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REPORT FROM THE COMMISSION

on the implementation of macro-financial assistance to third countries in 2012

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1. INTRODUCTION

The report provides a general overview of the implementation of the EU's macro-financial assistance (MFA) to third countries in 2012.

MFA, as part of the EU's external assistance framework, is an instrument designed for countries geographically, economically and politically close to the EU, addressing exceptional external financing needs in the form of balance of payments support. Its objective is to strengthen macroeconomic and financial stability in candidate and potential candidate countries and in countries in the European neighbourhood, while encouraging the implementation of appropriate structural reforms. It complements and is conditional on the existence of an adjustment and reform programme agreed with the IMF. MFA takes the form of either loans, for which the Commission borrows the necessary funds in capital markets and on-lends them to the beneficiary country, and/or, in specific circumstances, grants, financed by the EU budget.

The year 2012 was characterised by the continuous implementation of existing MFA operations, while no new MFA operation was approved by the two co-legislators, the Council and the European Parliament. At the same time, the co-legislators continued discussions on the new Framework Regulation on MFA, which was proposed by the Commission in July 2011, without however reaching an agreement. Eventually, in May 2013, the Commission decided to withdraw its proposal, as the agreement that was emerging between the two co-legislators meant that the objectives set by the Commission in its proposal would not have been met.

This report is prepared in accordance with the various Council and joint European Parliament and Council decisions regarding MFA operations. It follows the reports presented in the previous years. It is accompanied by a Commission Staff Working Document providing more detailed information on and analysis of the macroeconomic context and implementation of individual MFA operations.

2. BACKGROUND

2.1. Developments over the last years

The global economic and financial crisis of 2008-2009, which profoundly affected the emerging economies of the European Union's neighbourhood, resulted in a surge of requests for financial support from the EU, including in the form of MFA. Four such programmes, in favour of Bosnia and Herzegovina, Serbia, Armenia and Georgia, were decided by the EU Council of Ministers at the end of 2009, and the earlier approved MFA for Kosovo[1] was extended by one year in 2009. In 2010, two more programmes, in favour of Ukraine and the Republic of Moldova, were decided by EU co-legislators – this

[1] This designation is without prejudice to positions on status, and in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

time, following the entry into force of the Lisbon treaty, jointly by the Council and the Parliament. The operations for Georgia and Kosovo were finalised in 2010. In 2011 and early 2012, the Commission completed the implementation of MFA programmes for Serbia, Armenia and Moldova, and continued the preparations for the implementation of the programmes for Bosnia and Herzegovina and Ukraine.

The overall economic situation in 2010 and early 2011 improved significantly and somewhat eased the pressure on the balance of payments position of MFA eligible countries. Therefore, only two new proposals were adopted by the Commission in 2011: one for Georgia in January 2011 and one for the Kyrgyz Republic in December 2011. However, the adoption of the decisions on these proposals has been delayed by disagreements between Parliament and Council over the procedures to be used for their implementation. More concretely, the two co-legislators disagree over the procedure to follow for the adoption of the Memorandum of Understanding (MoU) which, for each MFA operation, lays down the economic policy measures to be undertaken by the beneficiary county of MFA (see Section 2.3).

From the second half of 2011, financing conditions in global capital markets experienced a significant deterioration, partly reflecting the effects of the euro area's sovereign debt crisis. In addition, the Arab Spring and the resulting political and economic upheavals in the Arab Mediterranean partner countries[2] put heightened pressure on the budgets and the external positions in these economies. These developments led to an increased demand for MFA in 2012. A first case was the request by the Egyptian Government for a MFA of EUR 500 million; initially transmitted in June 2011 and renewed in February and November 2012. A second case was the request by the Jordanian authorities in December 2012 for MFA support in the form of loans for up to EUR 200 million. After estimating, in liaison with the IMF, Jordan's residual external financing needs, the Commission adopted in April 2013 a proposal for a decision by the European Parliament and the Council providing MFA to Jordan of up to EUR 180 million in the form of loans, to be disbursed during 2013-14. In addition, Armenian authorities also sent a request for a new MFA operation in February 2013, which has been followed up by the Commission with the possibility of adopting a proposal later in 2013.

2.2. MFA Framework Regulation

As early as 2003, the European Parliament identified the lengthy decision-making process – decisions on individual MFA operations were taken on a case-by-case basis by the Council, after consultation of the Parliament – as one of the main shortcomings of MFA. Also, the Parliament stressed the need for a transparent legal basis for the instrument of MFA as a whole. Since the entry into force of the Lisbon Treaty on 1 December 2009, legislative decisions on individual MFA operations have been taken by the Parliament and the Council under the ordinary legislative procedure (co-decision), resulting in an even lengthier decision-making process. This led to increased calls for streamlining the procedure for adopting MFA decisions. As highlighted by the financial

[2] For background information on economic developments in the Southern neighbours, see also "The EU's neighbouring economies: coping with new challenges", Occasional Papers no. 86 / November 2011, DG ECFIN, European Commission. A new Occasional Paper with the title "The EU's Neighbouring Economies: Managing economic policies amid increased global uncertainty" is scheduled to be published in mid-2013. (http://ec.europa.eu/economy_finance/publications/occasional_paper/2011/index_en.htm).

and sovereign debt crisis, dealing effectively with macroeconomic and financial emergency situations requires a crisis response instrument that can be deployed quickly and efficiently.

Responding to these developments, the Commission adopted on 4 July 2011 a proposal for a Framework Regulation laying down general provisions for Macro-Financial Assistance to third countries[3]. The main objectives of the proposal are: (i) to make macro-financial assistance more effective through a swifter and more efficient decision-making process; (ii) to align the decision-making process with that of other financing instruments, mainly related to external relations; (iii) to formalise the rules governing the instrument and give the European Parliament co-ownership of them; and (iv) to update and simplify some of the rules.

Since its submission by the Commission in July 2011, the proposed Framework Regulation has been extensively discussed both in the Council and the Parliament. The adoption of the Framework Regulation by the two co-legislators has, however, been delayed by disagreements over procedural issues. The Parliament and the Council insisted on keeping the ordinary legislative procedure for decisions on individual MFA operations. In the view of the Commission this meant that none of the main objectives of the Commission proposal would have been met. In particular, decision-making would have become slower, more burdensome and unpredictable, instead of more expeditious, efficient and transparent. Also there would have been no overarching set of rules as the co-legislators could have deviated anytime from the Framework Regulation in subsequent MFA Decisions. Finally, the Commission had important constitutional concerns. Therefore, the Commission decided on 8 May 2013 to withdraw its proposal.

2.3 Overcoming the stalemate in the approval of new MFA operations

Since the entry into force of the new "Comitology Regulation"[4] on 1 March 2011, the European Parliament and the Council have been in a dispute over the Commission's proposals for providing MFA to Georgia and to the Kyrgyz Republic. While there is overall agreement on the substance of the proposals, the two institutions have different views on the comitology procedure to follow for the adoption of the Memorandum of Understanding (MoU). The MoU lays down the economic policy measures to be agreed between the Commission and the beneficiary country for the implementation of the MFA. The Parliament insists on using the Advisory Procedure (non-binding opinion by Member States), while the Council claims that the Examination Procedure (binding opinion by Member States) has to be used. The Commission has proposed various compromise options and the two sides have advanced towards a solution based on a threshold option. Discussions have taken place both in the context of the MFA Framework Regulation and in the context of the conciliation procedure for the MFA to Georgia. It can be expected that the Parliament and the Council will come to an agreement on this issue in the second quarter of 2013, which would open the door for the decisions on MFA to Georgia and the Kyrgyz Republic, as well as other forthcoming MFA operations.

[3] Commission proposal for a Regulation of the European Parliament and of the Council laying down general provisions for Macro-Financial Assistance to third countries - COM(2011) 396 final, 4.7.2011.

[4] Regulation (EC) No 182/2011 of the European Parliament and of the Council of 16 February 2011.

3. MACRO-FINANCIAL ASSISTANCE OPERATIONS IN 2012

3.1. Overview

In 2012, the MFA operation for Armenia adopted in 2009 was completed. The loan component of the second and last tranche amounting to EUR 39 million was disbursed to the Armenian authorities in February 2012. The first tranche and the grant part of the second tranche had been disbursed in 2011. This closed the EUR 100 million MFA operation, comprised of EUR 65 million in loans and EUR 35 million in grants.

With respect to the MFA to Moldova, consisting of a EUR 90 million grant, the Commission released the third and last tranche (EUR 30 million) in April 2012.

The implementation of the MFA to Ukraine, approved in 2010, which, together with the funds available from a previous operation approved in 2002, amounts to EUR 610 million in loans, was further delayed in 2012 due to the need to agree with the Ukrainian authorities on certain conditions of the Memorandum of Understanding (MoU) as well as the fact that the IMF programme had gone off-track and then expired in December 2012. An agreement on the MoU was reached in mid-2012 and the MoU was signed in the framework of a Ukraine-EU summit in February 2013. However, the first disbursement of this MFA operation remains subject to the Ukrainian authorities and the IMF agreeing on a new financial aid programme.

Regarding the MFA to Bosnia and Herzegovina, approved in 2009 (amounting to a total of EUR 100 million in loans), the validity of the Memorandum of Understanding and the Loan Agreement was extended by one year until November 2013. The first tranche of this operation, amounting to EUR 50 million, was disbursed in February 2013.

In 2012, the European Parliament and the Council discussed two legislative proposals for new MFA operations adopted by the Commission in 2011: the proposal to extend MFA to Georgia for EUR 23 million in loans and EUR 23 million in grants; and the proposal to extend an exceptional[5] MFA to the Kyrgyz Republic for EUR 15 million in loans and EUR 15 million in grants. The adoption of the decisions on these proposals has been delayed by a disagreement on a procedural issue, as explained in Section 2.3.

3.2. Individual operations in the beneficiary countries in 2012

3.2.1. Bosnia and Herzegovina

The macro-financial assistance to Bosnia and Herzegovina of up to EUR 100 million in the form of loans was approved by the Council back in 2009[6]. The relevant Memorandum of Understanding (MoU) and Loan Agreement were signed in November 2010, while - partly because of the lengthy government formation after the October 2010 general elections - the Loan Agreement was ratified by the Bosnian Presidency only in August 2011. No MFA funds were disbursed during 2012 as a result of the authorities' failure to meet the conditionality agreed in the MoU. Following the agreement of a new Stand-By-Arrangement with the IMF and the authorities' steps towards improving public finance sustainability, the European Commission extended the availability period of the MFA to Bosnia and Herzegovina by one additional year, until 7 November 2013. The

[5] "Exceptional" in the sense that it is granted to a country outside the normal geographical scope of MFA, i.e. candidate/potential candidate and neighbourhood countries.
[6] Council Decision 2009/891/EC of 30 November 2009.

disbursement of the first instalment under the MFA, in the amount of EUR 50 million, took place in February 2013. The disbursement of the second instalment is foreseen to take place in the second half of 2013, should the IMF programme remain on track and all policy conditions as laid down in the MoU be fulfilled.

After a mild recovery from the initial effects of the global economic crisis (GDP growth reached 1% in 2010 and 2011), the economy entered into negative territory again in 2012 with real GDP contracting by 0.7%, negatively affected by the worsened external environment. The external imbalances are on the rise again with the current account deficit reaching 9.4% of GDP. Against the background of rising macroeconomic imbalances and growing concerns for macroeconomic stability, the authorities agreed in September 2012 on a new Stand-By Arrangement with the IMF of about EUR 400 million.

3.2.2. Armenia

In early 2012, the Commission completed the implementation of the MFA programme for Armenia, decided in late 2009[7]. Under this programme, the EU supported Armenia for a total of EUR 100 million (EUR 35 million in grants and EUR 65 million in loans), which was disbursed in two tranches. The assistance was extended in the context of an economic reform programme supported by a three-year financing arrangement with the IMF under the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF), approved by the IMF Executive Board in June 2010. The first MFA instalment, amounting to EUR 40 million, was released in June 2011, while the release of the second instalment, amounting to EUR 60 million, took place in December 2011 for the grant element and February 2012 for the loan element[8].

In 2012 the Armenian economy continued to strengthen. GDP growth rate reached 7.2% in 2012, after 4.7% in 2011. The strengthening of growth in 2012 was mainly driven by an increase in private consumption (plus 10.2% in 2012, compared to 2.4% in 2011) and net exports. Also, favourable weather conditions translated in a growing agricultural production. On the negative side, investments, both domestic and foreign, continued to weaken, pointing to slowing growth prospects for Armenia. In view of the economy's more negative outlook, the Armenian authorities submitted to the Commission a request for a new MFA programme in February 2013. The assistance intended to complement the funds provided under a new financing arrangement with the IMF, under preparation. The request is being considered by the Commission.

3.2.3. Georgia

In the aftermath of the August 2008 military conflict with Russia, the EU pledged at a donors' conference a comprehensive package of up to EUR 500 million to support Georgia's economic recovery. This included two potential MFA programmes, amounting to EUR 46 million each. The first one was successfully completed in 2009-2010. For the second part, the Commission adopted a proposal in January 2011. However, the adoption of the legislative decision on this programme has been delayed by disagreements

[7] Council Decision 2009/890/EC of 30 November 2009.

[8] For a detailed account of the implementation of the programme please see the Commission's Report on the implementation of MFA in 2011 - COM(2012) 339 final, 28.6.2012.

between the European Parliament and the Council over the procedure to be used for the adoption of the Memorandum of Understanding (see Section 2.3).

The main objectives of the EUR 46 million MFA proposal (to be provided equally in loans and grants) are to cover Georgia's external financing needs and to alleviate its budgetary financial needs, while supporting the country's fiscal consolidation and external stabilisation efforts and encouraging structural reforms. Even though Georgia recorded another year of strong economic growth in 2012 (a preliminary 6.1%)[9], its external vulnerabilities remain high, as evidenced by a double-digit current account deficit-to-GDP ratio, high gross external debt and declining FDI. These weaknesses, alongside an unsettled global environment, prompted the authorities to seek another IMF programme. A two-year arrangement with the Fund – a combination of a Stand-By Arrangement (SBA) and of a Stand-By Credit Facility (SCF) – was therefore approved in April 2012. The precautionary nature of the agreement implies that the MFA programme can be activated only if Georgia actually draws on the IMF programme.

3.2.4. The Republic of Moldova

In 2012, the Commission completed the implementation of the MFA programme for the Republic of Moldova decided by the European Parliament and the Council in October 2010[10]. Under this programme, the EU provided to Moldova an MFA amounting to EUR 90 million, in grants, to be disbursed in three tranches. The assistance was extended in the context of an economic programme supported by a three-year EFF-ECF financing arrangement approved by the IMF Executive Board in January 2010. The two first tranches, amounting to respectively EUR 40 and 20 million, were disbursed in December 2010 and September 2011. The payment of the third MFA tranche (EUR 30 million) was made in April 2012[11].

Economic growth slowed significantly in 2012 as a result of negative external shocks including weaker export demand from the EU and adverse weather conditions - a harsh winter and a summer drought - that hit the large agricultural sector. Negative GDP growth at -0.8%[12] was registered for 2012, which shows a significant slowdown compared to 6.8% in 2011. On the external front, the current account deficit decreased slightly reflecting in part the slowdown in imports due to the weakened domestic demand, but also the growing surplus in net income and net unilateral transfers, a reflection of resilient remittances. Notwithstanding these positive developments, the current account deficit is still large and will remain the main source of vulnerability in 2013. Another source of vulnerability is the high, and growing, external indebtedness, which edged up to 84.5% of GDP in 2012 from 77.6% at the end of 2011. These external risks were somewhat mitigated by the central bank's market interventions in the second and third quarters to replenish the official reserves.

The final programme review of the EFF-ECF financing arrangement with the IMF, originally planned for January 2013 and later postponed to April 2013, could not be completed due to the political crisis that started with the fall of the coalition government

[9] The territories of Abkhazia and South Ossetia are excluded from the analysis due to a lack of reliable data.
[10] Decision No 938/2010/EU of the European Parliament and of the Council of 20 October 2010.
[11] See footnote 5.
[12] The data excludes the breakaway territory of Transnistria for which reliable figures are not available.

in February 2013 and was postponed to July 2013. The prospects for a successor arrangement were not clear at the time of publication.

3.2.5. Ukraine

Against the backdrop of a persistent external financing gap and in order to support the economic reform process in the country, the EU adopted in July 2010 a decision providing up to EUR 500 million of MFA to Ukraine[13]. In combination with the EUR 110 million still available from the MFA decision adopted in 2002[14], this implied a potential MFA package of up to EUR 610 million. The Memorandum of Understanding (MoU) laying down the policy conditions for the disbursement of the assistance and the Loan Agreement (LA) were signed in March 2013. The MoU contains policy measures in the key areas of public finance management, trade and taxation, energy sector reform and the harmonisation of financial regulation. Disbursements of MFA in 2013 are conditional on the resumption of drawings of funds by Ukraine under a new IMF support arrangement, which Ukrainian authorities are in the process of negotiating with the IMF after the expiration in December 2012 of the previous USD 15.4 billion SBA. For the second and third tranches, disbursement will be conditional, in addition, on satisfactory progress in the implementation of the structural policy conditions laid down in the MoU.

In 2012, real GDP growth in Ukraine decelerated to 0.2% compared to 5.2% in 2011, mainly as a result of a deteriorating external environment, a lower demand for Ukrainian metal exports as well as low investment levels. Despite the slowdown in growth and deflationary tendencies, the National Bank of Ukraine kept monetary policy tight in an attempt to fend-off devaluation pressures on the local currency. The fiscal deficit widened to an estimated 6% of GDP in 2012, after 4.2% in 2011, mainly due to fiscal loosening ahead of the parliamentary elections and the rising level of energy subsidies. External vulnerabilities are growing as the current account deficit increased to 8.4% of GDP and foreign exchange reserves declined by almost one fourth in 2012. Progress on structural reforms has been mixed, with some progress in the field of energy policy, whereas public finance management reform has stalled and the public procurement system still lacks transparency.

3.2.6. The Kyrgyz Republic

In the wake of ethnic and political violence which resulted in a sharp drop in economic activity and a sizable external financing gap, the EU pledged to support the recovery of the Kyrgyz Republic at an international donor conference in Bishkek in July 2010. This led to the adoption by the Commission of a proposal for a decision to provide to the Kyrgyz Republic MFA of up to EUR 30 million (EUR 15 million in loans and EUR 15 million in grants) on 20 December 2011. This exceptional MFA operation, i.e. outside the normal geographical scope of MFA, was justified by the strength of the pro-democratic political and economic reform momentum in the country and by its position in a region of economic and political importance for the EU. In parallel, the IMF agreed with the Kyrgyz authorities in June 2011 on a three-year programme, supported by an Extended Credit Facility (ECF) arrangement. However, the adoption of the decision on a MFA operation to the Kyrgyz Republic has been delayed by disagreements between the

[13] Decision No 646/2010/EU of the European Parliament and of the Council of 7 July 2010.
[14] Council Decision 2002/639/EC of 12 July 2012.

two co-legislators over the procedure to be used for the adoption of the Memorandum of Understanding (see Section 2.3).

In 2012, economic growth of the Kyrgyz Republic was limited to 0.9%, significantly below earlier forecasts, as production in the gold-mining sector sharply contracted because of geological issues. Excluding the gold-mining sector, growth reached about 4.8% in 2012, driven by manufacturing, construction and services, gradually recovering from the sharp slowdown in 2009 and 2010 caused by global recession and internal political and ethnic conflicts. The current account deficit widened to an estimated 9% of GDP in 2012, reflecting a decline in gold exports and higher oil prices. Despite a tight monetary policy, inflation reached 7.5% by the end of 2012 on account of rising international fuel and food prices. The overall fiscal deficit declined to an estimated 5.3% of GDP (excluding energy infrastructure projects), mostly thanks to a stronger revenue collection. Progress under the ECF programme has been sustained so far, with Kyrgyzstan meeting all end-June 2012 quantitative programme targets and all but one structural benchmarks.

4. ENSURING A PROPER USE OF MFA FUNDS: OPERATIONAL ASSESSMENTS AND EX-POST EVALUATIONS

4.1. Operational assessments

In line with the requirements of the EU Financial Regulation, the Commission, with the help of external consultants, carries out operational assessments (OAs) to obtain reasonable assurances on the functioning of administrative procedures and financial circuits of the recipient countries.

The OAs focus on Public Finance Management (PFM) systems, in particular on the procedures and the organisation of the ministry of finance and the central bank and, more specifically, on the management of the accounts receiving EU funds. In addition, special attention is given to how external audit institutions function, their independence, their work programmes and the effectiveness of their controls. In the most recent OAs, an analysis of existing procedures in the procurement agencies was also undertaken. In 2012, the Commission finalised the OA in the Kyrgyz Republic.

In view of possible new MFA operations in Egypt and Jordan, an OA was conducted in these two countries in February and April 2013, respectively.

4.2. Ex-post evaluations

In line with the EU Financial Regulation, the Commission conducts ex-post evaluations of MFA programmes to assess the impact of MFA. The main objectives of ex-post evaluations are: (i) to analyse the economic impact of MFA on the economy of the recipient country and in particular on the sustainability of its external position, and (ii) to assess the added value of the EU intervention. The conclusions of these evaluations are used to strengthen MFA management practices.

The two ex-post evaluations launched in 2011 to evaluate the MFA operations with Lebanon and Georgia were completed in 2012. A new ex-post evaluation of the MFA support to Kosovo was initiated and completed in 2012[15].

The ex-post evaluation on the Lebanon MFA programme concluded that, while the objective of macro-economic stabilisation of the country was largely met, the impact on structural reforms had been limited, as a consequence of a particularly complex and unstable political context.

In terms of impact of the MFA programme on Georgia's structural reforms, the ex-post evaluation concluded that, while significant progress had been achieved in the areas of budget preparation and execution, more work had to be done in the areas of internal control, audit, and in general transparency and accountability.

The conclusion of the ex-post evaluation on the Kosovo MFA programme was that its most important legacy was twofold: (i) it provided Kosovo's authorities with an additional tool to push for critically important reforms at home; and (ii) it lent international credibility to the Government of Kosovo in its early days.

The ex-post evaluations for the three MFA operations for Serbia, Moldova and Armenia that were recently completed will be conducted in 2013.

5. REQUESTS FOR ASSISTANCE AND FUTURE COMMISSION PROPOSALS; BUDGETARY SITUATION

The pipeline of MFA operations for 2013 includes: (i) two on-going programmes (Bosnia and Herzegovina and Ukraine); (ii) two programmes proposed by the Commission in 2011, whose implementation would start following the expected adoption of the decisions by the co-legislators (Georgia and the Kyrgyz Republic); and (iii) up to three new programmes, based on requests received from ENP countries so far (Egypt, Jordan, Armenia).

Regarding the implementation of the existing MFA operations, the release of the final instalment under the programme for Bosnia and Herzegovina, if confirmed, will take place not later than November. Under the programme for Ukraine, actual disbursements, including the release of the first instalment, are subject to an agreement with the IMF on a new financing arrangement, as well as compliance with MoU policy conditions.

The Commission also plans to start in 2013 the disbursements under the MFA programmes for Georgia and the Kyrgyz Republic, following the expected adoption of the corresponding legislative decisions by the European Parliament and the Council. The current plan is to release the first instalments under the programmes in 2013, and the second instalments in 2014. In the case of Georgia, as indicated, the release of MFA will only be possible if Georgia actually decides to draw on the SBA-SCF arrangement with the IMF, an arrangement which is currently treated as precautionary.

[15] All ex-post evaluations are available on DG ECFIN website: http://ec.europa.eu/economy_finance/evaluation/completed/index_en.htm

As mentioned above, Egypt renewed its request for a MFA of EUR 500 million in November 2012. The Commission is considering the adoption of a MFA proposal, which would be conditional on an agreement between the IMF and the Egyptian authorities on an IMF programme. The MFA is likely to consist of a loan of EUR 450 million coupled with a grant of EUR 50 million. The MFA would help to support Egypt's balance of payments and to strengthen reform efforts during a period of challenging political transition. Depending on the timing of the proposal and the decision, a first tranche could be paid in 2013 and the rest of the MFA in 2014.

In December 2012, the Jordanian authorities requested MFA support in the form of loans of up to EUR 200 million. In liaison with the IMF, the Commission has been estimating the residual external financing needs of Jordan and is considering presenting a proposal for MFA support of EUR 180 million in loans in 2013. In this case also, a first tranche disbursement may take place in 2013.

In addition, a new operation can be anticipated for Armenia, as a request for MFA support has been received by the Commission from the Armenian authorities in February 2013. It would follow the MFA programme completed in 2012 and would be aimed at helping the country cover the residual external financing gap foreseen for 2013-2014, complementing the resources made available by the IMF under a new financing arrangement, currently under preparation.

Finally, the current pipeline of MFA operations for 2014 includes a possible programme for Kosovo should a financing gap be clearly established. After the expiration of the previous programme in 2010, a new operation would respond to the conditional pledge made by the EU at the June 2008 donor conference on Kosovo, for an amount of up to EUR 100 million.

Table 1 below provides an overview of commitments and payments of MFA grants for 2011, 2012 and 2013 (indicative). The forecast for 2013 is of a very preliminary nature and will depend on various factors which are outside of the control of the Commission. The pipeline of grant operations for 2013 is broadly consistent with the budgetary ceilings for 2013. With regard to loans, the total outstanding amount for MFA lending operations was equal to EUR 545 million at the end of 2012. This sum is covered by the Guarantee Fund for external actions[16], which is maintained at 9% of the outstanding amount. The Fund covers not only MFA loans, but also Euratom loans and EIB loans to third countries and is provisioned from the EU Budget. For MFA lending operations foreseen in 2013, this would correspond to a provisioning of the Guarantee Fund of about EUR 72.3 million.

[16] For more information, please see the Report from the Commission to the European Parliament and the Council on guarantees covered by the general budget (issued semi-annually).

Table 1: MFA commitments and payments in 2012-2013 in EUR			
	2011	2012	2013 (indicative)
Commitment appropriations for grants in the budget	104.868.567	95.550.000	94.550.000
Commitments, total	393.476	498.316	88.550.000
OAs, PEFA studies, ex-post evaluations	393.476	498.316	550.000
MFA Georgia (proposed)			23.000.000
MFA Kyrgyz Republic (proposed)			15.000.000
MFA Egypt (possible new MFA)			50.000.000
MFA Armenia (possible new MFA)			TBD
Uncommitted budget allocations	104.475.091	95.051.684	n.a.
Payment appropriations for grants in the budget	88.552.647	79.050.000	56.339.890
Payments, total	55.236.767	30.325.812	44.497.057
OAs, PEFA studies, ex-post evaluations	236.767	325.812	497.057
MFA Armenia	35.000.000		
MFA Moldova	20.000.000	30.000.000	
MFA Georgia (proposed, first payment)			11.500.000
MFA Kyrgyz Republic (proposed, first payment)			7.500.000
MFA Egypt (possible, first payment)			25.000.000
MFA Armenia (possible, first payment)			TBD
Unused allocations for grant payments	33.315.880	48.724.188	
Disbursements of MFA loans, total	126.000.000	39.000.000	804.000.000
Armenia	26.000.000	39.000.000	
Serbia	100.000.000		
BiH (active)			100.000.000
Ukraine (active)			360.000.000
MFA Georgia (proposed)			11.500.000
MFA Kyrgyz Republic (proposed)			7.500.000
Other, including Egypt (possible), Jordan (possible), Armenia (TBD)			325.000.000