

# Explainer: Evaluation of Financial Assistance to Greece

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## **Why is it important to have an evaluation of the ESM's financial assistance?**

This follows best practice of other international financial institutions, such as the European Investment Bank (EIB), the International Monetary Fund (IMF) and the World Bank, who also regularly evaluate their activities to promote accountability and learning, and thereby also the credibility and public trust in the institutions.

Drawing lessons from financial assistance provided by the European Financial Stability Facility (EFSF) and ESM will help to improve the effectiveness of programme activities and support the ESM in addressing future crises.

It is also in line with a broader commitment to transparency that supports the

accountability of the institution. The ESM has a number of dedicated transparency initiatives, including for programme-related decision-making, to ensure that all stakeholders and the general public have a clear understanding of the ESM mandate and its work.

### **What is the objective of this evaluation?**

The evaluation assesses the financial assistance to Greece in terms of relevance, effectiveness, sustainability, efficiency and cooperation. It strongly focuses on the ESM programme, while taking into account the preceding EFSF programmes for Greece.

The report also assesses the post-programme developments up to end-September 2019. This evaluation follows the cross-country evaluation report published in 2017 and other evaluations and audits addressing many aspects of the assistance that the EFSF/ESM, European Commission (EC), the European Central Bank (ECB) and the IMF provided to Greece.

A previous independent evaluation of EFSF and ESM financial assistance was conducted in 2016/2017 under the responsibility of the former ECB Executive Board member Gertrude Tumpel-Gugerell. The first report focused on all five euro area countries that received stability support from the EFSF or the ESM: Ireland, Portugal, Spain, Cyprus, and the EFSF Greek programme up to its initial expiry in December 2014.

The first [report](#) concluded that the Greek programmes would require further evaluation as the ESM Greek programme was still ongoing at the time. This is a recommendation that the Board of Governors supported in its [statement of 15 June 2017](#), thereby committing to further enhancing the effectiveness and efficiency of the ESM, as well as the resilience of the euro area.

While the first evaluation was a country programme comparison, the current evaluation was an in-depth analysis on the financial assistance provided to one country. It further considered the provision of assistance as a partnership of the European institutions and where relevant, the IMF.

The evaluations do not examine sectoral policies outside the banking sector, nor focus on the actual detailed implementation of conditionality, for which other

institutions are responsible. This differentiates the evaluations' approach from that of the partner institutions and other relevant EU institutions.

### **Who conducted this evaluation?**

To ensure credibility, evaluations require a high degree of independence. The Chairperson of ESM Board of Governors appointed former Vice-President of the EC Joaquín Almunia to evaluate the financial assistance to Greece. The responsibility for the main conclusions and recommendations lies with Mr. Almunia.

To ensure impartiality, Mr Almunia was tasked to work free from influence, supporting a coherent process and evidence-based conclusions.

The evaluation team drawn from ESM staff members with differing areas of expertise and experience supported Mr Almunia. To avoid conflict of interest and to reduce bias, the selected members of the evaluation team had not been directly involved in the ESM engagement in Greece. The evaluation team was further strengthened by two consultants and an external advisory group with senior experts with background from the IMF, the European Bank for Reconstruction and Development (EBRD, the Organisation for Economic Co-operation and Development (OECD) and the World Bank.

To carry out the analysis, the evaluation team conducted desk studies, surveys, extensive interviews with authorities in Greece, EC, the ECB, the IMF and euro area decision makers, and assessed input from other evaluations and published literature. Four external background papers also informed the evaluation process.

### **What are the main findings of the Evaluation report?**

The extraordinary support provided to Greece in the past decade was essential for Greece to remain in the euro area. It helped the Greek economy to stabilise and to grow – despite present shocks. The financial assistance also enabled Greece's institutions to improve and better meet European standards. At the same time, Greece and its citizens suffered the consequences of eight years of economic adjustment.

The report evaluates the main findings according to relevance, effectiveness, efficiency, sustainability and cooperation.

## **What are the main findings on relevance, according to the report?**

The Greek programmes helped to attain the objective of preserving the integrity of the euro area, and restoring financial stability in Greece.

They provided Greece with emergency funding, avoiding a forced exit from the single currency. There was, however, insufficient attention to the underlying social needs of the Greek population.

The EFSF and ESM programmes lacked an explicit, documented framework to systematically develop strategic programme objectives.

## **What are the main findings on effectiveness, according to the report?**

The EFSF and ESM programmes were partially effective in reaching programme goals and meeting social expectations.

The ESM programme aimed at mitigating sovereign risk by prioritising fiscal sustainability. Despite the milder fiscal consolidation target, compared to previous programmes, the ESM programme addressed to a limited extent the need to quickly move economic activity close to potential.

The EFSF and the ESM programmes recognised the need to modernise the public administration and judicial systems, but only partial progress was made.

A strong focus on restoring euro area financial stability and ensuring Greece returned to the markets had unintended consequences. These included a significant rise in unemployment and brain drain; and the growth of the informal economy at the expense of the formal economy. The reports states that, nevertheless, it is plausible that these consequences would have been worse in the absence of the assistance programme.

## **What are the main findings on efficiency, according to the report?**

The ESM efficiently designed loans and executed disbursements, including previously untested practices for sovereign lending. It also showed flexibility in adjusting terms. In the medium term, the EFSF/ESM measures contributed to reducing Greek borrowing risks, thereby supporting debt sustainability.

## **What are the main findings on sustainability, according to the report?**

The ESM programme put more emphasis on structural reforms and growth than previous programmes, but did not pursue an objective of longer-term macroeconomic sustainability and resilience in a systematic and vigorous manner. The findings point to an opportunity to build a more systematic approach to assessing the macroeconomic impact of structural reforms.

Debt sustainability was improved, re-profiling under the programmes made the debt burden more manageable and strengthened sovereign financial resilience to shocks, but was not fully restored.

Both the EFSF and ESM programmes increased the resilience of the banking sector, however, its shock-absorbing capacity remains weak. Policy measures did not support its capacity to finance growth sufficiently, according to the findings.

## **What are the main findings on cooperation, according to the report?**

The EFSF/ESM, the EC, the ECB and the IMF achieved a considerable degree of cooperation in a complex environment, but different institutional mandates and approaches contributed to a lack of common understanding on key strategies and objectives.

The ESM, the EC, the ECB and the IMF did not fully grasp the root causes of weak ownership from part of the Greek stakeholders. The rationale for reforms and their long-term benefits could have been explained to a broader group of stakeholders and the Greek public.

In the long run, potential challenges remain in the framework for post-programme engagement.

## **What are the recommendations of the report?**

- Future ESM programmes must clearly define strategic objectives based on a long-term view;
- The ESM Board of Governors and Board of Directors should develop high-level guidance on programme design;

- The ESM Boards should also improve programme governance by setting out clear expectations and instructions for the institutions;
- The ESM, the EC, the ECB and the IMF, with the support of country governments, supervisors and other national entities, should coordinate the preparatory and implementation phases of a programme;
- A strong, coherent framework for the monitoring after the end of the programme (post-programme monitoring) is needed to safeguard the adjustment gains made and ensure sustainability. This is important as the ESM is by far the largest creditor to Greece, having provided Greece with loans with maturities that span many decades. The evaluator underscored the potential of policy advocacy in post-programme engagement.

### **How can future ESM programmes more clearly define strategic objectives based on a long-term view, according to the evaluator?**

The programme design should derive its objectives and length from an analysis of the main problems to be tackled, including societal realities. The programme should also include an analysis of risks, including how to adjust the initial timetable to changes in circumstances.

ESM management, in cooperation with its Members and the EC, should develop the necessary analytical frameworks and data sources, beyond a macroeconomic approach, required to satisfactorily establish and prioritise objectives.

ESM management must strengthen internal processes that ensure the independence of staff analysis to provide sound and robust technical assessments.

### **How can the ESM Boards develop high-level guidance on programme design, according to the evaluator?**

The ESM Boards should develop the necessary overarching policy frameworks or principles to facilitate effective and coherent programme design, review, and decision-making.

The programme should define clear priorities that take into account the country's implementation capacity and foster an appropriate sequencing of reforms. Recognising inevitable uncertainty, the programme design should be sufficiently flexible to deal with unintended consequences.

## **How can the ESM Boards improve programme governance, according to the evaluator?**

The ESM Boards, in cooperation with the EC and the ECB, should agree and set up programme governance guidelines to ensure sustainable outcomes.

Debt sustainability assessment exercises must be carried out during and after programme completion. Their results provide a useful basis to assess progress towards programme completion and to support interaction after the programme is completed.

## **How can the ESM, the EC, the ECB and the IMF coordinate the preparatory and implementation phases of a programme, according to the evaluator?**

When a programme is requested, the ESM, the EC and the ECB should coordinate ex ante their analyses and align as much as possible their assumptions. The decision-making process should facilitate an ex ante process of coordination, and avoid unjustified delays in the adoption of decisions.

To enable early cooperation, ESM Members, as well as potential beneficiary countries, should become cognisant of their own vulnerabilities, likely strengthening their ownership of programme objectives and conditions.

## **How do you achieve a strong and coherent framework for post-programme monitoring, according to the evaluator?**

While market and peer pressures can exert some level of discipline, the ESM and its partners should assume a more active policy advocacy role in the post-programme period.

The ESM should foster strong mechanisms for signalling emerging vulnerabilities, strengthen relations with the authorities of the beneficiary country, as well as with political forces and civil society, to increase ownership and establish an efficient system of cooperation. And, in coordination with the other responsible institutions, it should develop capacities that enable them to be aware of the interconnections and potential negative spillovers with the other euro area economies, especially those that impact the weakest.

The ESM should encourage any initiative conducive to the stability and efficient functioning of the euro area.

### **Will the ESM implement the evaluator's recommendations?**

The views expressed in the report are not necessarily the view of the Board of Governors or ESM management, and the Governors are not bound by these recommendations.

At its 11 June meeting, the ESM Board of Governors took note of recommendations and recalled that several recommendations could be addressed by the ESM reform agreed in principle in December 2019. The ESM Governors invited the ESM management to explore follow-up work to the recommendations in the context of financial assistance operations in cooperation with the European institutions, and with full respect to their respective competences and the applicable agreements and legal frameworks, including Union law.

The ESM Board of Governors emphasised the importance of continuously improving practices in the context of financial assistance operations and addressing identified challenges.

They invited ESM management to explore with the EC potential future work streams related to the areas of collaboration as indicated in the joint position on future cooperation, with each institution taking a lead within their respective field of competence.

The ESM Board of Governors also invited ESM management to follow-up in its own field of competence on the recommendations related to further improving the ESM's internal working methods and to keep the ESM governing bodies informed, and present proposals for approval when necessary.

Although the ESM does not have a formal evaluation function, and so far the evaluations have been conducted as projects, the ESM Board of Governors acknowledged that the engagement and communication with stakeholders, and governance setting could be evaluated in the future, given their critical impact on ESM credibility and the quality of financial assistance provided to ESM members. The ESM management will respond to the call of its Governors to follow up on the tasks identified in their statement.



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