# Procedure file

## Basic information

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| COD - Ordinary legislative procedure (ex-codecision procedure)<br>Regulation | 2011/0176(COD) | Procedure lapsed or withdrawn |
| Macro-financial assistance (MFA) to third countries: general provisions<br><br>Subject<br>6.20.07 Macro-financial assistance to third countries | | |

## Key players

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| European Parliament | | | |
| Council of the European Union | Council configuration | Meeting | Date |
| | Foreign Affairs | 3166 | 14/05/2012 |
| European Commission | Commission DG | Commissioner | |
| | Economic and Financial Affairs | REHN Olli | |

## Key events

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|---|---|---|---|
| 04/07/2011 | Legislative proposal published | COM(2011)0396 | Summary |
| 07/07/2011 | Committee referral announced in Parliament, 1st reading | | |
| 26/04/2012 | Vote in committee, 1st reading | | |
| 03/05/2012 | Committee report tabled for plenary, 1st reading | A7-0157/2012 | Summary |
| 14/05/2012 | Resolution/conclusions adopted by Council | | Summary |
| 24/05/2012 | Results of vote in Parliament | | |
| 24/05/2012 | Debate in Parliament | | |
| 24/05/2012 | Decision by Parliament, 1st reading | T7-0220/2012 | Summary |
| 08/05/2013 | Proposal withdrawn by Commission | | |

## Technical information

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| Procedure reference | 2011/0176(COD) |
| Procedure type | COD - Ordinary legislative procedure (ex-codecision procedure) |
| Procedure subtype | Legislation |
| Legislative instrument | Regulation |

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| Legal basis | Treaty on the Functioning of the EU TFEU 209-p1; Treaty on the Functioning of the EU TFEU 212 |
| Other legal basis | Rules of Procedure EP 159 |
| Stage reached in procedure | Procedure lapsed or withdrawn |
| Committee dossier | INTA/7/06475 |

## Documentation gateway

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| Legislative proposal | | COM(2011)0396 | 04/07/2011 | EC | Summary |
| Document attached to the procedure | | SEC(2011)0865 | 04/07/2011 | EC | Summary |
| Committee draft report | | PE483.802 | 07/03/2012 | EP | |
| Committee opinion | AFET | PE483.812 | 24/04/2012 | EP | |
| Committee report tabled for plenary, 1st reading/single reading | | A7-0157/2012 | 03/05/2012 | EP | Summary |
| Text adopted by Parliament, partial vote at 1st reading/single reading | | T7-0220/2012 | 24/05/2012 | EP | Summary |

## Additional information

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| National parliaments | IPEX |
| European Commission | EUR-Lex |

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

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.

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

This Staff Working Document accompanies the Commission?s proposal for a Framework Regulation for the EU Macro Financial Assistance (MFA) operations in third countries. It provides background information and discusses the main motivations for, and key features of, the proposed Regulation.

The document introduces the context, justification and main aims of the proposal. It explains the main purpose of the MFA instrument, its legal base and basic principles and the experience gathered since the instrument was introduced in the early 1990s. It assesses the main achievements of the MFA, as well as a number of shortcomings, drawing on the ex-post evaluations conducted on MFA operations, previous institutional reports and resolutions and analysis by the Commission staff on the average decision-making lags. It also discusses the implications of the changes in the legal basis for MFA introduced by the Lisbon Treaty, arguing that they strengthen the case for adopting a Framework Regulation and streamlining the decision-making process.

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

The Committee on International Trade adopted the report by Metin KAZAK (ALDE, BG) on the proposal for a regulation of the European Parliament and of the Council laying down general provisions for Macro-Financial Assistance to third countries.

The committee recommends that the position of the European Parliament in first reading following the ordinary legislative procedure should be to amend the Commission proposal. The main amendments are as follows:

Purpose of Union assistance: Members consider that Union macro-financial assistance should be used to provide exceptional financial assistance to third countries that have run into temporary balance of payment difficulties. Unlike other Union instruments providing direct support for its external policies (such as the Instrument for Pre-accession Assistance, the European Neighbourhood Instrument, the Development Cooperation Instrument), macro-financial assistance should not be used to provide regular financial support nor have as its primary aim supporting the economic and social development of the beneficiary countries. Nor should macro-financial assistance be used akin to conditional debt forgiveness grants.

Macro-financial assistance is also a tool of Union foreign policy and should serve to enhance the visibility and influence of the Union beyond its borders. Close involvement of the European External Action Service (EEAS) for the purpose of coordination and the consistency of Union external policy should be ensured throughout the whole macro-financial assistance operation.

Eligible countries: the text makes it clear that beneficiary countries must fulfil the conditionality criteria set out in the regulation. Third countries that play a determining role in regional stability and are of strategic importance for the Union, are eligible in exceptional and duly justified circumstances.

The report states that the Commission will be empowered to adopt delegated acts in respect of eligible countries and territories and granting assistance to particular countries and territories.

The Commission shall be empowered to adopt delegated acts to amend Points 1 and 2 of Annex I in order to update it following appropriate political decisions regarding countries' status as candidate or potential candidate countries or regarding the scope of the European Neighbourhood Policy.

Amount of the assistance: Members stipulate that the Union's contribution should be sufficient to guarantee that it brings Union added value and should not normally be below 20%.

Conditionality: the report notes that pre-condition for granting macro-financial assistance shall be that the recipient country respects effective democratic mechanisms, including multi-party parliamentary systems, the rule of law and respect for human rights. It adds that this assessment shall be entrusted to the EEAS in cooperation with the Commission and shall take into consideration the resolutions and reports adopted by the European Parliament concerning beneficiary countries. The assessment may identify policy recommendations as regards the strengthening of democratic institutions, human rights, transparency and the fight against corruption. This report shall be added to each individual delegated act. With a view to protecting Union democratic values and interests and reinforcing beneficiary countries' respect for fundamental rights, the Memorandum of Understanding shall include country specific recommendations that are consistent with Union external policies aimed at strengthening the rule of law, human and labour rights, transparency and combating corruption.

In addition, macro-financial assistance shall be conditional on the existence of an IMF programme entailing the use of IMF resources or that of another European or multilateral financial institution.

The disbursement of the assistance shall be conditional on a satisfactory track record of an IMF programme and of respect for the Genval political and value-based principles (to guide the EU's macro-financial assistance operations). It shall also be conditional on the implementation, within a specific time frame, of a series of clearly defined economic policy measures focusing on structural reforms, to be agreed between the Commission and the beneficiary country and to be laid down in a Memorandum of Understanding.

Procedure: the committee expanded on the procedure to be followed when a country requests assistance. The Commission shall be empowered to adopt delegated acts to establish and to amend Annex IIa in order to provide macro-financial assistance to a particular country or territory. In the delegated act the Commission shall, inter alia, stipulate the following: (a) in all cases, the beneficiary of the assistance, the total maximum amount of the assistance, the form of the assistance, and the availability period of the assistance; (b) in case of the decision to provide a loan, the amount, the maximum average maturity, and the maximum number of instalments of the macro-financial assistance; in case of the decision to provide a grant, the amount, and the maximum number of instalments. The decision to provide a grant shall be accompanied by a justification for the grant (or grant element) of assistance.

Following the adoption of the delegated act on granting macro-financial assistance, the Commission, in close cooperation with the EEAS, shall be empowered to adopt delegated acts, to agree in the Memorandum of Understanding the policy measures on conditionality.

Members stress the involvement of EEAS and stipulate that the EEAS shall verify at regular intervals, and without delay in the case of unforeseen developments, that the appropriate conditions continue to be met, and inform the Commission accordingly.

If the relevant conditions are not met, and the Commission temporarily suspends, reduces or cancels the disbursement of the assistance, and in case the suspension of the operation is lifted after consultation of the EEAS, the Commission shall inform the European Parliament and the Council of the reasons thereof.

Evaluation: Members insist that the Court of Auditors shall audit the financial management of the assistance.

Review: no later than 4 years after entry into force of the Regulation, and every four years thereafter, the Commission shall present to the European Parliament and the Council a report on the application of the Regulation which shall include a detailed overview of macro-financial assistance granted and shall be accompanied, if appropriate, by a legislative proposal for a review of the Regulation.

Non-expiry of the Regulation: the Commission proposed that the Regulation should only last until the end of 2013, and is thus meant to be transitional. Thereafter the Regulation would be replaced (or amended) by a new framework Regulation. Members consider that one framework regulation is sufficient and it does not make sense to approve a regulation for less than two years. Therefore, Members propose that the Regulation should be open-ended with the possibility for review every four years.

Delegated acts: as noted above, delegated acts will be used to grant assistance to beneficiary countries on a case by case basis. Provisions on the advisory and examination procedure have been deleted from the text.

Annex II a (new): Members propose the introduction of a new Annex II a which aims to specify the particular countries and territories receiving financial macro-assistance.

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

The Council expressed its opinion on EU Official Development Assistance (ODA).

In 2011, in the face of continued budgetary constraints owing to the ongoing crisis, the EU collective ODA decreased from EUR 53.5 billion in 2010 to EUR 53.1 billion. This EUR 400 million reduction in support to developing countries brings the EU ODA level to 0.42% of GNI, down from the 2010 outcome of 0.44% of GNI. Nevertheless, the EU has maintained its position as the biggest global ODA donor.

The Council stresses that ODA is an essential and catalytic element in the overall development financing available for developing countries and that the EU and its Member States remain committed to increase their collective aid spending to 0.7% of GNI by 2015.

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

The European Parliament decided to amend the proposal for a regulation of the European Parliament and of the Council laying down general provisions for Macro-Financial Assistance to third countries. It decided to postpone the vote on the draft legislative resolution to a later date.

The proposed amendments may be summarised as follows:

Purpose of Union assistance: Parliament considers that Union macro-financial assistance should be used to provide exceptional financial assistance to third countries that have run into temporary balance of payment difficulties. Unlike other Union instruments providing direct support for its external policies (such as the Instrument for Pre-accession Assistance, the European Neighbourhood Instrument, the Development Cooperation Instrument), macro-financial assistance should not be used to provide regular financial support nor have as its primary aim supporting the economic and social development of the beneficiary countries. Nor should macro-financial assistance be used akin to conditional debt forgiveness grants.

Macro-financial assistance is also a tool of Union foreign policy and should serve to enhance the visibility and influence of the Union beyond its borders. Close involvement of the European External Action Service (EEAS) for the purpose of coordination and the consistency of Union external policy should be ensured throughout the whole macro-financial assistance operation.

Eligible countries: the text makes it clear that beneficiary countries must fulfil the conditionality criteria set out in the regulation. Third countries that play a determining role in regional stability and are of strategic importance for the Union, are eligible in exceptional and duly justified circumstances.

The text states that the Commission will be empowered to adopt delegated acts in respect of eligible countries and territories and granting assistance to particular countries and territories.

The Commission shall be empowered to adopt delegated acts to amend Points 1 and 2 of Annex I in order to update it following appropriate political decisions regarding countries' status as candidate or potential candidate countries or regarding the scope of the European Neighbourhood Policy.

Amount of the assistance: Parliament stipulates that the Union's contribution should be sufficient to guarantee that it brings Union added value and should not normally be below 20%.

Conditionality: Parliament notes that pre-condition for granting macro-financial assistance shall be that the recipient country respects effective democratic mechanisms, including multi-party parliamentary systems, the rule of law and respect for human rights. It adds that this assessment shall be entrusted to the EEAS in cooperation with the Commission and shall take into consideration the resolutions and reports adopted by the European Parliament concerning beneficiary countries. The assessment may identify policy recommendations as regards the strengthening of democratic institutions, human rights, transparency and the fight against corruption. This report shall be added to each individual delegated act. With a view to protecting Union democratic values and interests and reinforcing beneficiary countries' respect for fundamental rights, the Memorandum of Understanding shall include country specific recommendations that are consistent with Union external policies aimed at strengthening the rule of law, human and labour rights, transparency and combating corruption.

In addition, macro-financial assistance shall be conditional on the existence of an IMF programme entailing the use of IMF resources or that of another European or multilateral financial institution.

The disbursement of the assistance shall be conditional on a satisfactory track record of an IMF programme and of respect for the Genval political and value-based principles (to guide the EU's macro-financial assistance operations). It shall also be conditional on the implementation, within a specific time frame, of a series of clearly defined economic policy measures focusing on structural reforms, to be agreed between the Commission and the beneficiary country and to be laid down in a Memorandum of Understanding.

Procedure: Parliament expanded on the procedure to be followed when a country requests assistance. The Commission shall be empowered to adopt delegated acts to establish and to amend Annex IIa in order to provide macro-financial assistance to a particular country or territory. In the delegated act the Commission shall, inter alia, stipulate the following: (a) in all cases, the beneficiary of the assistance, the total maximum amount of the assistance, the form of the assistance, and the availability period of the assistance; (b) in case of the decision to provide a loan, the amount, the maximum average maturity, and the maximum number of instalments of the macro-financial assistance; in case of the decision to provide a grant, the amount, and the maximum number of instalments. The decision to provide a grant shall be accompanied by a justification for the grant (or grant element) of assistance.

Following the adoption of the delegated act on granting macro-financial assistance, the Commission, in close cooperation with the EEAS, shall be empowered to adopt delegated acts, to agree in the Memorandum of Understanding the policy measures on conditionality.

Parliament stresses the involvement of EEAS and stipulates that the EEAS shall verify at regular intervals, and without delay in the case of unforeseen developments, that the appropriate conditions continue to be met, and inform the Commission accordingly.

If the relevant conditions are not met, and the Commission temporarily suspends, reduces or cancels the disbursement of the assistance, and in case the suspension of the operation is lifted after consultation of the EEAS, the Commission shall inform the European Parliament and the

Council of the reasons thereof.

Evaluation: Parliament insists that the Court of Auditors shall audit the financial management of the assistance.

Review: no later than 4 years after entry into force of the Regulation, and every four years thereafter, the Commission shall present to the European Parliament and the Council a report on the application of the Regulation which shall include a detailed overview of macro-financial assistance granted and shall be accompanied, if appropriate, by a legislative proposal for a review of the Regulation.

Non-expiry of the Regulation: the Commission proposed that the Regulation should only last until the end of 2013, and is thus meant to be transitional. Thereafter the Regulation would be replaced (or amended) by a new framework Regulation. Parliament considers that one framework regulation is sufficient and it does not make sense to approve a regulation for less than two years. Therefore, it proposes that the Regulation should be open-ended with the possibility for review every four years.

Delegated acts: as noted above, delegated acts will be used to grant assistance to beneficiary countries on a case by case basis. Provisions on the advisory and examination procedure have been deleted from the text.

Annex II a (new): Parliament proposes the introduction of a new Annex II a which aims to specify the particular countries and territories receiving financial macro-assistance.