Macro-financial assistance (MFA) to third countries: general provisions

2011/0176(COD) - 04/07/2011 - Legislative proposal

PURPOSE: to lay down general provisions for Macro-Financial Assistance to third countries.

PROPOSED ACT: Regulation of the European Parliament and of the Council.

BACKGROUND: since its launch in 1990, Macro-Financial Assistance (MFA) has been used to grant financial assistance of a macroeconomic nature to third countries that are experiencing short-term balance-of-payments difficulties. A total of 55 MFA decisions benefiting 23 countries have so far been approved, with total commitments amounting to EUR 7.4 billion, in the form of grants and loans.

However, some of its features tend to reduce its effectiveness and transparency. In particular, MFA is currently subject to case-by-case legislative decisions, i.e. the launch of each individual MFA operation with a country in crisis requires a separate legislative decision.

With the proposed Framework Regulation, the Commission intends to create a formal legal instrument for MFA to third countries. The primary objective is to **make MFA more effective**

by streamlining its decision-making process. As highlighted by the global financial crisis, dealing effectively with macroeconomic and financial emergency situations requires a crisis response instrument that can be deployed quickly and efficiently. This calls for a decision-making process that avoids long procedures and delays.

IMPACT ASSESSMENT: no impact assessment was carried out.

LEGAL BASIS: in contrast with the situation under the EC Treaty, the article of the TFEU governing economic and financial cooperation with third countries (Article 212 TFEU) includes MFA. This article has formed the legal basis for the MFA decisions adopted since the entry into force of the Lisbon Treaty. However, if the recipient country of MFA is a developing country, the decision would be adopted on the basis of Article 209 TFEU, which governs the EU's development cooperation. As the proposed Regulation provides the framework for future MFA operations in crisis-hit third countries, it has the same legal basis as individual country-specific post-Lisbon MFA decisions, i.e. Articles 209 and 212 TFEU.

CONTENT: the draft Regulation lays down general provisions for the granting of macro-financial assistance to eligible third countries and territories as set out in the draft Regulation. The main provisions of the Regulation are as follows:

(1) Decision-making process: under the proposed Framework Regulation, the Commission would submit draft country specific MFA decisions to a committee of Member State representatives. The Committee would deliver an opinion in accordance with the examination procedure established by the comitology regulation that entered into force on 1 March 2011. This decision-making process would replace the current lengthier case-by-case legislative decisions for MFA. In line with the comitology regulation, the Committee would be composed of representatives of the Member States and chaired by the Commission, with the chair not having the right to vote.

The procedure would be as follows: the Commission would submit to the Committee draft Commission decisions granting MFA to a third country ("draft implementing acts"). In case of a positive opinion by the

Committee (adopted by a qualified majority of the representatives of the Member States) on the proposed decisions, the Commission would adopt them. In case of a negative opinion of the Committee (also adopted by a qualified majority of the representatives of the Member States), the Commission would not adopt them, although it could refer them to the appeal committee or present amended drafts. Lastly, if no opinion was delivered, the Commission could still adopt the draft decisions, unless a simple majority of the Committee's members opposed them.

Once a decision to provide assistance to a third country has been adopted in accordance with the procedure described so far, the Commission would implement the MFA operation. The

Memorandum of Understanding laying down the policy measures associated with the assistance would be adopted by the Commission, subject to the opinion of the Committee. For this purpose, the Committee would act in accordance with the advisory procedure since these Memoranda have no budgetary implications, or implications for third countries, beyond those of the decision granting the assistance. Once a Memorandum of Understanding has been adopted, the Commission would decide on the release of the assistance subject to a satisfactory implementation of the economic programme supported by the IMF and of the policy measures agreed between the EU and beneficiary country.

As foreseen in Articles 10 and 11 of Regulation (EU) 182/2011, the European Parliament and the Council would have access to the documents concerning the proceedings of the Committee and the right to challenge draft implementing acts submitted by the Commission, should either of them consider that these go beyond the implementing powers provided for in

the Framework Regulation.

Guidelines for MFA operations: aside from the changes to the decision-making process, the Framework Regulation would also formalise and, where appropriate, update the Genval criteria that guide MFA operations:

- **Exceptionality**: MFA is exceptional in nature, mobilised on a case-by-case basis to help the recipient country deal with short-term balance-of-payments or budget difficulties. It is to be discontinued once the country can satisfy its external financing needs through other sources.
- **Geographical delimitation**: according to the Genval criteria, MFA is reserved for third countries with close political and economic links to the EU. In 2002, the Council specified that is meant to cover candidate and potential candidate countries, the three European countries of the CIS (Belarus, Moldova and Ukraine) and the countries concerned by the Barcelona process (i.e. countries having signed, or expected to sign, Euro-Mediterranean Association Agreements). Other third countries may in exceptional circumstances also become eligible. The Framework Regulation defines, as countries and territories eligible for MFA, the candidate and potential candidate countries, all countries and territories covered by the European Neighbourhood Policy (including those in the South Caucasus: Armenia, Azerbaijan and Georgia), as well as other third countries in exceptional and duly justified circumstances. Such other countries must be politically, economically and geographically close to the EU.
- **Political pre-conditions**: in line with the EU's fundamental values, a potential recipient country must have in place effective democratic institutions and mechanisms, including multi-party parliamentary systems, and respect human rights and the rule of law.
- **Complementarity and burden sharing**: MFA operations are contingent on the existence and satisfactory implementation of an IMF-supported programme in the recipient country entailing the use of IMF funds. While reaffirming the principles of complementarity to IFI support and burden sharing with other donors, the Commission does not propose to include explicit ceilings for the share of the contribution made by EU MFA to covering the residual financing gaps of beneficiary countries.

- **Conditionality**: the launch of any MFA operation is conditional on the country having an IMF-supported programme in place that entails the use of IMF funds. In addition, the Commission, on behalf of the EU, agrees with the recipient country on a separate set of policy conditions. These conditions are laid down in a Memorandum of Understanding (MoU).
- **Financial discipline**: when MFA takes the form of a grant, the funds come from the EU budget. The amounts provided as MFA have to be consistent with the ceilings established for the relevant budget appropriations in the EU's multi-annual Financial Perspectives. When it takes the form of a loan, the Commission, on behalf of the EU, issues a bond in the capital markets that matches the financial terms agreed with the beneficiary country and on-lends the proceeds immediately. To cover against the risk of default by beneficiary countries, the EU bond is guaranteed by the Guarantee Fund, which is provisioned at a rate of 9% of the outstanding amount. In order to strengthen financial discipline and enhance the predictability of the instrument, the Framework Regulation proposes a more transparent approach for determining under what circumstances MFA should be provided in the form of a loan or a grant, or a combination of the two. In line with World Bank and IMF practice, the main criteria determining the form of the assistance are: the level of economic and social development (average income levels, poverty ratios); and debt sustainability, also in view of a country's capacity to repay.

BUDGETARY IMPLICATIONS: the proposed Framework Regulation in itself does not imply a change from the current practice regarding the number of MFA operations or the amounts granted in each of them. The number and scale of operations is determined by the frequency and severity of economic and financial crises, as is the case for any crisis response instrument. In any case, MFA will remain consistent with the current financial perspectives covering the period of 2007-13 and the budgetary appropriations foreseen therein.