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COMMISSION STAFF WORKING DOCUMENT

EVALUATION

of Decisions (EU) 2017/1565, (EU) 2018/598, and (EU) 2018/947

the European Parliament and of the Council
Providing Macro-financial assistance to Moldova, Georgia and Ukraine (2017-2020)

{SWD(2024) 239 final}

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Glossary

Term or acronym	*Meaning or definition*
AA	Association Agreement
BRG	Better Regulation Guidelines
CSO	Civil Society Organisation
DCFTA	Deep and Comprehensive Free Trade Area
DG ECFIN	Directorate-General for Economic and Financial Affairs
DG NEAR	Directorate-General for European Neighbourhood Policy and Enlargement Negotiations
DSA	Debt Sustainability Analysis
EEAS	European External Action Service
EP	European Parliament
EU	European Union
FDI	Foreign Direct Investment
IFIs	International Financial Institutions
IMF	International Monetary Fund
MFA	Macro-Financial Assistance
MoU	Memorandum of Understanding
PFM	Public Finance Management
SIA	Social Impact Assessment
TFEU	Treaty on the Functioning of the European Union
ToR	Terms of Reference

1. INTRODUCTION

Purpose and scope of the evaluation

Macro-Financial Assistance (MFA) is a form of European Union (EU) financial aid for partner countries experiencing a balance-of-payments crisis, helping to restore their external stability and to bring their economies back to a sustainable path. It takes the form of medium-/long-term loans or grants (or an appropriate combination thereof) and complements financing provided by the international community in the context of a financing arrangement with the International Monetary Fund (IMF). Disbursements are conditional on the implementation of policy reforms agreed between the Commission, on behalf of the Union, and the beneficiary country and laid down in a 'Memorandum of Understanding' (MoU).

Since the entry into force of the Treaty on the European Union and the Treaty on the Functioning of the European Union (TFEU) on 1 December 2009, Article 212 TFEU (and Article 209 TFEU for developing countries) governs MFA. In turn, each MFA operation is authorised by the Council and the European Parliament (EP) on the basis of a dedicated Commission proposal, in accordance with the ordinary legislative procedure (in line with Article 294 TFEU). In urgent cases, MFA operations can be authorised by the Council alone pursuant to Article 213 TFEU.

In accordance with Article 212 TFEU, the EP and the Council adopted MFA of EUR 100 million to the Republic of Moldova[1] (called MFA II hereafter) in September 2017, EUR 45 million to Georgia[2] (MFA III) in April 2018 and EUR 1 billion to Ukraine[3] (MFA IV) in July 2018. These operations, which followed previous MFA EU interventions in the respective countries, aimed to address balance-of-payments difficulties resulting from the significant regional repercussions in the wake of Russia's illegal annexation of Crimea in 2014 and the subsequent military aggression in eastern Ukraine but also some specific country-related factors. Moldova, for example, faced an economic setback following a major bank fraud scandal in 2014 that undermined trust in the country's financial institutions and economic governance and thus affected economic stability. Georgia was mainly exposed to the elevated regional instability through its structurally weak external position, including a relatively low level of foreign exchange reserves and high foreign-currency denominated debt.

MFA II to Moldova was implemented between November 2017 and July 2020 when the availability period of the operation expired. It was linked to the fulfilment of 28 specific policy conditions, covering five reform areas (see Box 1 for the reform areas covered by each of the three MFA operations). Four of the conditions had not been fulfilled at the expiry of the availability period of the operation. MFA III to Georgia was implemented between November 2018 and November 2020 and contained eleven structural reform

[1] https://eur-lex.europa.eu/eli/dec/2017/1565/oj
[2] https://eur-lex.europa.eu/eli/dec/2018/598/oj
[3] https://eur-lex.europa.eu/eli/dec/2018/947/oj

actions across four areas. MFA IV to Ukraine, which was implemented between November 2018 and June 2020, included 18 structural reform actions in four areas.

Box 1. Reform areas covered by the MFA operations for Moldova, Georgia and Ukraine

Moldova

- public sector governance;
- fight against corruption and money laundering;
- business climate and implementation of the Deep and Comprehensive Free Trade Area (DCFTA) agreement with the EU;
- energy sector;
- financial sector.

Georgia

- public finance management (PFM);
- financial sector;
- social and labour market;
- business environment.

Ukraine

- PFM;
- governance and fight against corruption;
- sector reforms and state-owned enterprises (SOEs);
- social policies.

Source: Commission services

In line with the requirements set out in the Better Regulation Guidelines (BRG)[4] and with the corresponding stipulations in the underlying Decisions as adopted by co-legislators, MFA operations are subject to an ex-post evaluation. To this end and in the context of the above-mentioned MFA operations to Moldova, Georgia and Ukraine, the Directorate-General for Economic and Financial Affairs (DG ECFIN) engaged an external contractor to complete a single independent assessment for all three interventions combined. The external study, which informs the present Staff Working Document (SWD), was undertaken by ICF S.A., in cooperation with Cambridge Econometrics, ISET Policy Institute, the Institute for Economic Research and Policy Consulting and individual experts. It was concluded in April 2024[5].

In line with a recent evaluation, which jointly covered two MFA operations to Tunisia and to Jordan[6], the MFA operations in Moldova, Georgia and Ukraine seemed suitable for a joint evaluation based on the key trigger for the interventions, their regional coverage, partly comparable conditionality, and overlapping time frames of implementation. Therefore, the joint evaluation also assessed the regional impact of the three MFA operation in the EU's Eastern Neighbourhood. More generally, the overall aim of the exercise was to assess the contribution of the respective MFA operations to the macroeconomic and structural adjustment of the three beneficiaries. By analysing the

4 https://data.consilium.europa.eu/doc/document/ST-14004-2021-INIT/en/pdf

5 Annex I of the present SWD provides a detailed timeline of the evaluation.

6 https://commission.europa.eu/system/files/2022-10/staff_working_document_swd2022_300_final.pdf

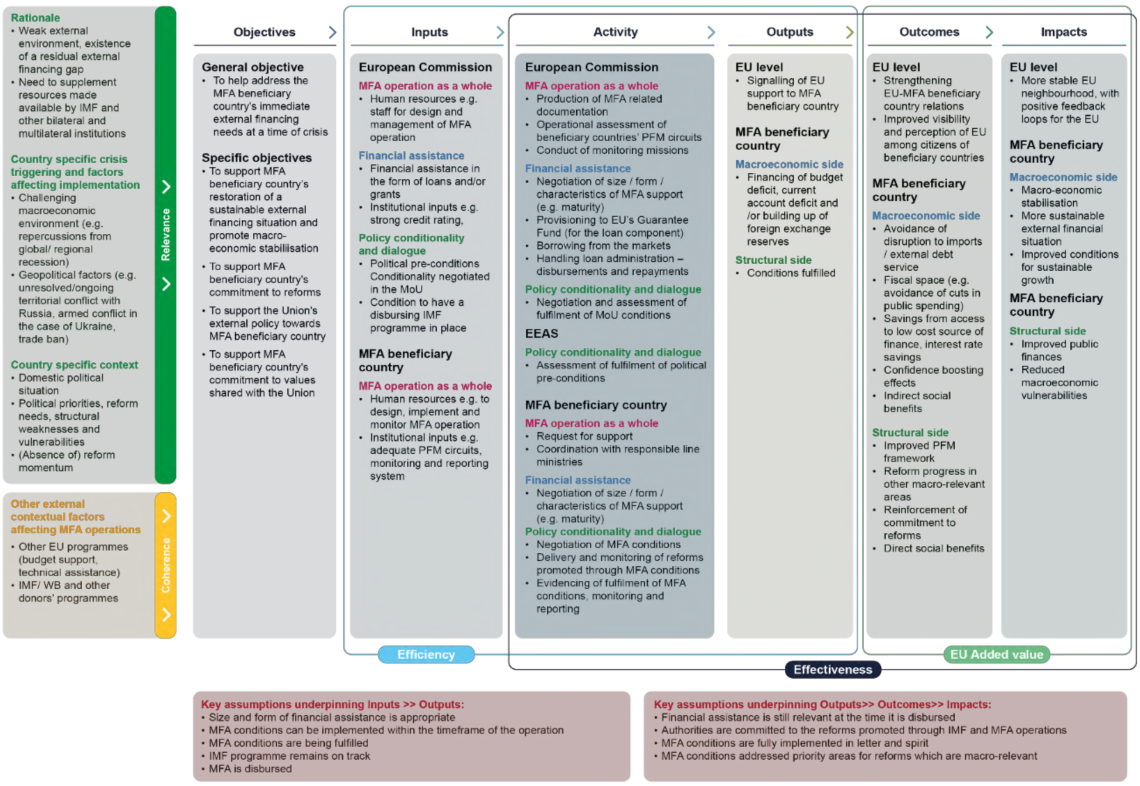
relevance, effectiveness, efficiency, EU added value and coherence of the three operations, the evaluation examined:

1. whether the ex-ante considerations determining the design and terms of the operations were appropriate, taking due account of the economic, political and institutional context; and
2. whether the outcome met their intended objectives.

The consultants designed the external study to respond to a specific set of quantitative and qualitative evaluation criteria and questions, as set out in the Terms of Reference (ToR). In terms of its methodological approach, the evaluation rests on three pillars:

1. A theory-based approach, which involves making explicit the underlying theory of change (Figure 1) for the MFA operations in Moldova, Georgia and Ukraine, i.e. how the MFA interventions and conditions were expected to contribute to MFA objectives, and then qualitatively testing that theory to draw conclusions about whether and how the MFA contributed to the observed results. The theory of change was developed based on desk research and validated through key informant interviews;
2. The use of mixed methods (a combination of both quantitative and qualitative research methods) to facilitate a deeper understanding of the evaluation issues and to build a rich and comprehensive evidence base for the evaluation; and
3. Triangulation, i.e. the information and data collected from a range of different sources collectively provides answers to each evaluation question.

Figure 1. Theory of Change for the MFA instrument



Source: Study supporting the ex-post evaluation on Macro-Financial Assistance operations to the Eastern Partnership countries of Moldova, Georgia and Ukraine (2017-2020), Final report, April 2024, ICF

While a number of limitations were experienced during the preparation and completion of the study, they did not affect the robustness or reliability of the evaluation conclusions, which serve as a useful basis for this document and further reflections on the assistance. The limitations and mitigating factors are further detailed in Annex II (Methodology and Analytical models).

2. WHAT WAS THE EXPECTED OUTCOME OF THE INTERVENTION?

2.1 Description of the intervention and its objectives

As of 2013[7], the Joint Declaration adopted by the EP and the Council provides the guiding principles for MFA decisions, detailing the general eligibility criteria and principles related to the conditionality of the instrument. Principle 1 of the Joint Declaration states that MFA is an exceptional financing instrument of untied and undesignated balance-of-payments support to eligible third countries and territories. Its objectives are:

a) to restore a sustainable external finance situation for eligible countries and territories facing external financing difficulties;

b) to underpin the implementation of a policy programme that contains strong adjustment and structural reform measures designed to improve the balance-of-payments position, in particular over the programme period; and

c) to reinforce the implementation of relevant agreements and programmes with the European Union.

Russia's illegal annexation of Crimea in 2014, and the subsequent military aggression in eastern Ukraine, brought about profound economic shocks that reverberated through the EU’s Eastern Neighbourhood region. The economies of Moldova, Georgia, and Ukraine were all exposed, although to varying degrees, to the military aggression through a decline in consumer and investor confidence, drop in regional trade and a fall in remittances, which are of high importance for all three countries. These external shocks were aggravated by existing domestic vulnerabilities such as elevated political volatility, governance problems as well as significant structural bottlenecks.

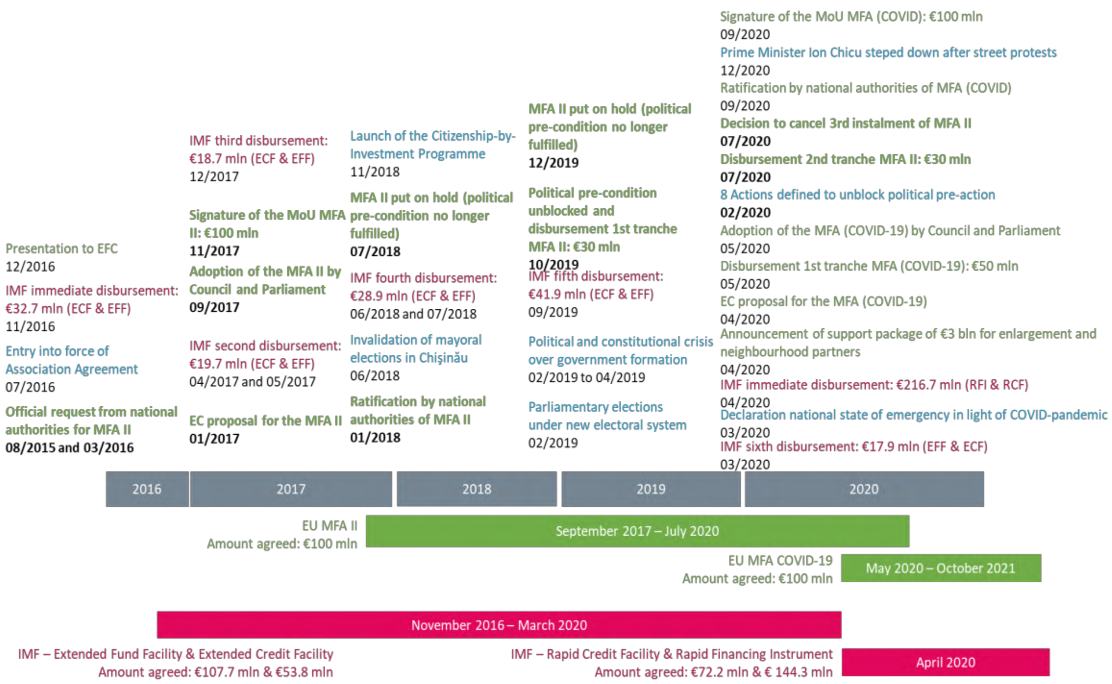
In 2015, **Moldova** experienced the effects of a series of setbacks that took a heavy toll on the economy. A trade ban imposed by Russia (from 2013 to 2015) and, in particular, a major domestic bank fraud scandal in 2014, estimated to the equivalent of 12% of GDP at that time, severely hampered economic activity and weighed on stability. The banking crisis undermined trust in Moldova's financial institutions and governance, complicating the country’s path towards economic recovery amid an unfavourable external environment. In addition, in the aftermath of the crisis, the government provided emergency loans to affected banks which were later turned into government debt,

[7] An initial framework for MFA operations was provided by the so-called "Genval criteria", set by the Council in 1993. Following the entry into force of the Lisbon Treaty in 2009, the "Genval criteria" were replaced by the 2013 Joint Declaration of the Parliament and the Council, which represents an understanding shared by the co-legislators - https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013D0778&qid=1727272809980

increasing overall debt levels. These economic difficulties were exacerbated by a poor harvest and the recession/weak economic activity experienced by some of the country's key regional trade partners (notably Russia but also Belarus and Ukraine), which negatively impacted exports and remittances. As a result, the economy entered a recession in 2015, which was coupled with a high acceleration of inflation and a significant weakening of the local currency.

In this context, immediately after the appointment of a new government in July 2015, Moldova's authorities approached the IMF with a request for a resumption of negotiations on a new programme to ensure the macroeconomic and financial stability of the country, which resulted in the conclusion of a 3-year Extended Fund Facility/Extended Credit Facility of combined USD 176 million. In view of the magnitude of the economic crisis, which was aggravated by the regional crisis and the continuous trade embargo imposed by Russia, they requested in August 2015 macro-financial assistance from the EU. This request was repeated in March 2016.

Figure 2. MFA implementation timeline for Moldova



Source: Study supporting the ex-post evaluation on Macro-Financial Assistance operations to the Eastern Partnership countries of Moldova, Georgia and Ukraine (2017-2020), Final report, April 2024, ICF

Following lengthy initial discussions, which reflected the complex political situation in Moldova, the Commission adopted in January 2017 a proposal for MFA (MFA II operation) of up to EUR 100 million, of which up to EUR 40 million in grants and up to EUR 60 million in concessional, long-term loans. In September 2017, the Parliament and the Council adopted the proposal, while two months later the EU and Moldova signed the MoU related to MFA II. In November 2017, Moldova entered a new four-year financial programme with the IMF. The beginning of MFA II was complicated by the cancellation of the mayoral elections in the capital city Chisinau raising concerns about the fulfilment of the political pre-condition for the MFA operation. As a result, the first instalment of EUR 30 million was disbursed only in October 2019, after the resumption of the IMF programme. The second instalment of EUR 30 million was disbursed in July 2020 following the successful implementation of eight additional short-term actions to strengthen governance as well as the specific policy reforms agreed in the MoU[8]. The disbursement of the third and final instalment of MFA II was cancelled, as the authorities could not implement all the conditions agreed in the MoU before the expiry of its availability period in July 2020.

According to the Commission's proposal, MFA II was initially projected to be fully disbursed by 2018. The operation was envisioned to cover slightly more than 30% of the 2017-2018 residual financing gap, as estimated by the IMF at the time. The renewed use of the EU budget support modality, which had been frozen since 2015 due to concerns with rule of law developments in the country, was also expected to contribute to closing a significant part of the financing gap. Other important contributions were expected by the World Bank and Romania. Apart from financial assistance to ensure Moldova's fiscal consolidation and external stabilisation efforts, MFA II aimed to support the country's structural reform efforts.

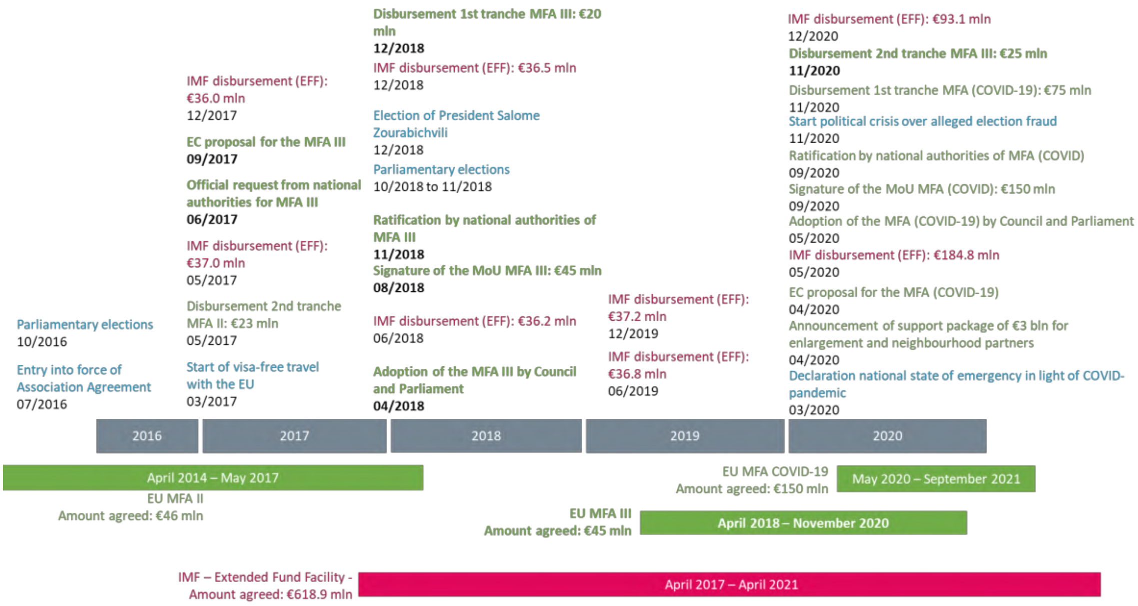
Georgia felt the effects of regional instability through weakened household and investor sentiment as well as the strong depreciation of the local currency. As a result, economic growth moderated sharply in 2015 and 2016 - to 3.4% in annual terms each year from 6.2% annual average in the previous five years. The unfavourable economic developments exposed some of the country's structural weaknesses such as a high (of more than 10% of GDP) current account deficit and elevated, and growing, external debt. Georgia's international reserves also witnessed significant downward pressure. They declined by more the 20% in nominal terms between October 2013 and mid-2015 before slightly recovering in the second half of 2016. Still, they remained below the level considered adequate by the IMF.

In order to cover its external financing needs and to ensure macroeconomic stability, Georgia requested support via MFA from the EU in June 2017. The request came immediately following the disbursement of the second and final instalment from the previous MFA operation and shortly after the authorities agreed a USD 285 million three-year arrangement under the Extended Fund Facility with the IMF that aimed to provide financial support in an unpropitious external environment and advance structural reforms to generate higher and more inclusive growth.

Following an in-depth assessment of the political and economic situation in Georgia, the Commission proposed MFA III already in September 2017. The operation aimed to provide assistance to cover a sizeable part of Georgia's external financing needs, while supporting the country's fiscal consolidation efforts and external stabilisation. Another objective was to advance structural reforms in order to boost economic resilience and advance the implementation of the DCFTA agreement between the EU and Georgia.

[8] The introduction of such additional measures was not typical to the MFA practice. It was necessitated by serious concerns about recurrent political reversals in Moldova, in particular in the area of the rule of law.

Figure 3. MFA III implementation timeline for Georgia

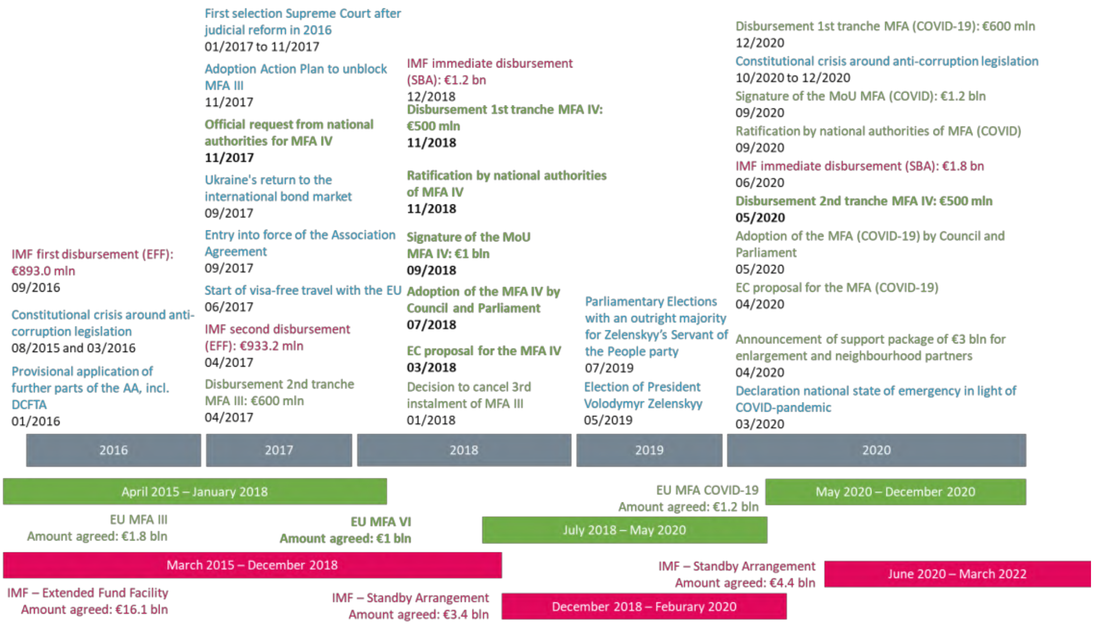


Source: Study supporting the ex-post evaluation on Macro-Financial Assistance operations to the Eastern Partnership countries of Moldova, Georgia and Ukraine (2017-2020), Final report, April 2024, ICF

The proposed operation was for an amount of up to EUR 45 million, a size similar to each of the previous two MFA operations the EU implemented in response to Georgia's military conflict with Russia in August 2008. The bulk of the assistance, up to EUR 35 million, was envisaged to be in loans, while the grant element was up to EUR 10 million. Following the adoption of the MFA III decision by the EP and the Council in April 2018, the Commission and the Georgian authorities signed in November 2018 an MoU recording the structural reform measures supported by the operation. The MFA was provided in two instalments – the first one of EUR 20 million (EUR 15 million in loans and EUR 5 million in grants) in December 2018 and the second one of EUR 25 million (EUR 20 million in loans and EUR 5 million in grants) in November 2020.

For **Ukraine**, Russia's illegal annexation of Crimea and the military aggression in eastern Ukraine had direct and severe economic repercussions. GDP declined in real terms by cumulative 16% in 2014 and 2015 and rose by mild 2.3% in 2016. Consumer price inflation remained in the double-digit area, largely a reflection of the sharp depreciation of the local currency. Despite some fiscal consolidation, public debt surged to 81% of GDP at the end of 2016. The military aggression and the perceived instability of Ukraine's investment climate led to a significant reduction in foreign direct investment, further straining the country's economic resources. Despite some improvements in Ukraine's macroeconomic situation, which had also been supported by three MFA operations provided by the EU in 2014-2017, Ukraine's economy was facing various vulnerabilities. These related to, among others, overdependence on commodity exports, high external indebtedness and a level of international reserves well below IMF adequacy standards. In addition, the slower-than-expected recovery in private capital flows, the uncertain geopolitical environment as well as the high external debt amortisation posed additional risks.

Figure 4. MFA IV implementation timeline for Ukraine



Source: Study supporting the ex-post evaluation on Macro-Financial Assistance operations to the Eastern Partnership countries of Moldova, Georgia and Ukraine (2017-2020), Final report, April 2024, ICF

Seeking balance-of-payments support, including for the replenishment of international reserves, the Ukrainian authorities requested further MFA from the EU in November 2017. The request was made shortly before the expiry of the previous, so-called MFA III, operation. Ukraine considered the fresh EU assistance essential for the continuation of important structural reforms, including ones in the areas of PFM, energy efficiency, judiciary and social assistance, among others. At the time of the request, Ukraine was implementing a 4-year Extended Fund Facility programme with the IMF that was set to expire in March 2019.

Following an in-depth assessment of the political and economic situation in Ukraine, the Commission proposed in March 2018 financial assistance of up to EUR 1 billion in loans that were supposed to cover part of Ukraine's residual external financing needs in 2018 and 2019. In order to fit with the timeframe of the IMF programme, the operation was limited to two instalments, with conditions attached to both. The EU's renewed assistance was expected to reduce Ukraine's short-term balance-of-payments and fiscal vulnerabilities, while supporting the government's adjustment and reform programmes through an appropriate package of accompanying policy measures. The Parliament and the Council adopted the decision for MFA IV in July 2018, while the MoU was signed in September 2018. The first disbursement of EUR 500 million took place in December the same year, following successful compliance with the policy reforms attached to it. The second instalment was disbursed in May 2020.

The MFA operations in Moldova, Georgia and Ukraine were part of respective broader financial assistance frameworks, in which the EU participated together with other international actors through a variety of financial instruments. Although different, the interventions shared many objectives, jointly contributing to the economic development and the advancement of important structural reforms in the beneficiary countries.

Focusing on the alignment between the MFA operations and support provided through other instruments by actors other than the EU, the objectives and conditions of all three operations were consistent, and on several occasions complementary, with the financial assistance offered by the IMF. Since MFA operations are conditional on a continuously satisfactory track-record in the implementation of the IMF-supported policy programme, Fund conditions (unless waived) are *de facto* incorporated into the MFA requirements, as the approval and disbursement of MFA is conditional on the satisfactory implementation of the country-specific IMF programme.

Similarly, the respective MFA operations intervened in tandem with other EU instruments, including the European Neighbourhood Instrument to support partner countries in the neighbourhood, humanitarian aid as well as other thematic instruments.

2.2 Point(s) of comparison

As specified in the Terms of Reference, Decision (EU) 2017/1565, Decision (EU) 2018/598 and Decision (EU) 2018/947 provide that: *"No later than two years after the expiry of the availability period [...], the Commission shall submit to the European Parliament and to the Council an ex post evaluation report."*

In this context, an external study, which is used as an input for the current evaluation, assessed the results and the efficiency of the operations, by focusing on (i) the impact of MFA on the economy of the beneficiary countries and in particular on the sustainability of their external position and (ii) the added value of the EU interventions.

By doing so, the study verified (i) whether the ex-ante considerations determining the design and terms of each operation were appropriate, taking due account of the economic, political and institutional context and (ii) whether the outcome of the operations met the objectives set in the respective Decisions.

In line with the BRG, the assessment focused on five evaluation criteria: relevance of the MFA interventions, coherence with international and other EU financial assistance instruments, effectiveness, efficiency, and EU added value. The points of comparison, against which the MFA operations of 2017-2020 were assessed, refer to the situation in Moldova, Georgia and Ukraine (1) prior to the intervention, on the one hand, and (2) during and immediately after the implementation of the operations, on the other. As per the focus of the MFA instrument, particular attention was paid to the external sector and the fiscal situation of the three economies.

In addition to the above-mentioned evaluation questions, the ex-post evaluation separately addressed the following issues:

- The impact of the MFA operations (also in combination with the IMF programme) on the debt sustainability of the country, by drawing on the IMF's debt sustainability analysis.

- The social impact of the MFA operations (more specifically in relation to the policy measures included in the MoU relating to the social sector, and by including social variables in the analysis), including in combination with IMF programme measures;

- A comparative assessment and regional analysis to identify key common features, disparities, and trends among the three MFA initiatives and to determine the possible impact from the MFA operations in the Eastern Neighbourhood region.

3. How has the situation evolved over the evaluation period?

Current state of play

Moldova, Georgia and Ukraine faced significant external and domestic shocks that aggravated existing economic imbalances and precipitated the need for international financial support. To achieve the objectives detailed in section 2.1, and as per the usual MFA procedure, disbursements under these operations were tied to the fulfilment of the political pre-conditions as well as good progress with the implementation of the respective IMF programmes. The disbursement of the instalments was also subject to the fulfilment of a set of policy conditions specified in the respective MoU and related to key structural reform areas.

In the case of **Moldova**, the disbursement of the first instalment took place in October 2019, well after the entry into force of the MoU in January 2018[9]. The significant delay with the first disbursement reflected serious political backsliding. The operation was put on hold in June 2018 following the controversial invalidation of the Chisinau mayoral elections as the political pre-condition for the disbursement was considered not met. The second instalment was released in July 2020 only, again after another pause related to the political pre-condition. The third and final instalment was not disbursed due to the fact that several policy reforms attached to the MFA operation had not been implemented before the expiry of its availability period in July 2020.[10]

Overall, the MFA operation made a positive contribution to the stabilisation of the Moldovan economy by reducing macroeconomic imbalances and increasing resilience to shocks in a challenging economic environment.

During the MFA II disbursement, Moldova's economy experienced a slight contraction, averaging 0.2% from 2018 to 2020, mainly due to a strong recession in 2020 where GDP contracted by 8.3% caused by the COVID-19 pandemic. This was in contrast with the growth seen in 2016-2017, driven by infrastructure and private investment, rising incomes, and improved bank lending. In 2019, however, growth had already slowed due to reduced infrastructure spending and tighter monetary policy. The pandemic prompted swift responses, including increased healthcare spending and IMF assistance, leading to a strong rebound in 2021 with 13.9% growth. However, the recovery faltered in 2022

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9 https://economy-finance.ec.europa.eu/system/files/2017-12/20171123_-_mou_eu_-_moldova_-_signed_eu_version.pdf

10 While MFA II was ongoing, the EU adopted another MFA operation for the country of up to EUR 100 million in loans that was part of a wider support package for several partner countries in light of the sharp drop in economic activity due to the COVID-19 pandemic. (Decision (EU) 2020/701 of the European Parliament and of the Council of 25 May 2020 on providing macro- financial assistance to enlargement and neighbourhood partners in the context of the COVID- 19 pandemic, OJ L 165, 27.5.2020, p. 31).

(contraction of 4.6%) and 2023 (0.7% growth) amid an energy crisis and negative spillover effects arising from Russia's unjustified war of aggression against Ukraine.

Inflation in Moldova fluctuated but peaked at 13.5% in 2015 during the banking crisis. It briefly eased to 0.9% in 2018 due to cuts in energy tariffs, lower food prices, and currency appreciation, but then accelerated to 7.5% in 2019. The National Bank of Moldova initially tightened, then eased monetary policy, reducing the base rate from 7.5% to 5.5% in December 2019, anticipating lower food prices and subdued demand.

Moldova's unemployment rates remained low, with the lowest at 3.1% in 2018. However, labour force participation was extremely low, around 45%, highlighting structural challenges in job supply and workforce skills mismatches.

Gross government debt in Moldova decreased from 42.4% of GDP at end-2015 to 28.8% at the end of 2019 before rebounding due to the currency depreciation and sharp economic contraction related to the COVID-19 pandemic. This disruption was only temporary though as Moldova's public debt stabilised at around 36% of GDP afterwards.

The external sector saw shifts, with a historic low current account deficit of 3.6% of GDP in 2016, thanks to improved export performance and strong remittances. However, the deficit increased to 10.8% of GDP in 2018 due to strong domestic demand and real exchange rate appreciation. By 2020, the deficit went down to 7.7% of GDP, influenced by lower energy prices and reduced domestic demand, but worsened again in 2021 and 2022, reaching 12.4% and 15.8%, respectively.

Table 1. Moldova – key macroeconomic indicators

Indicator	2017	2018	2019	2020	2021	2022	2023
GDP, current prices (USD billions)	9.5	11.3	11.7	11.5	13.7	14.5	16.5
Real GDP growth (%)	4.2	4.1	3.6	-8.3	13.9	-4.6	0.7
Consumer price inflation, average (%)	6.6	3.1	4.8	3.8	5.1	28.7	13.4
Consumer price inflation, end of period (%)	7.3	0.9	7.5	0.4	13.9	30.2	4.2
Unemployment, % of labour force (15-64)	4.2	3.1	5.3	3.9	3.3	3.2	4.7
General government balance (% of GDP)	-0.7	-0.9	-1.5	-5.3	-2.6	-3.3	-5.2
General government gross debt (% of GDP)	34.9	31.8	28.1	35.6	34.6	36.4	36.6
Gross external debt (USD billions)	6.8	7.2	7.2	8.1	8.7	9.6	10.5
Gross external debt (% of GDP)	72.8	67.6	65.1	70	63.3	66.2	62.2
FDI (inflows, USD millions)	149.5	293.8	507.2	157.8	391.3	589.5	420.5
FDI (% of GDP)	1.6	2.6	4.0	1.3	2.7	3.7	2.5
International reserves, USD billions	2.8	3.0	3.1	3.8	3.9	4.5	4.7
International reserves, months of imports	5.3	5.4	6.2	5.7	4.6	5.2	5.3

Sources: National Bureau of Statistics, National Bank of Moldova, IMF, World Bank

Following the 2014 banking sector crisis, Moldova's financial system showed resilience and progress in oversight reforms. Bolstered by a series of measures taken by the central bank in response to the banking fraud, the capital adequacy, liquidity and profitability of commercial banks have remained elevated or have risen in recent years, exceeding regulatory requirements. Non-performing loans decreased from 18.3% at the end of 2017 to 5.6% at end-2023, indicating progress with new prudential norms. The return on equity improved to 16.2% at the end of 2023. Challenges remain, however, including a relatively low level of lending to the private sector, excess liquidity, and rising risks in the non-bank financial sector. Regulatory and structural shortcomings, including concerns about oversight, political interference, and deficiencies in the anti-money laundering framework have been the focus of additional reforms in recent years.

The Commission made the first disbursement to **Georgia** of EUR 20 million under MFA III in December 2018, shortly after the signature of the MoU[11] between the two sides. There were no structural reforms attached to the disbursement of this instalment. As for the second instalment of EUR 25 million, there were 11 reform measures. Following their fulfilment the Commission disbursed the second and final instalment in November 2020.[12]

MFA III occurred during a period of severe regional disruptions, significantly impacting Georgia and its neighbours. Geopolitical tensions, regional instability and a weak external environment led to weakening economic activity, with Georgia's GDP growth averaging around 4% yearly from 2015-2017, well below the rates recorded earlier. Improved regional dynamics, increased demand and consumption, supportive fiscal policies, and strong policy efforts boosted economic activity in the following years. However, the COVID-19 pandemic caused the economy to shrink by almost 7% due to lower domestic demand, investment activity and exports. It also helped curb inflation that had been high since 2017, averaging about 7% in 2017 and 2019 due to increased excise taxes and adverse external shocks. Georgia’s economy rebounded strongly as of 2021, initially thanks to the post-pandemic recovery and afterwards as a result of the significant flow of Russian migrants and financial flows in the aftermath of Russia’s unjustified war of aggression against Ukraine.

Unemployment remained high, averaging 18% between 2018 and 2020, due to structural labour market issues and the pandemic-induced jobs crisis. However, it declined to 16.4% in 2023 thanks to the exceptionally strong economic activity. Budgetary pressures led the government to implement a fiscal consolidation programme by tightening spending and increasing revenue. By 2018, the fiscal deficit declined to 0.8% of GDP from an average 1.2% in 2014-2017. Government debt slightly contracted to 38.9% of GDP at end-2018 but rose to 40.4% at end-2019 due to increased social spending and investments. The COVID-19 pandemic widened the fiscal deficit to nearly 10% of GDP in 2020, with government debt surging to 60.2% of GDP. Thus, both the deficit and the debt exceeded the ceilings specified by the country’s fiscal rule. However, the fiscal deficit and the debt-to-GDP ratio declined significantly in the years to follow thanks to the robust economic activity and the withdrawal of the pandemic measures for support of businesses and households.

Georgia's external position improved from the mid-2010s thanks to growth in exports, tourism receipts, and remittances. By 2019, the current account deficit fell to 5.9% of GDP, driven by a stronger goods trade balance, particularly motor car re-exports, and a strong tourism sector. However, the pandemic severely impacted tourism, causing the

[11] https://economy-finance.ec.europa.eu/international-economic-relations/candidate-and-neighbouring-countries/neighbouring-countries-eu/neighbourhood-countries/georgia_en

[12] While MFA III was ongoing, the EU adopted another MFA operation for the country of up to EUR 150 million in loans that was part of a wider support package for several partner countries in light of the sharp drop in economic activity due to the COVID-19 pandemic.

current account deficit to surge to 12.5% of GDP in 2020. The merchandise trade deficit narrowed slightly to 20.0% of GDP in 2020. The post-pandemic recovery of tourism recovery helped bring the current account deficit to a record-low 4.3% of GDP by 2023.

Table 2. Georgia - key macroeconomic indicators

Indicator	2017	2018	2019	2020	2021	2022	2023
GDP, USD billions	16.2	17.6	17.5	15.8	18.6	25.0	30.5
Real GDP growth (%)	4.8	4.8	5.0	-6.8	10.6	11.0	7.5
Consumer price inflation, average (%)	6.0	2.6	4.9	5.2	9.6	11.9	2.5
Consumer price inflation, end of period (%)	6.7	1.5	7.0	2.4	13.9	9.8	0.4
Unemployment, % of labour force	21.6	19,2	17,6	18.5	20.6	17.3	16.4
General government balance (% of GDP)	-0.5	-0.8	-1.8	-9.3	-5.9	-2.2	-2.2
General government gross debt (% of GDP)	39.4	38.9	40.4	60.2	49.7	39.1	39.2
Gross external debt (USD billions)	17.3	17.9	18.9	20.9	22.1	24.0	23.5
Gross external debt (% of GDP)	119.3	100.3	106.6	129.5	117.0	95.8	76.8
FDI (USD billions)	2.0	1.4	1.4	0.6	1.3	2.1	1.6
FDI (% of GDP)	11.9	7.4	7.9	3.5	4.9	8.3	5.3
International reserves, USD billions	3.0	3.3	3.5	3.9	4.3	4.9	5.0
International reserves, months of imports	3.4	3.6	3.8	5.2	5.5	4.7	4.2

Sources: National Statistics Office of Georgia, National Bank of Georgia, IMF, World Bank

Foreign direct investment (FDI) inflows were severely affected by the pandemic, dropping to 3.5% of GDP in 2020 from 7.9% in 2019. Other factors included transfer of company ownership from non-residents to residents and completion of large investment projects. However, FDI recovered strongly afterwards. External debt, already high, grew further, reaching 129.5% of GDP at the end of 2020 as the government sought external financing for economic stimuli. The economic boom that followed, however, helped bring the debt-to-GDP ratio to 77% at the end of 2023.

Following a request in November 2017, the Parliament and the Council adopted in July 2018 the decision for MFA IV to **Ukraine** in the amount of up to EUR 1 billion in loans. The operation was divided into two instalments of up to EUR 500 million in loans each, with conditions attached to both. The first disbursement took place in December 2018 and the second in May 2020.[13] The design of MFA IV reflected lessons from the previous operation. The number of conditions was significantly reduced (18 as compared to the previous 36), taking into account the relatively limited administrative capacity of the Ukrainian authorities that was an important factor for the much slower-than-planned implementation of MFA III. Furthermore, there was an attempt to define each condition more clearly, ensuring that it remains ambitious but also sets clear and achievable targets within the period envisaged. The MoU[14] with the authorities included policy measures in

[13] While MFA IV was ongoing, the EU adopted another MFA operation for the country of up to EUR 1.2 billion in loans that was part of a wider support package for several partner countries in light of the sharp drop in economic activity due to the COVID-19 pandemic.

[14] https://economy-finance.ec.europa.eu/document/download/c2c108ba-8455-47cb-8a44-75287558fc20_en?filename=mou_protocol_version_eu.pdf

four main reform areas. A Joint Statement by the European Parliament, the Council and the Commission was attached to the Decision on MFA IV. It underscored the political importance of fulfilling the newly agreed conditions, in particular the ones that had already been included under MFA III that ultimately were not met.

MFA IV was initiated amidst a complex backdrop of geopolitical tensions, regional conflicts and economic challenges. Prior to the operation, Ukraine grappled with the ramifications of the global financial crisis, followed by political upheaval and military aggression, including the illegal annexation of Crimea by Russia. Ukraine's economy showed signs of recovery in 2016 and 2017, with GDP growth stabilising at 2.4% each year. This positive shift was underpinned by effective policy interventions, substantial international support, including sizeable financial assistance from the EU, and a resurgence in key economic sectors like agriculture. Investment also saw a notable uptick, reflecting renewed confidence in the economy. However, the advent of the COVID-19 pandemic in 2020 posed new challenges, causing a GDP contraction of 3.8%. The situation deteriorated further in 2022 due to Russia's full-scale invasion of Ukraine, leading to a devastating economic collapse with a nearly 29% drop in GDP. This period marked one of the most challenging phases in Ukraine's recent economic history, characterised by widespread infrastructural damage, disruption of economic activities, and massive displacement of people.

Inflation was marked by significant volatility, influenced by external and internal factors. It surged to 43.3% on average in 2015 due to currency devaluation and increased energy costs amidst the geopolitical turmoil. In subsequent years, inflation fluctuated, with the government implementing various measures to stabilise prices. It surged to 26.6% in 2022, fuelled by global economic conditions, energy price fluctuations, and the impacts of Russia’s war of aggression against Ukraine, before gradually retreating afterwards.

The labour market in Ukraine also underwent significant changes during this period. The unemployment rate rose to 9.5% by 2016 due to the combined effects of economic turmoil and Russia’s military aggression. A modest improvement of the labour market in 2019 was short-lived, as the pandemic and, in particular, the war in 2022 sharply exacerbated the labour-market situation.

Fiscally, the illegal annexation of Crimea by Russia and the military aggression in eastern Ukraine in 2014 placed significant strain on public finances, necessitating budgetary revisions and a focus on defence and security spending. In response, the authorities, supported by various international partners among which the EU played a particularly active role, implemented significant fiscal reforms. These included, among others, tax reforms and spending optimisation as well as strengthening of public finance management. Ukraine’s government debt followed a fluctuating trajectory. As of 2014, it surged due to the economic downturn, currency depreciation, and the need for significant public sector recapitalisations. Following a comprehensive debt restructuring in 2015 and supported by macroeconomic stabilisation, the debt level declined to 71.6% of GDP at end-2017. During the implementation of MFA IV, Ukraine witnessed a substantial decrease in the debt ratio. This period was marked by prudent fiscal management and further debt restructuring. However, some worsening of the fiscal indicators was observed due to the COVID-19 pandemic and, a further marked deterioration followed the start of Russia’s illegal, unprovoked and unjustified war of aggression in February 2022.

Ukraine's external position also experienced significant shifts. The military aggression in eastern Ukraine initially had a strong negative impact on the current account, disrupting industrial production and economic stability. However, a surplus emerged in 2015, driven by agricultural growth and increased investment inflows. This was not sustained, as the current account reverted to a deficit in subsequent years, with a notable deterioration in 2022 due to Russia’s war of aggression. Goods trade consistently registered deficits, highlighting challenges in expanding the export base and balancing imports. The services trade, a strength for Ukraine, also succumbed to a deficit in 2022.

Table 3. Ukraine - evolution of key macroeconomic indicators

Indicator	2017	2018	2019	2020	2021	2022	2023
GDP, USD billions	112.1	130.9	154.0	156.6	199.8	160.0	178.0
Real GDP growth (%)	2.4	3.5	3.2	-3.8	3.4	-28.8	5.3
Consumer price inflation, average (%)	14.4	10.9	7.9	2.7	9.4	20.0	13.4
Consumer price inflation, end of period (%)	13.7	9.8	4.1	5.0	10.0	26.6	5.1
Unemployment, % of labour force	9.7	9. 82	8.5	9.2	9.8	21.1	18.9
General government balance (% of GDP)	-1.8	-2.5	-1.7	-5.1	-3.3	-16.1	-20.3
General government gross debt (% of GDP)	71.6	60.3	50.4	60.5	48.9	78.8	84.4
Gross external debt (USD billions)	115.5	114.7	121.7	125.7	129.7	139.0	168.0
Gross external debt (% of GDP)	103.0	87.6	79.1	80.2	64.9	86.8	94.4
FDI (USD billions)	3.7	5.0	5.8	0.3	8.0	0.8	-
FDI (% of GDP)	3.3	3.8	3.8	0.2	4.0	0.5	-
International reserves, USD billions	18.8	20.8	25.3	29.1	30.9	28.5	40.6

Sources: National Statistics Office of Ukraine, National Bank of Ukraine, IMF, World Bank

In summary, Ukraine's economic landscape during the MFA IV period was shaped by a series of profound challenges, including geopolitical conflicts, the COVID-19 pandemic, and fiscal complexities. Despite these adversities, the country exhibited remarkable resilience, underpinned by strategic economic reforms, fiscal discipline, and international support. The fluctuations in GDP, inflation rates, labour market dynamics, and public debt levels underscore the country's steadfast efforts to stabilise and grow its economy amidst persistent external and internal pressures.

4. EVALUATION FINDINGS (ANALYTICAL PART) - MOLDOVA

4.1. To what extent was the intervention successful and why?

Despite significant delays with the implementation of MFA II to Moldova that reflected the volatile political situation in the country, the operation contributed to the stabilisation of the country’s economic performance and to the improvement of its resilience. This was mainly achieved by overall good progress with the comprehensive structural reform agenda attached to the operation. As mentioned above, it covered 28 conditions in five reform areas: public sector governance (among others, progress with the public administration reform as well as reforms in public procurement and administration of SOEs), fight against corruption and money laundering (focus on the set-up and the work of the National Integrity Authority and the Criminal Assets Recovery Agency, adoption of a new law on prevention of money laundering, focus on asset recovery related to the

2014 bank fraud), energy sector (strengthening of the energy regulator, measures to support diversification of gas supplies, adoption of the law on energy efficiency and progress with unbundling of the three gas operators), business climate and implementation of the DCFTA agreement with the EU (strengthening of the independence of the judicial system, changes in the customs legislation, enhancing the work of the competition authority), and financial sector (improving bank supervision, strengthening transparency of the insurance market). The introduction of eight additional political measures ahead of the disbursement of the second instalment[15] reinforced the positive impact of these reforms by supporting institutional building in the country. However, this has also led to further delays with the disbursements under the MFA, which ultimately weakened the economic impact of the operation (see Box 2 for an analysis of the effect of the political pre-conditions on the implementation of MFA II).

Several counterfactual scenarios have been examined to assess the macroeconomic impact of MFA II.[16] In a scenario where financial assistance was not provided, Moldova would have faced challenges addressing the financing gap. This might have increased political and financial pressures, leading to budgetary cuts as domestic financing was prohibitively expensive while external support (borrowing either from the external market or from official creditors) could have encountered challenges due to governance issues and political instability. The likely fiscal adjustment could have been particularly harmful during the COVID-19 pandemic when economic activity was severely affected and there was a strong need for increased social spending. In fact, the external study found evidence that the actual MFA disbursements led to an increase in social spending. In a hypothetical scenario where neither MFA nor IMF support was provided, Moldova would have faced much more severe economic consequences with a significant impact on the most vulnerable part of the population.

Box 2. The political pre-condition in MFA II

The launch of every MFA programme, as well as the disbursement of any of the envisaged instalments, is subject to the so-called political pre-condition, which relates to respect of human rights and effective democratic mechanisms, including a multi-party parliamentary system and the rule of law. While being an important factor for the initial decision to grant (or not) MFA assistance, this pre-condition has been rarely impacting the implementation in the course of the EU interventions. This, however, was not the case with MFA II for Moldova, where the political pre-condition played a central role not only in shaping the MFA operation but also in holding back its implementation. Ultimately, while it contributed to improved governance in the country, it significantly derailed the operation by contributing to substantial delays with the disbursement of the funds and the cancelation of the final instalment. Thus, the overall economic impact of the operation turned out to be much more muted than initially expected.

[15] These measures reflected the recurrent political backsliding by the Moldovan authorities. They included, among others, the set-up of an international joint investigation team to recover assets from the banking fraud, adoption of the Law on Anti-Money Laundering sanctions, launch of a consultation for the preparation of a strategic concept on changes in the judicial sector, amendments to the Law on the Superior Council of Magistracy in line with international standards.

[16] For further details see section 3.2 of the *Study supporting the ex-post evaluation on Macro-Financial Assistance operations to the Eastern Partnership countries of Moldova, Georgia and Ukraine (2017-2020)*, Final report, April 2024

The 2014 large-scale bank fraud in Moldova, which clearly exposed the tight grip of oligarchic structures over the political and the judicial system in the country, led to a suspension of EU assistance and a strong push for comprehensive governance reforms. In view of MFA II, this resulted in a rather slow decision-making process by the EU. The Commission proposed the operation nearly one year and a half after the MFA request from the authorities. When adopting the proposal, the EU co-legislators were also explicit about the need for far-reaching governance reforms and called for increased scrutiny over the political situation in the country. As a result, the MoU related to the programme included the second-largest number of structural reforms for any MFA operation. At 28, they were well above the 12 conditions in the previous operation for the country that was implemented in 2010-2012. In contrast to the previous operation for Moldova, conditions were attached even to the disbursement of the first instalment. Furthermore, there was a re-enforced focus on proper scrutiny of the political pre-condition, in particular as regards the rule of law, for all instalments.

The political volatility and backsliding by the Moldovan authorities in 2018-2020 led to a de-facto freeze of the MFA operation twice during its time frame irrespective of the relatively good progress with other economic policy reforms tied to it. The first pause took place following the controversial invalidation of the mayoral election in the capital Chisinau in mid-2018. The second followed the constitutional crisis after the 2019 parliamentary elections. It culminated with the requirement in early 2020 for the implementation of eight additional short-term political measures before the release of the second instalment of the MFA operation.

Overall, the strong focus on the political pre-condition and the atypical introduction of new conditions thereon have significantly diminished the direct economic impact of the MFA operation whilst having a stronger effect on preserving effective democratic mechanisms and the rule of law. While the Commission proposal aimed to cover a substantial part of Moldova's external residual financing gap in 2017-2018, this did not materialise. The first instalment was disbursed in the final quarter of 2019 only, more than four years following Moldova's first MFA request and more than one year and a half after the entry into force of the MoU. At that time, the need for financial support was lessened as the country's economy had somewhat recovered from the regional crisis in 2015, as also confirmed by some of the local stakeholders interviewed as part of the external study. Due to the delay with the disbursements and the cancellation of the final instalment, the actual EU support came well below initial plans, thus reducing the economic benefit of the assistance. When proposed in 2017, MFA accounted for a sizeable 1.3% of the GDP of the country at that time. However, it ultimately amounted to less than half of that, at 0.6% of GDP, largely due to the above-mentioned delays and the non-disbursement of the final instalment that was driven by the strong focus on the political pre-condition for MFA. In addition, due to delayed disbursements resulting largely from issues with the fulfilment of the political precondition, some of the policy conditions underpinning the MFA were perceived as outdated and less relevant than foreseen at the time of the negotiation.

As part of the evaluation a debt sustainability analysis (DSA) was conducted. The DSA built on counterfactuals on the likely courses of action according to various experts as well as modelling of key debt burden indicators and macroeconomic variables. In the absence of MFA II, Moldova would most likely have resorted to cuts in government spending. Covering the outstanding financing gap through lower government spending would have had implications for GDP, with an expected reduction of about 0.5% in total (0.2% in 2019 and 0.3% in 2020) compared to the baseline scenario.

MFA II was particularly successful in promoting a large number of structural and institutional reforms that not only supported the macroeconomic stabilisation but strengthened the country's resilience that turned out essential in responding to the numerous external crises Moldova faced in the years to follow. Out of the 28 policy measures attached to the operation, 24 were implemented by the expiry of the operation in mid-2020. This was seen as a positive outcome by most of the stakeholders interviewed, given the political turmoil experienced by Moldova between 2017 and 2020, when three different governments with divergent views on reforms were in power, as well as the overall weak administrative capacity of the national authorities.

Reforms in the banking sector have been particularly effective and impactful. Given the collapse of Moldova's banking system after 2014, its restoration and rebuilding public trust was high on the agenda. The reforms under this and previous MFA operations – as well as IMF programmes – succeeded in clearing the sector of illicit actors and bringing much-needed transparency to ownership structures, while achieving some convergence with the EU *acquis*. Energy sector reforms were less immediately effective but no less significant. They helped to lay the ground for the country's energy diversification from the near-total dependence on Russian natural gas imports which the country has since achieved following the energy crisis that began at the end of 2021 and was exacerbated by Russian's war of aggression against Ukraine which began in February 2022. Several of the actions devised under the operation aimed to support the effectiveness of regulatory reforms through the establishment of specialised institutions such as the National Complaints Settlement Agency or the promotion of their operability and independence. Despite major steps in the area of anti-money laundering, little progress was made in the recovery of assets stolen in the context of the bank fraud 2014. Similarly, steps to adopt a new Customs Code aligned with the EU *acquis* in the context of the DCFTA have been slow. The new Customs Code only entered into force on 1 January 2024 following additional conditionalities under subsequent MFA operations.

Results in public sector governance were mixed, with formal compliance with all conditions, but implementation often lacking immediate effectiveness in practice. While the Public Administration Reform Strategy was duly implemented, central aspects such as the reduction and restructuring of ministries, or the introduction of non-political state secretaries were subsequently reversed. In public procurement, comprehensive legislative reforms were envisaged as part of the conditions and successfully delivered by 2020. As a result, important steps were taken to align the Moldovan regulatory framework in this area with the EU *acquis* and improve the enforcement of rules.

MFA II for Moldova was also successful in advancing key governance and anti-fraud reforms through the decision to require the implementation of eight additional short-term steps before the disbursement of the second instalment, following concerns related to the political pre-condition for the support. While local stakeholders highlighted the positive results from these measures, it should be noted that the exceptional introduction of new requirements somewhat further delayed the EU intervention and thus lessened its immediate economic impact.

4.2. How did the EU intervention make a difference and to whom?

MFA II had an important financial and non-financial aspect. Regarding the former, it helped cover part of Moldova's external financing needs and close the budget deficit by providing assistance under very favourable terms, namely via a significant grant component and a loan with very low interest rate and long maturity. Together with the other assistance packages provided to Moldova during the period, MFA II helped to regain investor confidence after the shock of the bank fraud crisis in 2014 as evidenced by the pick-up in investment activity. However, the financial benefits of MFA II extended beyond the amount of the assistance. According to stakeholder feedback, the backing from the EU and the provision of the IMF programme were supportive for restoring public trust in state institutions and aiding Moldova to weather the COVID-19 crisis in 2020 and ensure ongoing support from other donors.

The consultations with a wide range of stakeholders confirmed that the financial and political weight of the MFA operation, as well as other conditionalities related to financial assistance, led to a clear prioritisation of the associated reforms. From the Moldovan perspective, the inclusion of various policy reforms in the MFA operation was perceived as an important tool to overcome internal resistance to much-needed reforms.

In Moldova's politically volatile context, with three different governments during the MFA implementation period, the conditionality represented a common thread for reforms, as all governments attached high importance to it, irrespective of their political leanings. Despite some doubts about the ownership of the authorities over some of the structural reforms implemented under the MFA conditionality and their effectiveness in practice, the package helped Moldova to strengthen the legislative and institutional framework, according to stakeholder feedback. It also supported the efforts of some reform officials for a more competitive, democratic and rule-based order that ultimately benefited Moldovan citizens and businesses.

4.3. Is the intervention still relevant?

The evaluation found that MFA II to Moldova was relevant in terms of size and form of assistance provided as well as the design of the operation. The package of EUR 100 million, or sizable 1.3% of Moldova's GDP at the time of the Commission's proposal, was supposed to cover a significant part of the country's external financing needs in 2017-2018 and considerably strengthen its fiscal position. While the actual disbursement turned out to be smaller and was provided much later than initially envisaged, the assistance still played a positive role for the economy and contributed to improving the fiscal position of the country and supporting its resilience.

The modality of MFA II, a mixture of long-term loans under favourable terms and grants, was relevant under the prevailing conditions as well. The provision of grants reflected the categorisation of Moldova as a lower middle-income country with a comparatively low per-capita gross national income (according to the World Bank), the sharp increase of the public debt ratios following the banking crisis and the depreciation of the local currency, as well as the fact that Moldova qualified for concessional financing from the IMF and the World Bank at that time. The inclusion of loans in the Commission proposal allowed for a balanced approach to address Moldova's needs while considering EU budgetary constraints and governance concerns about the country.

Regarding the financing impact, it was weaker than initially envisaged. The EUR 100 million planned support was sizable. It was supposed to be fully disbursed by the end of 2018 and was designed to cover slightly more than one-third of the external financing gap of USD 318 million identified by the IMF in 2017-2018. The renewed use of EU budget support, which had been frozen since 2015 due to concerns about developments in area of rule of law in Moldova, was projected to cover a similar portion of the country's external financial needs.

However, the political backsliding meant that MFA disbursements were significantly delayed. The first instalment was disbursed in October 2019 only and the second one in July 2020. The disbursement of the third instalment of MFA II of EUR 40 million was ultimately cancelled, as the timeline for the operation expired before several of the conditions attached to it were implemented. Thus, the overall financial contribution by the EU was significantly lower than initially planned. However, it was complemented by a new EU financial assistance operation for the country of EUR 100 million that aimed to address the economic fallout due to the COVID-19 pandemic and build on reforms under MFA II.

The set of reforms, especially those related to rule of law and anti-corruption implemented under this MFA, were essential for Moldova's progress towards EU candidate status and the start of the accession negotiation in June 2024. In addition, reform efforts in the energy sector provided the ground for further steps amidst the energy crisis in 2022/2023 that supported the diversification of gas supply and the phase-out of gas imports from Russia.

5. EVALUATION FINDINGS (ANALYTICAL PART) - GEORGIA

5.1. To what extent was the intervention successful and why?

MFA III came at a time of significant regional disruptions that adversely impacted Georgia's economy. Persistent exposure to geopolitical instability and a weak external environment contributed to sluggish growth and brought to the fore some of the country's external imbalances as manifested by a high current account deficit and substantial external indebtedness. While the EU intervention helped to somewhat ease the effect of external shocks and thus support Georgia's fiscal and macroeconomic stabilisation, its impact was relatively muted due to the limited amount of assistance. At the same time, MFA III was successful in advancing several important structural reforms that supported Georgia's economic resilience, notably by strengthening public finance management and advancing labour and social policy reforms.

According to the counterfactual analysis, the non-disbursement of the two instalments of MFA III would have resulted in higher borrowing costs for the authorities of nearly EUR 30 million, which would have been almost equally split in 2018 and in 2020. However, Georgia would probably not have had problems finding alternative sources of financing thanks to its highly liquid domestic market. The country could have also easily relied on additional international financial support from bilateral or multilateral partners.

The DSA revealed that the overall outlook would have remained largely unchanged. There would have been only small changes to the main debt sustainability indicators - covering the financing gap using alternative financing would have increased gross financing needs and gross public debt modestly, by respectively 0.25 percentage points and 0.2 percentage points in 2018. The impact in 2020 on debt sustainability would have been even smaller.[17]

MFA III was, however, successful in initiating significant structural changes that were followed up with the subsequent operation that was part of the EU's support for its partners as a response to the COVID-19 pandemic. These included, among others, setting up the Dispute Resolution Council in public procurement, as well as the introduction of the Law on Entrepreneurs and the establishment of public employment services. These are examples where reforms brought about meaningful changes, with the legal frameworks now closer to the EU *acquis*. In other areas, in particular the ones related to public investment management and health care, improvements were more incremental. Despite steps to improve labour market policies, the problems of skills mismatch and high (youth) unemployment largely persisted but these were long-standing, largely systemic, issues, which could not have reasonably been expected to be fully resolved within the MFA time frame.

The common ground between MFA and other EU support tools (notably budget support, but also technical assistance) gave the EU greater leverage in promoting reforms. Stalled reforms, or reforms that had been progressing slower than planned, began to move again or more quickly once introduced under MFA. This was the case for land registration, the Vocational and Education Training (VET) Law and the Law on Entrepreneurs (whose technical complexity delayed the disbursement of the second instalment for several months). Overall, the EU had a clear political and operational reinforcing effect in promoting reforms that were on the Association Agenda (for example Dispute Resolution Council, Law on Entrepreneurs, amendments to the Labour Code).

MFA III for Georgia also managed to advance some important labour market and social reforms. They aimed, among others, to improve the sustainability of the nascent universal healthcare system in the country controlling costs while ensuring higher quality of services. In order to support matching of demand and supply in Georgia's labour market and contribute to higher employment, the authorities adopted and started implementing a new medium-term labour market strategy. They also adopted legislation on VET that was supportive of addressing the skills mismatches in the economy and reducing unemployment.

Nevertheless, some reforms attached to MFA III were less successful. In the judiciary, while the conditions were fulfilled, several substantial limitations persisted. In the absence of strong safeguards, reform progress stalled following MFA III implementation and more recently, even reversed. Furthermore, the authorities did not adopt the legislation on third-party liability on motor insurance, which was among the conditions of the operation. The difficulties in passing this law were not anticipated from the beginning of the operation. They were linked to general political economy considerations and difficulties with implementing reforms that impose a cost burden on a large segment of the population, which became more binding in view of the exceptional circumstances created by the outbreak of the coronavirus pandemic. Therefore, this condition was eventually waived ahead of the disbursement of the second instalment.

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[17] For further details see section 4.2 of the *Study supporting the ex-post evaluation on Macro-Financial Assistance operations to the Eastern Partnership countries of Moldova, Georgia and Ukraine (2017-2020)*, Final report, April 2024

5.2. How did the EU intervention make a difference and to whom?

Regarding the financial added value of MFA III, it came mainly from the terms of the MFA assistance rather than its size, which was by far the smallest among the three operations (please see section 5.3.). The operation is estimated, using the IMF calculation of grant element tool, to have a concessional element of approximately EUR 25 million. Apart from a grant component, MFA consisted of long-term loans extended under very favourable terms that supported Georgia's fiscal resilience.

MFA III had an important signalling effect. It showed that Georgia continued to be on the right track and helped to sustain market confidence that ultimately benefited domestic businesses and citizens. The 'EU stamp', together with the extension of the IMF programme, helped to secure additional international support that was particularly important in the context of the COVID-19 pandemic. The increased confidence ultimately translated into a lower risk premium and borrowing costs, as evidenced by the terms obtained by Georgia when refinancing its Eurobonds in 2021.

The approximation with the EU standards, as required by some of the MFA policy reforms, supported the competitiveness of the Georgian companies. Some of the positive examples relate to the law on the establishment of the Dispute Resolution Council and the approval of the Law on Entrepreneurs, which modernised the regulations on the legal forms of companies, the procedures for their establishment and functioning.

The MFA conditions were also helpful to overcome internal resistance or inertia in areas where progress was slow (e.g. land registration, VET, company law, labour market). The MFA instrument was seen as an important tool to accelerate such reforms where other EU instruments (bilateral negotiations, budget support programmes) might have shown less success. However, the national stakeholders noted that the visibility of the MFA operation in the country was overall low. This could have potentially affected the implementation of some of the reforms attached to it.

For the reforms to be successful, ownership is key and is typically a prerequisite. There are limits to the MFA leverage and extent to which reforms can be imposed from the outside. The success factor of MFA III from Georgia's point of view was that it promoted a home-grown reform agenda, anchored in the Association Agreement (AA) and the DCFTA commitments. The Ministry of Finance, as the coordinating agent, was able to liaise with line ministries and agencies to identify areas where their planned reforms needed some 'backing', e.g. reforms needing buy-in from a wide range of stakeholders.

5.3. Is the intervention still relevant?

In terms of volume, MFA III to Georgia was by far the smallest of the three EU interventions evaluated. The EUR 46 million assistance represented 0.3% of Georgia's GDP in 2016, the year before the Commission proposal. The small amount largely reflected the country's limited external financing needs. Still, in terms of coverage of the residual financing gap in 2018-2019, the years during which the operation was envisaged to be implemented, MFA III accounted for about a third, which is broadly in line with overall MFA operations by the EU.

The form of the assistance, a mixture of concessional loans and grants, reflected the fact that at the time of the Commission proposal, Georgia was still classified by the World

Bank as a lower middle-income country. The high incidence of poverty, increasing levels of public and external debt, amid very high dollarisation, were other factors behind the decision to include a grant component in MFA III. However, given Georgia's expected graduation from IMF and World Bank concessional financing in 2018, as well as the smaller financing needs as compared to some of other EU neighbours, the loan element was significantly prioritised. It accounted for nearly 80% of the total financing as compared to 50% under the previous two MFA programmes for the country.

MFA III to Georgia included 11 structural reforms in four areas. Most of these areas had a link either to the objectives of the MFA instrument (PFM, financial sector) or to the EU's external policy objectives (for example, business environment). All supported the association process with the EU (notably in relation to the judiciary). The reforms attached to the MFA were closely aligned with both EU budget support operations and programmes of other donors and international financial institutions. Overall, the choice of the conditions was driven by desire to advance reforms already supported by other EU instruments. While the number of conditions backed by MFA III was higher than the ones under the previous MFA (eight), the stakeholders interviewed did not consider this an issue. Rather, there was an understanding on the part of the national authorities that the reform agenda was 'homegrown' and the reform process mostly driven by the government of Georgia.

Even if many conditions targeted areas with historically strong domestic ownership of reform, MFA III did not focus exclusively on simpler reforms. The most difficult ones, as assessed ex-ante, were linked to public procurement and the judiciary, through their impact on the business environment, where a lot of work was needed to approximate with the EU legislation. While there was an overall good balance in the selection of the reform areas included in MFA III, one area that was highlighted as missing by some of the stakeholders was corporate governance of SOEs and strengthening of the oversight of fiscal risks for the state stemming from these companies. Furthermore, despite significant improvement of the economic situation after the programme (in 2021-23), the authorities have still not decided to introduce and adopt the legislation on third-party liability on motor insurance, which had been an unmet condition of the programme.

6. EVALUATION FINDINGS (ANALYTICAL PART) - UKRAINE

6.1. To what extent was the intervention successful and why?

MFA IV was successful not only in supporting Ukraine's macroeconomic stabilisation but also in improving the country's economic resilience that turned out essential in view of the huge external shocks the country faced in recent years. The sizable financial support, which was provided in a timely manner, coupled with a comprehensive and well-tailored reform agenda were key to this end.

The counterfactual analysis shows that the macroeconomic outcomes and debt sustainability would have been less favourable in the absence of the EU's MFA.[18] If the first instalment of EUR 500 million had not been provided in 2018, the authorities most

[18] For further details see section 5.2 of the *Study supporting the ex-post evaluation on Macro-Financial Assistance operations to the Eastern Partnership countries of Moldova, Georgia and Ukraine (2017-2020)*, Final report, April 2024

likely would have had to resort to a mix of tax increases and expenditure cuts that could have negatively impacted the already subdued economic activity. The likely borrowing on the domestic or on external markets would have been rather costly, thus weakening the country's fragile fiscal position and affecting negatively debt sustainability. Regarding the non-disbursement of the second instalment of EUR 500 million in 2020, the economic impact would have been even more severe due to the need for significant support for households and businesses in the aftermath of the outbreak of the COVID-19 pandemic and the difficult financing situation at that time, with access to external debt markets being largely frozen while domestic financing was too expensive.

With respect to the policy reforms attached to MFA IV, progress was made in all areas (PFM, governance and fight against corruption, sector reforms and SOEs, social policies) as all conditions were implemented successfully. Significant advancement was noted in customs through joining the Common Transit Convention, the introduction of the Authorised Economic Operator programme, and the introduction of a new computerised transit system. These reforms, which were closely linked to the AA with the EU, were important trade facilitation measures that had a clear positive impact on Ukrainian businesses. According to non-EU stakeholders, MFA conditions related to the implementation of international standards on tax evasion have contributed to the ratification of a multilateral convention that helped limiting opportunities for tax avoidance by multinational enterprises.

MFA IV was also successful in advancing stalled anti-corruption reforms and addressing existing shortcomings in their implementation. For example, the programme supported the operationalisation of the High Anti-Corruption Court through the selection of judges, which was widely seen by the international community and domestic stakeholders as a missing element in Ukraine's anti-corruption enforcement chain. It also helped to advance the electronic verification of asset declaration of high-level officials, which improved the overall effectiveness of the system. However, anti-corruption efforts continued to face different challenges highlighting the difficulty of ensuring the sustainability of implemented reforms.

Conditions on sector reforms and SOEs enabled significant improvements in addressing multiple aspects of economic and governance inefficiency. The condition targeting the privatisation of state-owned assets through electronic auctions helped improve transparency of small-scale privatisations and led to increased state revenues. Another noteworthy aspect was the focus on improving corporate governance within state-owned banks, which ultimately enhanced bank performance and profitability, as well as helped to instil confidence in the financial sector. The focus on addressing the high levels of non-performing loans in the banking sector further contributed to ensuring a healthier banking environment and building economic resilience. The reforms related to the electricity market – notably the certification of Ukrenergo, Ukraine's national power company, and the separation of power generation and transmission – were crucial achievements as they helped to align the Ukrainian electricity market with EU standards and led to enhanced market efficiency, transparency, and market-driven operations.

The condition on healthcare financing reform was effective in improving the quality and efficiency of healthcare services in Ukraine. While not explicitly the aim, healthcare reform may have strengthened future resilience (e.g., for the subsequent COVID-19 pandemic and war). The new law contributed to a substantial increase in the number of contracts between health authorities and service providers. Experts highlighted the role of such reform in enabling the organisation and financing of healthcare services during the pandemic and the Russian war of aggression.

The social impact assessment of MFA IV indicates some potential negative impacts that would have occurred in the absence of the first instalment of the programme of EUR 500 million.[19] In this case, the Ukrainian authorities would probably have resorted to alternative, and more expensive, funding options which would likely have incurred some negative social implications via potentially lower social expenditure. There would have been a more pronounced deterioration in the social situation if the second instalment was not extended in 2020. Ukraine's options for covering the funding gap in that year would have been much more constrained, given the challenging economic backdrop at the time. The country would likely have had to resort to extensive spending cuts in addition to those already implemented in education and social spending. The government's response to the COVID-19 pandemic would also have been more limited.

6.2. How did the EU intervention make a difference and to whom?

The EU provided significant added value to Ukraine through MFA IV, both in financial terms and through a push for key reforms. The financial contribution was relevant to cover a significant part of the country's external financing gap. It provided EU added value in that individual Member States alone would likely not have provided aid of that size. Also, the favourable conditions associated with the MFA loans, granted in very concessional terms (with low rates) allowed for fiscal savings and a gradual adjustment of the primary public deficit.

MFA IV had some confidence-boosting effects and, together with the IMF programme, supported the macroeconomic stabilisation in 2018 and 2019 and helped the country weather the economic fallout from the COVID-19 pandemic much better than most of its neighbours. The financial assistance sent another signal of the ongoing strong EU support to Ukraine, reinforcing the EU-Ukraine association process and Ukraine's ongoing economic and political transition. The initiation of the MFA IV programme was interpreted as a reaffirmation of the EU's commitment to Ukraine. This reinforcement signalled to the Ukrainian civil society and the general population that the EU remained dedicated to supporting the country despite the challenges faced during MFA III when the programme expired without the disbursement of the final instalment attached to it. While the visibility of the MFA operation remained low overall, civil society used the conditions to support the fight against corruption in their own advocacy work. Both the EU and IMF played an important role in supporting local-level efforts to advance specific reform agendas.

Beyond the financial aspects, certain individual conditions were noted, during the stakeholder consultation, to have had positive effects on the business community and alignment with international agreements. These related to conditions on tax reforms as well as the ones on good governance and anti-corruption that fostered improved transparency. Despite the inability to quantify the extent of the confidence boost

[19] For further details see section 5.2 of the *Study supporting the ex-post evaluation on Macro-Financial Assistance operations to the Eastern Partnership countries of Moldova, Georgia and Ukraine (2017-2020)*, Final report, April 2024

triggered by MFA IV, a political signalling effect was evident in the political pre-conditions attached to each financial disbursement as well.

MFA conditionality was found to be beneficial in reinforcing reform commitments already made by the government that were beneficial for both citizens and businesses. Some stakeholders highlighted that the operation helped reform-minded ministries push their agenda amid significant opposition from vested interests. MFA conditionality also re-enforced or accelerated reforms envisaged under the AA, by setting clear targets and dates for adoption. Here, for example, the EU operation supported the adoption of the new anti-money laundering law and the launch of the authorised economic operator's programme.

6.3. Is the intervention still relevant?

The size and financial terms of MFA IV as well as the design and areas of policy reforms supported by the operation were all highly relevant to the financial and structural challenges Ukraine was facing at the time. While Ukraine's economy was on a gradual stabilisation course in 2018, it was still experiencing significant external financing needs stemming from the relatively low build-up of international reserves and significant debt repayments. In absolute terms, and compared to other operations, MFA IV represented a significant allocation, in line with the trend of substantial support to Ukraine in previous MFAs. Its size (EUR 1 billion) represented 1.1% of Ukraine's GDP in the year before the Commission proposal. Smaller than the EUR 1.8 billion set aside under MFA III (out of which only EUR 1.2 billion were disbursed), the size of MFA IV reflected Ukraine's less dire financing needs than in 2014-2015 and the shorter implementation span.[20] The programme aimed to cover approximately 27% of the USD 4.5 billion of Ukraine's additional external financing needs in 2018 and 2019 that were identified by the IMF.

Unlike the programme for Moldova and Georgia, MFA IV did not include a grant component. This reflected the rather limited scope for such assistance, in particular when taking into account the size of Ukraine's economy and the EU's budgetary constraints. The plan to disburse the programme in two instalments by 2019 was tailored to align with the IMF programme's timeframe.

The design of conditionalities attached to MFA IV was very much informed by the experience and lessons of MFA III in relation to the focus, scope and magnitude of conditions. First, the number of policy reforms was halved to 18 in order to make them more focused and concrete (thus more easily measurable) and in view of the expectations for a much quicker disbursement (in line with the constraints arising from the expiry of the IMF programme). Furthermore, it also took into account the administrative capacities of the Ukrainian authorities.

The focus on four reform areas (PFM, governance and fight against corruption, sector reforms and SOEs, as well as social policies) was relevant as these were key bottlenecks for a more resilient and sustainable economic performance as evidenced by the previous three MFA programmes for the country that were implemented in 2014-2017. Among

[20] The Commission cancelled the disbursement of the third and final tranche of MFA III as the Ukrainian authorities could not implement all the conditions attached to it by the expiry of the operation in January 2018. Most of these unfulfilled conditions were included and successfully implemented during MFA IV.

others, the conditions aimed to contribute to (i) improved PFM framework (tax and customs reform); (ii) reinforcement of reform commitments (anti-corruption, anti-money laundering, corporate governance in SOEs, privatisation, reforms in the banking sector, electricity market law); and (iii) supporting the most vulnerable parts of the population (healthcare reform, social benefits, internally displaced persons). These reforms had a clear and direct link either to the objectives of the MFA operation (macroeconomic stability) and/or EU external policy objectives, including under the AA.

MFA IV maintained some of the core objectives of the previous operation and helped to reflect the EU's overall priorities in its relationship with Ukraine. At the same time, this also reflected the inability of Ukraine to deliver in a timely manner on a number of important anti-corruption reforms under MFA III. In this context, a joint statement was attached to the decision on MFA IV, whereby the EP, the Council and the Commission underlined that further macro-financial assistance would be conditional on progress in the fight against corruption in Ukraine. The Joint Statement specifically highlighted the importance of the asset verification system, the operationalisation of the high anti-corruption court, and verification of companies' beneficial ownership data, as well as conditions linked to combating anti-money laundering and tax avoidance.

The relevance of the attached conditionalities was also achieved through the close involvement of technical experts, including from the Commission's Support Group for Ukraine and Kyiv-based EU Anti-Corruption Initiative. Several EU stakeholders emphasised that this high level of cooperation for MFA IV had helped to ensure that the conditions were designed in line with wider EU priorities and the reform efforts supported by other EU programmes, thereby underpinning their relevance.

7. Potential impact of the MFA operations in the Eastern Neighbourhood region

While MFA operations pursue objectives at national level, the evaluation also looks at their potential regional impact at the level of the Eastern Neighbours that are part of the European Neighbourhood policy. This reflects not only the key trigger for the interventions, the geopolitical uncertainty that was driven by Russia's illegal annexation of Crimea and the military aggression in eastern Ukraine, but also the regional proximity, partly comparable conditionality, and overlapping time frames of implementation.

Georgia, Moldova and Ukraine together accounted for 57% of the total output produced by the EU's Eastern Neighbours in 2017, the year when the first of the three MFA programmes was proposed.[21] Ukraine had a dominant role within this, as it alone accounted for 46% of the GDP of the six countries. Thanks to its large size, location and significant natural resources, Ukraine played an important economic role for some of the other EU's Eastern Neighbours (namely Belarus and Moldova), in particular via the trade channel. Moldova was also particularly exposed to Ukraine via the energy channel due to the interlinkages between the energy infrastructure of the two countries.

As already discussed, MFA IV for Ukraine contributed not only to immediately stabilise Ukraine's economy but also to support its resilience that was essential for the country to

[21] The remaining three countries that are part of the EU's Eastern Neighbourhood are Armenia, Azerbaijan and Belarus.

withstand the huge external shocks that followed – the COVID-19 pandemic and Russia's unjustified war of aggression. Thus, the EU's intervention had some positive regional impact even if it could not compensate for the shock for the region due to the pandemic and the war. In view of the smaller size of the Moldovan and Georgian economies, the respective MFA operations had very limited direct economic impact in the Eastern Neighbourhood region.

In all three cases, there was a direct positive regional impact from the reform measures attached to the EU interventions, as they strengthened governance and boosted economic resilience as evidenced by the strong response of the authorities to external shocks such as the COVID-19 pandemic and Russia's unjustified war of aggression against Ukraine. Indirectly, the three MFA operations had a positive impact through signalling effects on other countries in the region.[22] Still, the MFA operations could have wider and stronger regional effect if the main trigger had a regional dimension (i.e. the MFA operations intended to help a country to address a crisis of a regional nature such as the COVID-19 pandemic). This was not the case for the three operations under consideration.

8. WHAT ARE THE CONCLUSIONS AND LESSONS LEARNED?

8.1. Conclusions

The independent evaluation analysed the relevance, coherence, efficiency, effectiveness and EU added value of the MFA operations to Moldova, Georgia and Ukraine that were implemented in 2017-2020. The social impact of the respective operations, the effect on the countries' public debt sustainability and possible regional implications of the operations were also explored. Limitations encountered mainly pertained to challenges in accessing relevant stakeholders and institutional memory during the data collection phase as well as conducting the DSA and the social impact assessment (SIA), which are dependent on the definition of counterfactual alternatives. However, these limitations were mitigated to the extent possible and overall do not significantly affect the findings of the evaluation.

The three MFA operations were relevant in terms of their objectives, form and timing, though to varying degrees, considering the different contexts in the countries under evaluation. The financial assistance was particularly important in supporting the economy of Ukraine. In Georgia and Moldova, the effect was less significant due to the relatively small amount of the MFA operation for the former and the significant delays with the disbursements of the instalments for the latter that were driven by the freeze of the intervention on two occasions due to political backsliding that impacted on the fulfilment of the political pre-condition attached to the disbursement of each instalment from the MFA intervention. The design of the operations was also considered appropriate. The size varied significantly in view of the different needs of each country. The MFA operations played an important role in the three countries for macroeconomic stabilisation and improved resilience, including through a significant signalling effect as well as support for wide-ranging structural reforms.

[22] For further analysis of the regional impact of the three MFA operations see section 6.2 of the *Study supporting the ex-post evaluation on Macro-Financial Assistance operations to the Eastern Partnership countries of Moldova, Georgia and Ukraine (2017-2020)*, Final report, April 2024

The counterfactual analysis shows that the macroeconomic situation would have been worse in the absence of the MFA financing, at least in Moldova and Ukraine. The economic impact on Georgia of not having support via MFA would have been less significant due to the smaller size of the operation and the viable alternative financing sources for the country at that time. In all countries, debt sustainability would have remained largely similar to what was observed (the baseline) in the case of no MFA funding. However, the combined counterfactual effect of having no MFA and IMF interventions would have been rather adverse, in particular for the Moldovan and the Ukrainian economies. In this hypothetical scenario, the countries would have experienced severe negative macroeconomic consequences.

In all three countries, the financing needs were higher during the disbursements of the second instalments (in 2020) than expected due to the impact of the COVID-19 pandemic. The timing of these disbursements enhanced the positive social impact of the MFA operations. For the first disbursements, the need was higher in Moldova and Ukraine, and less in Georgia thanks to the better-than-expected economic performance of the country at that time and the easier access to alternative sources of financing.

Beyond financial aspects, other elements of EU added value came from the 'EU stamp' and its signalling role towards the markets, but also towards the citizens especially in the case of Moldova, as a sign of credibility. MFA structural policy reforms and political preconditions were beneficial in reinforcing commitments to EU-oriented reforms in this particular country.

The structural measures supported by the MFA operations covered the most relevant reform areas for Moldova, Georgia and Ukraine – public finance management, governance and anti-corruption, the energy and financial sectors, and business environment, among others. These areas were also aligned with the own reform agendas of the authorities and were coherent with the broad policy framework guiding the EU relations with the countries, in particular the DCFTA agreements. Many of the conditions in the respective operations showed continuity with previous MFA programmes and built on lessons learned. For example, in Ukraine, the focus was on a much smaller number of policy reforms than in the preceding operation that were, however, more targeted and measurable. In Moldova, in contrast, the conditionality attached to the MFA was very comprehensive, reflecting the serious governance concerns and numerous institutional and structural deficiencies exposed by the large banking fraud from 2014. Evidence has also shown that MFA operations are facilitated when they are anchored in a clear policy framework, as was the case for all three operations. Each operation was strongly aligned with the countries' respective AA in force, thus there was a shared reform agenda in place for reference.

Progress with reforms supported by the three MFA operations was generally seen as successful, even though the implementation capacities differed substantially among the three countries. In Ukraine, all conditions were either fulfilled or deemed broadly fulfilled despite some delays, while in the case of Georgia a waiver was granted for one of the conditions. The extremely complex political situation in Moldova during MFA II resulted in the non-implementation of four policy reforms out of 28 in total.[23] All of them concerned the third and final instalment and led to the cancellation of its disbursement.

In the case of MFA II to Moldova, the additional required steps in relation to the political preconditions played an important role. They provided a useful safeguard during times of political backslide and helped to improve governance in the country. Stakeholders, including in Moldova, generally believed that the EU was right in adopting a firm stance and put the operation on hold, as it helped to rectify the deterioration of democratic standards, maintain Moldova on its EU path, and keep the focus on DCFTA-related reforms.

The EU's added value primarily concerned the financial benefits granted to the three economies, with the highly concessional terms of the MFA financing (including a grant component for Moldova and Georgia) allowing for fiscal savings and a gradual adjustment of the primary public deficit. The financial added value of MFA operations also derived from the fact that the EU could mobilise and coordinate a relatively large amount of resources. Beyond that, all MFA interventions had important confidence-boosting and signalling effects to the general population.

The operations were deemed coherent with the broad policy framework guiding the EU relations with the beneficiary countries, as well as with the previous MFA interventions, other EU and donor programmes. MFA not only contributed to effective 'burden sharing' with the IMF and other donors in financial terms, but also reinforced reforms promoted by the national governments and the international partners.

8.2. Lessons learned

The MFA operations to Moldova, Georgia and Ukraine achieved the objectives of supporting macroeconomic stabilisation and fostering much-needed structural reforms in these countries. The evaluation offers several lessons with respect to the design of the MFA operations, especially related to the reforms supported by these interventions. Overall, the choice of areas was highly relevant, with experience suggesting that focusing on sectors where the EU is heavily involved (through other operations/instruments/past MFA operations) has greater added value as it helps to add momentum to previously supported reform efforts. In this regard, MFA IV to Ukraine stands out positively, given that the operation was closely following the preceding three MFA interventions in the country and was able to successfully build on previous reform achievements, but also set new reform targets, and thus led to particularly strong reform progress.

There is a trade-off between the number of reforms promoted via the MFA operations and the economic impact achieved through the interventions, especially in the context of a relatively limited administrative capacity of the beneficiary countries. Moldova's MFA II had a similar number of conditions as the operations for Ukraine and Georgia combined. In addition, several new conditions, aimed to address the country's political

[23] These relate to making substantial progress with the implementation of the asset recovery strategy of the Moldovan authorities for the three banks whose funds were fraudulently transferred outside the country, achieving substantial progress with the implementation of the action plan for the legal and functional unbundling of the three system operators in the gas sector, parliamentary adoption of a new Customs Code consistent with the EU *acquis*, and parliamentary adoption of primary and secondary legislation to strengthen the Superior Council of Magistracy.

backslide, were further added during the implementation of the intervention. As a result, the direct economic impact of the MFA operation for Moldova has significantly diminished both due to the delay with the disbursements of the instalments and the cancelation of the disbursement of the final instalment since several conditions were not implemented before the expiry of the operation.

Having clearly defined conditions facilitates reform implementation and assessment. Not sufficiently precise wording of the conditions could create challenges with their assessment by the local authorities, the Commission and, as was found in the case of Ukraine, by civil society organisations that sometimes play an important role in reform promotion. At the same time, some stakeholders argued that formulating somewhat broad conditions could be useful in specific cases. It could compensate for the fact that MFA conditions cannot be renegotiated without amending the MoU and resorting again to the necessary decision-making processes. This could also ensure that conditions remained relevant in time. By providing more flexibility during the implementation phase, it could also enable the EU to adjust its stance to rapidly evolving political and economic situations.

When designing conditionality, continuity from previous EU support programmes, when relevant, could be useful. This is confirmed by the evaluations of the Ukrainian and Georgian MFA programmes. In the Georgian case, clarity came from the fact that MFA III conditions mirrored pre-existing and parallel commitments under the AA and EU budget support programmes.

The assessment found insufficient visibility of the MFA operations and significant room to strengthen the EU's strategic communication to this end. There was a missed opportunity in Georgia especially, where civil society organisations and experts were unaware of the details of the MFA operations and were thus unable to use MFA leverage in their activities. In contrast, in Ukraine, civil society made use of MFA IV conditionality to report on the government's progress in key reform areas. However, the overall visibility of the instrument was still considered relatively low, in particular given the significant amounts of EU assistance to the country. The visibility of MFA II was less of an issue in the case of Moldova thanks to the higher public awareness of the EU's support at the time and the scrutiny of government actions by political and civil society actors.

For the general audience, MFA support could be communicated more broadly, alongside the wider EU support. The focus should be on communicating the (expected) benefits of the assistance and the specific measures supported. Overall, communicating the specifics of the MFA operation with an informed audience should be part of the standard process.

The external study has shown that ensuring tangible benefits from implemented conditions cannot always be guaranteed, given the changing political context and the increasingly challenging geopolitical situation in the region that could lead to reform reversal. Moreover, reform ownership is not always uniform across all national stakeholders and sometimes the conditions are not necessarily adhered to, implying delay with the implementation of the MFA operations. The implementation capacities can also be limited at a national level. To help maintain reform momentum, the external study has noted the potential positive role of technical assistance projects, as demonstrated in the case of Ukraine, in supporting local stakeholders with the implementation of attached conditionality. The presence of such projects also helps move initiated reforms further after the end of the specific MFA operation.

ANNEX I: PROCEDURAL INFORMATION

In accordance with Decision (EU) 2017/1565, Decision (EU) 2018/598 and Decision (EU) 2018/947 and in line with the requirements set out in the Better Regulation Guidelines, the MFA operations to Moldova, Georgia and Ukraine are subject to an ex-post evaluation. The intent of the evaluation is to assess the results and the efficiency of the operations, by focusing on (i) the impact of MFA on the economy of the beneficiary countries and, in particular, on the sustainability of their external position and (ii) the added value of the EU interventions.

By looking at the relevance, effectiveness, efficiency, coherence and EU added value of the operations, the evaluation verifies:

– whether the ex-ante considerations determining the design and terms of each operation were appropriate, taking due account of the economic, political and institutional context;

– and whether the outcome met the objectives set in the Decisions.

Apart from identifying areas of improvement for similar on-going or future possible interventions, the evaluation also aims at ensuring better transparency and accountability of the Commission's activities. In order to ensure validity, the analysis and conclusions are based on the evidence obtained using several evaluation methods (documentary review, macroeconomic data analysis, targeted stakeholder interviews, expert survey, case studies, focus groups, comparative assessment and regional analysis, a debt sustainability analysis and a social impact analysis).

The lead DG to carry out and manage this evaluation has been the Directorate General for Economic and Financial Affairs (DG ECFIN). DG ECFIN chaired the Inter Service Steering Group (ISG) that was set up to manage an external study that constituted the key input for the Commission evaluation. Apart from DG ECFIN, the ISG comprised of representatives of other Commission services (the Secretariat General and the Directorate-General for Neighbourhood and Enlargement Negotiations) and the European External Action Service (EEAS).

The ISG had the responsibility to:

a. Establish the evaluation roadmap for the external study;
b. Establish the Terms of Reference;
c. Facilitate the evaluator's access to the information needed;
d. Advise, monitor and comment on the work undertaken by the external contractor.

In the context of the framework contract for the provision of evaluation services related to MFA operations, in June 2023 the Commission awarded the specific contract to undertake the external study to ICF S.A., in cooperation with Cambridge Econometrics, ISET Policy Institute, the Institute for Economic Research and Policy Consulting and individual experts. A kick-off meeting, where the ISG and the external contractor discussed the deliverables and the evaluation methods, took place already in July 2023. The call for evidence ran for four weeks in June 2023. The publication of the call for evidence was later followed by meetings with the external evaluators on the inception, interim and draft final reports in, respectively, September 2023, December 2023 and March 2024. The draft final report was submitted in March 2024 with updates provided for a final version approved at the end of April 2024. The quality of the final report of the external contractor was assessed as good by the ISG. The final report can be found in DG ECFIN's website.

ANNEX II. METHODOLOGY AND ANALYTICAL MODELS USED

This annex presents the methodological approach to the joint evaluation study of the MFA operations to Moldova, Georgia and Ukraine that were implemented in 2017-2020. It describes the design of the methodology, the tools used for data and information gathering and the results obtained. It also provides insights on the limitations encountered during the study and the mitigation strategies adopted.

Evaluation design

The methodology of the evaluation study was designed to respond to (i) the evaluation questions detailed in the Terms of Reference for the evaluation, and (ii) the Better Regulation Guidelines evaluation criteria. It was based on a mixed-methods approach, allowing for the triangulation of results. The study team selected the most appropriate and targeted approach to ensure a full and in-depth review of each of the three individual operations in their specific contexts. The pillars of the evaluation approach consisted of:

- A theory-based approach, which involved making explicit the underlying theory of change for the MFA operation in each country (Moldova, Georgia and Ukraine), and then testing that theory to draw conclusions about whether and how the MFA contributed to the observed results. The theory of change was developed based on desk research and validated through key informant interviews;

- A combination of qualitative and quantitative research to facilitate a deeper understanding of the evaluation issues and to build a rich and comprehensive evidence base for the evaluation;

- Triangulation, which allowed for multiple lines of inquiry and evidence to be used to answer each evaluation question.

Tools for information gathering and results obtained

The information and data required for the study were collected using the following methodological tools:

- **Review of documents and data** related to the three MFA operations under study; (other) EU policies and instruments in the Eastern Neighbourhood, including the three countries; reports and data provided by international financial institutions (IFIs) such as the IMF, the World Bank, the European Bank for Reconstruction and Development and the Organisation for Economic Cooperation and Development. The documents reviewed included, among others, the MoUs related to the three MFA programmes; the relevant operational assessments and ex-ante evaluation statements; the Commission proposals and mission reports; the legislative decisions by the Parliament and the Council; budget support publications; relevant IMF country reports; regional analysis produced by the World Bank; reports and strategies from bilateral and multilateral donors active in the three countries; reports from non-governmental organisations on political and economic developments in the region; articles from reputed international financial magazines; articles and analyses on the MFA support in the local media in the three countries; reports produced by major credit rating agencies; various policy strategies and papers adopted by the national authorities; the Commission's Better Regulation Guidelines and toolbox.

- **Macroeconomic data analysis** of national accounts, balance of payments, public finances, international reserve dynamics, and monetary developments. The evaluation relied on primary data from the Ministries of Finance and the respective central banks, national statistical offices as well as on statistics provided by the IMF and the World Bank.

- **Internal brainstorming session on counterfactual scenarios** aimed at identifying, developing and testing hypothetical counterfactual scenarios that would have been (i) least likely if the MFA or the MFA/IMF programmes had not been provided to the authorities of Georgia, Moldova, and Ukraine, along with comprehensive reasons for dismissing those scenarios; (ii) the most credible counterfactual scenarios that would have been most probable if the MFA or the MFA/IMF interventions had not been provided to the authorities of the three countries. This exercise provided a basis for further discussions with key stakeholders.

- **Interviews with key stakeholders** from the EU institutions, national authorities of the beneficiary countries, civil society organisations, IFIs and other donors. A total of 82 detailed interviews were carried out. Interviews with EU representatives, including ones in the EU delegations in the respective countries, covered all key themes of the evaluation, to understand the designing, monitoring and coordination process of the operations. On MFA beneficiary side, the interviewees targeted essentially authorities (Ministries of Finance as the coordinating ministry in Moldova, Georgia, and Ukraine and other ministries and agencies that played a role in the execution and/or oversight of MFA conditions).

- **Focus group discussions** for each country studied with local expert teams and pertinent stakeholders such as representatives from the business sector, civil society organisations, and academics. The discussions (two per country in an online format) were structured around a series of brief presentations designed to stimulate an open dialogue among the participants. The primary subjects of discussion during the focus groups included (i) the unique benefits of MFA operations as part of the wider EU assistance to each country, (ii) the contribution of the EU and MFA operations to the comprehensive reform efforts of each country and any design issues, and (iii) detailed dialogues on specific reform areas targeted by the MFA operations selected on the participants' expertise. The focus group discussions involved 22 interviews.

- **Case studies** were used to generate insights and learning on how the MFA instrument supported structural reform in a given context, with regard to a particular thematic area or sector. Three country specific case studies were developed, each looking at different priority reform areas, taking into account the varying contexts in the three countries under evaluation. Regarding Georgia, the national case study assessed labour market reforms supported by MFA III. In the case of Moldova, it looked at public sector governance with emphasis on public administration and its relationship to the reform of SOEs. For Ukraine, the study explored reforms linked to public finance management, in particular the ones of the customs and tax administrations.

- **Social impact analysis** whose primary goal was to use evidence from social indicators and primary data to evaluate the impact of the MFA operations on the social conditions in Georgia, Moldova, and Ukraine. The second part of the analysis focused on direct effects, aiming to understand - through a data-driven approach - the degree to which social protection was strengthened, the tax system was made more progressive, and labour market conditions were improved as a result of policy reforms supported by the MFA programmes. Lastly, a counterfactual analysis was conducted, aiming to determine the probable social situation in Georgia, Moldova, and Ukraine in the absence of the first instalment of the MFA (Alternative A), in the absence of the second (Alternative B) and additional MFA instalments (Alternative C for Moldova), and in the absence of both MFA and IMF funding (Alternative D).

- **Debt sustainability analysis** aimed to assess the impact of the three MFA operations on the sustainability of public debt in each country. It was carried out within a counterfactual framework, comparing the actual outcome (the baseline) with what might have happened under different scenarios. Specifically, the DSA took into account the following key scenarios: the first MFA instalment not being disbursed/received by each country, (Alternative A); the second instalment not being received by each country, (Alternative B); an additional instalment not being disbursed/received by Moldova (Alternative C); and funding from both MFAs and the IMF programme not being disbursed/received by Moldova, Georgia, and Ukraine (Alternative D). For each scenario, an array of possible responses was examined, ranging from the countries borrowing from elsewhere (at higher cost) to enacting various forms of fiscal consolidation. The most probable counterfactual was then determined based on insights gathered from desk research, stakeholder consultations, and local economic experts.

- **Assessment and regional analysis** to identify key patterns across the three MFA interventions, and assess their regional impact in the Eastern Neighbourhood. The assessment allowed for the respective strengths and weaknesses of each MFA operation to be investigated in light of the specific national context.

While the expert survey, the case studies and the online focus group enabled the collection of information of a highly technical nature, the interviews extended the hearing to include less specialised interest groups.

The data collection tools were used to inform the work of the external evaluator. DG ECFIN, together with the other members of the ISG, closely monitored the contractor's work throughout the study.

During the execution of the study, DG ECFIN provided the evaluator with all necessary documentation in a timely manner. On completion of the exercise, the ISG concluded that the study addressed all key issues as requested in the terms of reference. The evaluator delivered all requested results in line with the working plan.

The caveats and limitations mostly pertained to challenges in accessing relevant stakeholders and institutional memory in the data collection phase and conducting the DSA/SIA (which are dependent on the definition of counterfactual alternatives). These challenges are further detailed below, alongside the mitigation measures that were applied.

- **Access to relevant stakeholders and institutional memory**: The evaluation was carried out in 2023-2024, while the operations had been discussed and negotiated over 2016-2018. This made it challenging to identify and access stakeholders with the relevant institutional memory, as relevant staff have often changed positions both on the side of the EU and the beneficiary countries. To cover different time periods, interviews were targeting multiple stakeholders, including former staff (even if no longer within the institution). Given the time gap, it was sometimes hard for interviewees to recall all details, despite the sharing of relevant recaps ahead of the calls. In this context, the evaluation benefited substantially from the internal ECFIN documentation, notably DG ECFIN mission reports. When reaching out to wider stakeholders, the low visibility of the MFA as an instrument also made it harder to secure participation. In order to mitigate this shortcoming, the communication was adapted to mention EU support, EU-promoted reforms rather than MFA itself.

- **Debt sustainability analysis**: the design of DSA counterfactual scenarios relied on the insights collected through consultations and expert interviews. To address this uncertainty, the scenarios were analysed as a set of variants. Having ruled out options that were not viable in each case, the remaining options were assessed in different combinations, to give a sense as to the likely (range of) outcomes. Data sources used in the DSA analyses drew mainly on IMF data and data from the official releases by the respective Ministries of Finance in the three countries.

- **Social impact analysis**: The SIA presented two key challenges – the quantification of direct impacts of the conditionalities relating to social reforms and the identification and articulation of the counterfactuals to assess the potential implications for the social situation in the countries. The first challenge is linked to the nature of the different conditions and to the need for relevant data (over an appropriate time period) to fully assess their effectiveness. Some of the reforms also likely require a relatively long timeframe to produce visible results. Variables such as employment and enrolment in education can take some time to change, and this may not be observable over the period for which data is currently available. Such longer-term trends may need to evaluated in the future, as more data becomes available. Moreover, a large number of factors (chiefly the broader economic situation) may have hindered the effectiveness of the reforms, thus making it harder to isolate their specific impact. It is thus harder to conclude if the reforms were effective (or not) in the presence of such confounders.

  The definition of the counterfactuals and their impact on the social situation relied on several rounds of interviews and discussions with country experts. Given the uncertainty (in part for the reasons above), it proved quite difficult to determine the consequences of the counterfactuals for the social situations in the countries. In particular, a key point of discussion related to the possible implementation of reforms independently of the MFA. Hence, the SIA counterfactual analysis mostly focused on whether cuts to public spending might include budget cuts to social assistance programmes.

ANNEX III. EVALUATION MATRIX AND, WHERE RELEVANT, DETAILS ON ANSWERS TO THE EVALUATION QUESTIONS (BY CRITERION)

This annex provides a more detailed overview of the evaluation matrix used for the evaluation study. It was developed by the external contractor, as a framework for the independent assessment. The matrix assigns each evaluation question outlined in the ToR to the relevant evaluation criteria and serves as general framework for the applied methodology.

Evaluation Question on **Relevance**: *To what extent was the MFA operation design (including adequateness of financing envelope, focus of conditionality) appropriate in relation to the outputs to be produced and objectives to be achieved?*

Judgment criteria	Quantitative analysis	Qualitative analysis	Source of information	Key findings
The size of the financial assistance was adequate in relation to the financing needs of the beneficiary country and burden-sharing considerations; Form of support was appropriate given the beneficiary country debt position and income status; MFA conditions were consistent with the needs of the respective countries and realistic given the nature of the instrument.	Size of financial assistance vs financing gap. Analysis of planned financing needs (as conducted by the IMF) and the role of the MFA in meeting these needs; How financing needs were met in years with no MFA disbursement; Size of the financial assistance vs size of the economy or size of key expenditure programmes; Burden-sharing considerations: MFA vs other sources for the external financing gap; vs total assistance receives in the form of budget support; Analysis of how each country met criteria defining eligibility to grants; level of economic and social development; debt sustainability and repayment capacity; treatment granted by other donors; EU budgetary constraints (uncommitted budgetary allocations for MFA grants in the EU budget when the commitment for the respective MFA operation was intended to materialise)	Size of financial assistance vs expectations; degree of consensus among key stakeholders/key informants regarding the relevance and importance of the MFA (in absolute and relative terms); Stakeholders and local economists' assessment of the use of the loan (Ukraine) and of loan/grant mix (Moldova and Georgia); Extent to which the conditionality was in line with the core objectives of the operation and EU priorities; Number and scope of conditions; Extent to which the operation addressed priority areas for reforms, relevance of specific reform areas and conditionalities; Examination of whether the ambition level was appropriate in the local context, bearing also in mind the characteristics of the MFA instrument.	*Documentary analysis:* Ex-ante evaluation of the MFA operations; MoU and Loan/Grant Agreements; Official requests for MFA assistance by the national authorities; Reports and supporting documentation submitted by the authorities to the European Commission on the fulfilment of the structural reform criteria; Commission's assessment of compliance with conditionality requirements (e.g. mission reports, information notes); IMF mission reviews; World Bank summary reports; Various Indexes e.g. The Open Budget Index, World Bank Doing Business Ranking, World Economic Forum Competitiveness Index. *Semi-structured interviews:* EC officials (DG ECFIN, DG NEAR); EEAS; EU Delegations in the respective countries; Representatives of Member States; IMF/ World Bank officials; National authorities *Focus Group* *Case Studies*	The EU assistance was adequate as it covered a sizeable (around 30%) part of the external financing needs as estimated by the IMF under each of the three operations The use of a mix of grants and loans (Moldova and Georgia) and loans only (Ukraine) was appropriate given the level of development and fiscal position of the respective countries as well as the EU's budgetary constraints; The structural measures supported by the MFA operations covered the most relevant reform areas for Moldova, Georgia and Ukraine – public finance management, governance and anti-corruption, the energy and financial sectors, and business environment, among others

Evaluation Question on **Coherence**: *To what extent was the MFA operation in line with key principles, objectives and measures taken in other EU external actions foreseen in the context of the European Neighbourhood policy towards Moldova, Georgia and Ukraine?*				
Judgment criteria	Quantitative analysis	Qualitative analysis	Source of information	Key findings
The MFA operations were fully in line with key policy framework and principles; MFA reinforced action deployed via other EU instruments; MFA operations were consistent with and relevant to other donors' programmes		Review of key milestones in EU-MFA beneficiary countries' relations (AA, DCFTA; EU candidate status); Mapping of conditions vs conditions of preceding MFA operations, other EU instruments deployed as budget support; Stakeholder assessment of potential synergies; Availability on a needs-based basis of technical assistance in MFA reform areas; Analysis of synergies with the IMF/World Bank/other programmes	*Document and data review:* MFA documentation; Identification of relevant programmes/actions and review of their documentation (e.g. EU budget support programmes; IMF/World Bank and other programmes); Annual reports on the implementation of the EU instruments for financing external actions; EU Budget support, Trends and Result reports (2017-2020) *Semi-structured interviews:* EC officials (DG ECFIN, DG NEAR), EEAS; EU Delegation; National authorities; Representatives of Member States; IMF/ World Bank and other donors *Focus Group on reforms*	The three MFA operations were fully aligned, including via the conditionality attached to the interventions, with the objectives of other EU external actions foreseen in the context of the European Neighbourhood such as AA and DCTFA agreements; MFA operations strengthened actions deployed via EU budget support programmes and other EU instruments; MFA operations were consistent and complementary with other support programmes, in particular the ones of the IMF, both in terms of financing and reforms promoted.

Framework for answering Evaluation Question on **Effectiveness**: *To what extent have the objectives of the MFA operation been achieved?*

Judgment criteria	Quantitative analysis	Qualitative analysis	Source of information	Key findings
Macroeconomic impact: There has been an improvement in the macroeconomic situation of the MFA beneficiary country or the evidence suggests the situation would have been worse in the absence of MFA. The role and contribution of MFA can be identified. MFA financing was preferable compared to alternative scenarios. MFA had a positive social impact. There were no/limited unintended negative effects from the assistance. The contribution of MFA to the public debt sustainability of the beneficiary country was positive. *Structural reforms:* There is evidence of progress with reforms. There is evidence to suggest that MFA accelerated, reinforced or promoted reform in certain areas. There were no/limited unintended negative effects from the promoted reforms.	Analysis of trends in key indicators (National accounts, Balance-of-payments statistics, Government finance statistics, Monetary statistics, External sustainability) before, during and after MFA; Counterfactual analysis, implications of alternative scenarios (for alternative financing scenarios: analysis of data on alternative lending conditions, from bilateral / multilateral donors and from national and international capital markets) Evolution of key outcome indicators linked to MFA Conditionalities; Evolution of key indicators relating to unemployment, poverty, etc.; Counterfactual analysis, implications of alternative scenarios (quantitative) Modelling of key debt burden indicators and macroeconomic variables that affect the path of a country's debt and its capacity to manage its debt sustainably (baseline scenario vs counterfactual scenarios)	Counterfactual analysis, implications of alternative scenarios (for fiscal policy and monetary adjustment); Stakeholder views on the specific contribution of MFA to short-term macroeconomic stabilisation Stakeholder assessment of MFA social impact Counterfactual analysis, implications of alternative scenarios (qualitative) Stakeholder assessment of MFA contribution to debt sustainability Desk review of progress made; Stakeholder assessment of reform progress and contribution of MFA	*Document and data review:* Macroeconomic data sourced from IMF/World Bank and national sources; MFA documentation; IMF reviews and country reports; Credit rating agency reports (e.g. Moody's); Data on public borrowing (scale/ maturity/ costs) and prevailing market conditions at the time of MFA/IMF programmes. *Semi-structured interviews:* EC officials (DG ECFIN) IMF/ World Bank officials; National authorities; EU Delegations; Other donors; Inputs from local experts *Focus Group Semi-structured interviews:* – EC officials: DG ECFIN; – IMF/ WB officials; – National authorities – EU Delegation – Other donors. *Focus group on reforms;* *Inputs from local experts;* *Social Impact Assessment* *Debt Sustainability Analysis;* *Focus group on counterfactuals*	MFA assistance supported macroeconomic stabilisation both directly, via financing provided under favourable terms, and indirectly (supporting reforms; having a positive signalling effect and thus boosting confidence). The counterfactual analysis shows that the macroeconomic outcomes would have been less favourable in the absence of the EU's MFA ; MFA had a positive, social impact. It came both from implementation of social reforms included in the operations but also reduced need for budgetary cuts that could have affected social spending (in particular in Ukraine); MFA had a positive, albeit limited, impact on public debt sustainability. This reflected the provision of grants (Moldova and Georgia) but also loans under better terms than those of other creditors; MFA was particularly successful in promoting reforms in the banking and energy sectors, governance and anti-fraud (Moldova), PFM, business environment and labour market (Georgia) and PFM, energy, anti-corruption and SOEs (Ukraine).

Framework for answering Evaluation Question on **Efficiency**: EQ1: *Was the disbursement of the financial assistance appropriate in the context of the prevailing economic and financial conditions in the beneficiary country?*; EQ2: *In what way has the design of the MFA assistance conditioned the performance of the operation in respect to its cost and its objectives? To what extent did the MFA operation design enable the intervention to be carried out efficiently?*				
Judgment criteria	Quantitative analysis	Qualitative analysis	Source of information	Key findings
MFA disbursements were timely given the financing needs; MFA disbursements/non-disbursement decisions were coherent with the EU stance in Moldova, Georgia and Ukraine	Timing of MFA disbursements in relation to key macroeconomic developments, financing needs and IMF disbursements	Time taken between the request for MFA assistance and approval/ disbursement of first tranche of MFA; Analysis of factors affecting disbursements; Consistency of disbursement or non-disbursement decisions with the EU stance in the country	*Document and data review:* MFA documentation; IMF/ World Bank documentation; Data on debt repayment obligations from the Ministry of Finance *Semi-structured interviews:* EC officials (DG ECFIN, DG NEAR), EEAS IMF/ World Bank officials; National authorities; EU Delegation; *Focus group on reforms*	MFA disbursements were appropriate in view of the prevailing economic and financial conditions in the case of Georgia and Ukraine. There was a considerable delay with the disbursements to Moldova due to the non-fulfilment of the political pre-condition; The decision for the non-disbursement of the final instalment to Moldova was consistent with the non-fulfilment of four policy conditions by the expiry date of the operation,
There were favourable entry conditions for the MFA operation e.g. political commitment; public buy-in, capacity to implement reform; There was effective dialogue between the European Commission and the national authorities; The design of the MFA operation was flexible, and it adjusted to changes in context and/or feedback mechanisms; There was effective monitoring of the MFA operation; The MFA operation was well perceived in the beneficiary country		Level of ownership over time and factors affecting ownership (eg. government changes); Level of capacity within the country and how the MFA design took into account any capacity issues; The extent of liaison between the European Commission and the national authorities; The existence of effective monitoring of the MFA operation. Communication channels used to promote MFA and media treatment received. Stakeholder feedback on the MFA operation, including what could have been done differently with the benefit of hindsight	*Document and data review:* Macroeconomic data sourced from IMF and national sources; MFA documentation Semi-structured interviews: EC officials (DG ECFIN, DG NEAR), EEAS; IMF/World Bank; officials; National authorities; EU Delegation *Focus group on reforms*	The MFA interventions for Georgia and Ukraine built on operations that have recently expired and thus ensured reform continuity. The operation for Moldova included a large number of reform conditions with the aim to tackle deep-rooted institutional and governance problems in the country. Both national and EU stakeholders confirmed effective dialogue before and during the period of the MFA operations. Despite limited visibility the MFA operations were well perceived by the authorities and the civil society.

Framework for answering the Evaluation Question on **Added Value**: *What is the additional value resulting from an EU intervention compared to what could reasonably have been expected from Member States acting at a national level? To other interventions by other international donors?*

Judgment criteria	Quantitative analysis	Qualitative analysis	Source of information	Key findings
There is clear financial added value of EU support; There is demonstrable evidence of signalling and confidence building effect of MFA operation EU reinforced the authorities' call for reform and had a discernible influence on the design and application of conditionalities. It added value compared to other donor programmes	Comparison of the terms and conditions of MFA vs other forms of financial support provided by other bilateral / multilateral donors; Trends in confidence indicators and proxy indicators of confidence such as interest rates for T-bills and longer-term bonds denominated in local/foreign currency and key indicators of the foreign exchange market	Extent to which MFA support could have been provided at Member State level (size and form) Qualitative assessment of links between wider fluctuations in confidence indicators and EU assistance; Self-reported confidence-boosting effects of the MFA (stemming from financial support per se and reform conditions); Perceptions of the package of support in the analyses of credit rating agencies and analysis of rating movements Mapping of conditionalities; Stakeholders' views on the role and influence of EU in the design and application of support package; Stakeholder views of the criticality of the EU nudge; Analysis of the level of ambition of the conditions and use of cross-conditions (notably with World Bank and IMF programmes); Extent to which MFA conditions were 'owned by the public' and used in the public debate to push certain reform agendas	*Document and data review:* Credit Rating Agencies reports; Financial markets data; Identification of relevant programmes/actions and review of their documentation (eg. IMF, World Bank and other programmes) *Semi-structured interviews:* EC officials (DG ECFIN, DG NEAR); IMF/World Bank officials; Other key bilateral/ multilateral donors; National authorities; EU Delegations; *Focus Group on reforms* *Insights from local experts* *Document and data review:* IMF reports and data; World Bank document on their policy loans; Data and reports prepared by other international financial institutions and major bilateral donors; Parliamentary and other official publications from MFA beneficiary countries *Semi-structured interviews:* IMF/World Bank officials; Other donors; Representatives of Member States	The concessional nature of MFA remains high given that the terms and conditions reflect those that the EU can obtain on the market as an issuer. Compared to IMF financing, MFA terms and conditions are more favourable, once considering all fees, margins and surcharges that can apply; Beyond financial aspects, other elements of EU added value came from the 'EU stamp' and its signalling role towards the markets, but also towards the citizens; MFA structural policy reforms and political pre-conditions were beneficial in reinforcing commitments to EU-oriented reforms, in particular in Moldova and Ukraine.

ANNEX IV. OVERVIEW OF BENEFITS AND COSTS

The typology of costs in the Better Regulation toolbox (defined as compliance, enforcement and other indirect costs) is impossible to apply in the context of MFA operations as such costs are not incurred here. As indicated in the Legislative Financial Statement accompanying Commission's proposals for MFA, the budgetary impact at the level of the EU is limited to some administrative costs related to human resources and outsourcing of operational assessments and ex-post evaluations.

The typology of benefits (improved welfare, market efficiency and wider economic effects) can seem to be more relevant. However, as shown in past country ex-post evaluations, which tried to quantify the macroeconomic effects of the MFA assistance, either by counterfactual modelling or by other more qualitative methods, it is almost impossible to disentangle the effects of MFA from IMF assistance (both disbursed at a comparable period of time) and from other macroeconomic events.

The Guidelines for carrying out ex-post evaluations of MFA operations of June 2015, acknowledged the problem and stated that:

> *[…] EU added value may be the results of different factors: coordination gains, legal certainty, greater effectiveness or efficiency, complementarities etc. In all cases, concluding on the continued need for the intervention at EU level may be difficult as measuring EU added value is challenging.*
> *The analysis of EU added value is often limited to the qualitative, given the stated difficulties to identify a counterfactual.*

More specifically in the field of ex-post evaluation of MFA, challenges can arise which cannot be easily discarded and should be taken into consideration:

- The nature of the instrument: MFA is not earmarked in any way. It is an instrument complementing an IMF programme. It cannot be linked directly to identifiable outputs as in the case of programme or project-linked aid;

- Objectives of MFA operations can be implicit for political reasons and when they are explicitly presented in an MoU, they can sometimes be not specific in nature;

- The size of the assistance: MFA grants/loans are provided in addition to the provision of an IMF loan and may represent a small proportion of the total funds accorded to the recipient country. Thus, the financial components of both instruments cannot usually be easily or indeed meaningfully disassociated.

The consequence of these challenges is that:

- A classic assessment of efficiency (i.e. cost-effectiveness) is not feasible, though an examination of the suitability of the blend of grants and loans making up the assistance and other questions about its design and implementation and consequences for the achievement of objectives are pertinent issues.

- Effects on macroeconomic variables over time cannot be uniquely attributed to MFA, requiring that analyses consider the global package of which the assistance is a part.

Past country ex-post evaluations have taken this guidance into account and have come with an evaluation methodology suited for the MFA instrument. This methodology used for this ex-post evaluation and the accompanying analysis is presented in Annex 14 of Study supporting the Ex-post evaluation of Macro-Financial Assistance operations to the Eastern Partnership countries of Moldova, Georgia and Ukraine (2017-2020), Final Report annexes.

ANNEX V. STAKEHOLDERS CONSULTATION - SYNOPSIS REPORT

This annex provides a brief overview of all stakeholder consultation activities undertaken for the evaluation, already introduced in Annex II. A total of 82 **interviews** were carried out with key stakeholders as part of the evaluation, including ones from: (1) the EU; (2) beneficiary countries; (3) donor community; and (4) other relevant stakeholders at regional level.

More specifically, the evaluation team interviewed European Commission officials and other representatives of the EU and individual Member States, as well as Moldovan, Georgian and Ukrainian national authorities. Other relevant stakeholders involved in the implementation and/or monitoring of MFA were also included, while IFIs, the wider donor community, CSOs and businesses representatives were also consulted.

The focus of the interviews varied, depending on the stakeholders. Interviewees received a copy of semi-structured questionnaires beforehand that were used to steer the interviews.

Additionally, a dedicated **expert survey** sought to elicit additional views in relation to the macroeconomic impact of the respective MFA operations in Moldova, Georgia and Ukraine on their economies; the impact and contribution of the programmes on the structural reform process in each country , and various design and implementation aspects. Participants were also asked to comment on possible scenarios (i.e. alternative avenues that would have been considered by the authorities) had either MFA operation or the entire joint MFA/IMF assistance package not been made available. The survey also covered aspects pertaining to the role of the MFA in promoting structural reform and the associated economic and social impacts.

An online **focus group** discussion was also organised between the study team, the local expert team, and several representatives from the business community, CSOs, media and academics in each country. The discussion comprised a series of short presentations and live polls intended to facilitate open discussion among participants.

Finally, **three in-depth case studies** on MFA-promoted reforms were developed (one for each country) in specific areas. These studies included consultations and interviews with the relevant stakeholders. The case studies addressed: a) the rationale behind the selection of MFA conditions in the selected area, as well as the relevance and added value of MFA conditionality; b) the significance of MFA conditionality in the context of the overall need for reform in a particular thematic area/sector; c) How the MFA conditions were implemented and whether the authorities encountered any obstacles in implementing these conditions (e.g. lack of capacity, political or public resistance to change, etc.); d) Role and contribution of the MFA in promoting reforms, including identification of key causal links; and e) Short-, mid- and long-term benefits of the MFA conditions.

The output from the comprehensive stakeholder consultations is one of the key elements for this ex-post evaluation. The key findings from the interviews, the expert surveys, the online focus group discussions as well as the in-depth case studies are presented in Annex III of this SWD.