of the arrangement.

The PRGF programme is designed to maintain macroeconomic stability and in this way to support growth and poverty reduction, particularly in the context of continued strong inflows of remittances and substantially higher prices for imported energy.

Under the programme, the authorities are committed to limit the budget deficit to 0.5% of GDP and the National Bank is aiming at increasing foreign exchange reserves to three months of imports by end-2008. The priority structural policy measures include in particular actions in the areas of foreign trade liberalisation, corporate governance, banking sector reform and tax administration.

The recent economic developments in Moldova require some adjustments of the PRGF programme and additional exceptional financing, on top of the financing currently available.

### **3. The commercial and economic context of Moldova**

Moldova remains one of the poorest countries in Europe despite recent progress from its small

economic base. It enjoys a favourable climate and good farmland but has no major mineral deposits. As a result, the economy depends heavily on agriculture, featuring fruits, vegetables, wine, and tobacco.

Moldova imports almost all of its energy supplies mainly from Russia. Energy shortages contributed to sharp production declines after the break-up of the Soviet Union in December 1991.

As part of an ambitious reform effort after independence, Moldova introduced a convertible currency, freed prices, stopped issuing preferential credits to state enterprises, backed steady land privatization, removed export controls, and freed interest rates.

The economy returned to positive growth in 2000, and has remained at or above 7 % every year since. By 2005, Moldova's GDP per capita had more than doubled compared to its 2000 levels but remains the lowest in Europe.

Towards 2004-2005, Moldova restarted a process of structural reforms, notably with the adoption by the government of the above referred Economic Growth and Poverty Reduction Strategy Paper (EGPRSP). The government's commitment to reforms has been reinforced by its European aspirations, confirmed by the adoption in February 2005 of the EU-Moldova European Neighbourhood Policy (ENP) Action Plan.

The Moldova's trade balance deteriorated significantly in 2005 and 2006, owing in large part to the impact of higher energy prices. Energy (particularly fuel oil) imports rose in value terms by about 50 percent in 2005 (to about 5 percent of GDP), while export growth slowed modestly.

The economic recovery of Moldova is seriously hindered by the unsettled question of the Transdnistrian territories. Transdnistria has a considerable share from trade and the revenues arising from this, such as customs duties, taxes, do not flow into the budget of Moldova but remains entirely at disposal of the local establishment.

In 2006, trade balance worsened after Russia's decision to ban imports of wine and spirits from Moldova (which has not been extended to Transdnistria). Without the Russian market, the Moldovan wine industry, which contributes around 25 percent to the country's GDP, has entered a serious crisis which severely impacted on the Moldova's fragile economy and on reform process. According to data available, some 80 percent of all Moldova-produced wine was traditionally exported to Russia.

#### **4. Rationale of the amendments**

While entirely in agreement with the need to provide Moldova with exceptional MFA, the rapporteur has proposed several amendments in order to improve the clarity, transparency and accountability of the draft proposal. The amendments can be summarised along the following main elements:

- General Principles that should be explicitly addressed in the recitals (in line with the General principles): this exceptional macro-financial assistance should be strictly

complementary to the existing financing coming from (i) the *Bretton Woods* institutions, (ii) the Paris Club debt restructuring, (iii) budget provided by the bilateral donors and the Community under the *Food Security Programme*; At the same time it should offer value added vis-à-vis the IFIs programmes and resources, be coherent with the different areas of external action and other relevant Community policies, conditional on meeting certain requirements and carefully monitored and evaluated in order to prevent fraud and financial irregularities.

- its core objective should be explicitly explained: to cover a funding gap in the Moldova's balance of payments thus helping Moldova in overcoming the difficult economic juncture caused by a significant deterioration of Moldova's external environment (increase in energy prices, Russia's ban on imports of wine and spirits from Moldova);
- the conditionality associated with this particular grant should be explicitly spelled out in the Council decision, linked to specific benchmarks, and based also on progress in the implementation of the IMF-supported PRGF arrangement;
- internal auditors should be engaged to carry out an independent assessment of this particular instance of MFA;
- the Moldovan government should undertake all appropriate measures aiming at suppressing risk of frauds, corruption and fund's misuse;
- Moldova should be assisted to improve quality and food security in the wine-making sector since the Russian authorities explained the ban on wine imports by non-compliance with certain phytosanitary requirements.

The role of the European 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.

## **5. The role of the EP in MFA**

The rapporteur would like to stress, in line with previous EP 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 systems.

12.12.2006

## OPINION OF THE COMMITTEE ON BUDGETS

for the Committee on International Trade

on the proposal for a Council decision providing macro-financial assistance for Moldova (COM(2006)0579 – C6-0342/2006 – 2006/0184(CNS))

Draftsman: Esko Seppänen

### SHORT JUSTIFICATION

The purpose of the legislative measure is to provide macro-financial assistance to Moldova in the form of a grant amounting to a maximum of EUR 45 million with a view to supporting Moldova's balance of payments and the reserve build-up.

The proposed assistance will help Moldova alleviate the financial constraints on the implementation of its economic programme. It will also facilitate and encourage the authorities' efforts to implement reforms under the EU-Moldova European Neighbourhood Policy Action Plan and the Economic Growth and Poverty Reduction Strategy Paper. This assistance should be perceived in the wider perspective of Moldova's economic difficulties due to the changes in the external economic environment.

The proposed macro-financial assistance will be exceptional and limited in time, complementary to support from the Bretton Woods Institutions, bilateral donors and the Paris Club, and conditional, in particular, on progress in the implementation of the IMF-supported Poverty Reduction and Growth Facility arrangement.

The assistance will be made available in three instalments over a period of two years. It is to be financed from commitment appropriations in 2007, subject to final approval of the 2007 EC Budget, with payments taking place in 2007 and 2008. Indicative breakdown of the expenditure in the two years in question is presented in the table below:

(in EUR)

Year	2007	2008	Total
Commitments	45 000 000		<b>45 000 000</b>
Payments	30 000 000	15 000 000	<b>45 000 000</b>



The assistance will be financed under heading 4, from budget line 01 03 02 - Macroeconomic assistance. The appropriations available on this budget line for 2007, at the present stage of the budgetary procedure and subject to the final adoption of the budget, amount to EUR 58 200 000 in commitment appropriations.

The amendments proposed by the draftsman aim at ensuring that the duration of the assistance is modified, if necessary, by customary legislative procedures. If the Commission wants to prolong the period of validity of the legal base from two to three years, they can present a proposal to extend the legal base by one year. It seems inappropriate that this could be decided through a comitology committee.

## AMENDMENTS

The Committee on Budgets calls on the Committee on International Trade, as the committee responsible, to incorporate the following amendments in its report:

Text proposed by the Commission<sup>1</sup>

Amendments by Parliament

Amendment 1  
Article 1, paragraph 3

<p><b><i>3. The Community financial assistance shall be made available for two years starting from the first day after the entry into force of this decision. However, if circumstances so require, the Commission, after consultation of the Economic and Financial Committee, may decide to extend the availability period by a maximum of one year.</i></b></p>	<p><b><i>deleted</i></b></p>
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*Justification*

*If the Commission wants to prolong the period of validity of the legal base from two to three years, they can present a proposal to extend the legal base by one year. It seems inappropriate that this could be decided through a comitology committee. A period of duration for this Decision has been inserted in am. 2.*

Amendment 2  
Article 6

This Decision shall take effect on the day of its publication in the Official Journal of the European Union.

This Decision shall take effect on the day of its publication in the Official Journal of the European Union.

***It shall apply for a period of two years beginning on that date.***

*Justification*

*The amendment introduces a period of duration for this Decision, in accordance with am. 1.*

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<sup>1</sup> Not yet published in OJ.

## PROCEDURE

<b>Title</b>	Proposal for a Council decision on providing macro-financial assistance for Moldova
<b>References</b>	COM(2006)0579 – C6-0342/2006 – 2006/0184(CNS)
<b>Committee responsible</b>	INTA
<b>Opinion by</b> Date announced in plenary	BUDG 26.10.2006
<b>Enhanced cooperation – date announced in plenary</b>	
<b>Draftsman</b> Date appointed	Esko Seppänen 20.9.2004
<b>Previous drafts(wo)man</b>	
<b>Discussed in committee</b>	11.12.2006
<b>Date adopted</b>	11.12.2006
<b>Result of final vote</b>	+: 22 –: 0: 1
<b>Members present for the final vote</b>	Reimer Böge, Herbert Bösch, Simon Busuttil, Paulo Casaca, Gérard Deprez, Valdis Dombrovskis, Brigitte Douay, James Elles, Szabolcs Fazakas, Salvador Garriga Polledo, Ingeborg Gräßle, Nathalie Griesbeck, Catherine Guy-Quint, Anne E. Jensen, Janusz Lewandowski, Vladimír Maňka, Jan Mulder, Esko Seppänen, Nina Škottová, László Surján, Kyösti Virrankoski
<b>Substitute(s) present for the final vote</b>	Lidia Joanna Geringer de Oedenberg, Peter Šťastný
<b>Substitute(s) under Rule 178(2) present for the final vote</b>	
<b>Comments (available in one language only)</b>	...

## PROCEDURE

<b>Title</b>	Macrofinancial aid for Moldova
<b>References</b>	COM(2006)0579 – C6-0342/2006 – 2006/0184(CNS)
<b>Date of consulting Parliament</b>	18.10.2006
<b>Committee responsible</b> Date announced in plenary	INTA 26.10.2006
<b>Committee(s) asked for opinion(s)</b> Date announced in plenary	BUDG      AFET 26.10.2006    26.10.2006
<b>Not delivering opinion(s)</b> Date of decision	AFET 17.10.2006
<b>Enhanced cooperation</b> Date announced in plenary	
<b>Rapporteur(s)</b> Date appointed	Béla Glattfelder 22.11.2006
<b>Previous rapporteur(s)</b>	
<b>Simplified procedure – date of decision</b> Date of decision	
<b>Legal basis disputed</b> Date of JURI opinion	
<b>Financial endowment amended</b> Date of BUDG opinion	
<b>Parliament to consult European Economic and Social Committee – date decided in plenary</b>	
<b>Parliament to consult Committee of the Regions – date decided in plenary</b>	
<b>Discussed in committee</b>	18.12.2006
<b>Date adopted</b>	24.1.2007
<b>Result of final vote</b>	+:    26 -: 0:
<b>Members present for the final vote</b>	Francisco Assis, Jean-Pierre Audy, Enrique Barón Crespo, Daniel Caspary, Christofer Fjellner, Béla Glattfelder, Jacky Henin, Syed Kamall, Sajjad Karim, Erika Mann, David Martin, Javier Moreno Sánchez, Caroline Lucas, Georgios Papastamkos, Peter Šťastný, Robert Sturdy, Gianluca Susta, Johan Van Hecke, Zbigniew Zaleski
<b>Substitute(s) present for the final vote</b>	Panagiotis Beglitis, Małgorzata Handzlik, Jens Holm, Jörg Leichtfried, Eugenijus Maldeikis
<b>Substitute(s) under Rule 178(2) present for the final vote</b>	Ignasi Guardans Cambó, Pia Elda Locatelli
<b>Date tabled</b>	26.1.2007
<b>Comments (available in one language only)</b>	