

Who conducted this evaluation?

To ensure its credibility, the Evaluation was designed to be conducted independently. This is why the ESM Board of Governors appointed Gertrude Tumpel-Gugerell, a former ECB Executive Board member, as Independent Evaluator. She conducted the evaluation with input from an evaluation team, composed of some ESM staff members and external consultants from institutions that have done similar evaluations in the past. The evaluator consulted with the ESM directors (deputy finance ministers) and partner institutions on the draft findings and recommendations before finalising the report. Responsibility for the report and of its six recommendations, however, lies solely with Ms Tumpel-Gugerell.

What are the main findings of the evaluation?

- The creation of the EFSF/ESM firewall was necessary for effective crisis resolution and confidence building. The EFSF/ESM carried out their mandates effectively, contributing considerably to financial stability in the euro area.
- The EFSF/ESM's favourable financing conditions helped programme countries to regain debt sustainability, notwithstanding historically large country financing needs that were further increased by delayed requests for assistance.
- The financial assistance provided was sufficient to implement programmes, however, the implementation and monitoring of structural measures may require longer time horizons and, in some cases, stronger administrative capacity.
- The recovery of the financial sector was more successful and conducive to growth when upfront measures were taken that comprehensively addressed non-performing assets.
- Programme duration was mostly sufficient to regain market access, but reform momentum waned over time. Follow-up arrangements were considered but the clean exit was preferred to instil political and market confidence.
- The ESM had limited access to information in some areas, especially to financial stability assessments with a potential impact on financing needs in various programme phases.
- The ESM achieved credibility by acting in a professional and unbiased manner. Its assessment is appreciated both by creditor and borrower countries.

What are the independent evaluator's recommendations?

The Evaluator makes six recommendations to the ESM Board of Governors:

- The ESM should focus on programme credibility and support ownership
- Programme design should have clear objectives and priorities
- The programmes should address financial sector issues upfront, but associated disbursements should be delivered in phases, based on progress
- The ESM Board of Governors should further refine and develop the ESM governance framework
- The ESM should enhance programme transparency and evaluability
- ESM Members might consider clarifying the ESM's role in euro area institutional development

These recommendations, as detailed in the report, are a call to action. They are not meant as a criticism of past decisions taken in difficult circumstances; instead, they are an invitation to further develop the ESM's policy framework and clarify its future role in the euro area institutional set-up.

How can the ESM reinforce programme credibility and support ownership by the programme country?

There are some critical features before a programme is actually designed that determine its credibility. The timing of the request for a programme is one of them. The evaluation found that the financing needs of programme countries could have been reduced if programmes had been requested earlier. Therefore, the evaluator recommended that the ESM look at ways of pre-empting delays.

Additionally, the evaluation also found that including contingency buffers in programme financing reinforced the credibility of the programme, thereby improving market confidence. The evaluator therefore recommended that, to maximise this confidence, buffers be included and their inclusion made explicit.

All programme experiences show that programme ownership by that country's government was a critical aspect of success. The more national authorities were willing to embrace programme policies as their own, the greater the chances of programme success. To achieve this, programmes must be realistic, politically legitimate, and properly communicated.

How can clearer objectives and priorities make a real difference in future programmes?

Programmes included some measures that weren't related to the immediate objective of returning the country to market financing at affordable rates. The evaluator recommended that in the short run, future programmes should focus on closing financing gaps and maintaining financial stability. While longer-term objectives are a necessary element of any programme, it should be clear that these may primarily bear fruit only after the programme ends. To ensure such reforms are continued, the evaluator recommended that the Board of Governors consider strategies that could support reform momentum beyond the programme period. The evaluation also found that some countries exited their programmes without completing a final review. Good governance practices suggest the need for a closing report to assess the ESM's financial risks appropriately. Additionally, exit strategies should be embedded in the original programme design to ensure the final review is completed.

As the financial sector was often a problematic issue in programmes, can it be dealt with better in the future?

All EFSF/ESM programmes thus far had measures to address financial sector problems and the sector accounted for a large bulk of the financing envelopes. The ESM must ensure that an explicit and comprehensive financial sector-specific strategy, including the management of non-performing loans, is put in place from the start, even if the financial sector is not the primary source of the crisis. This would help avoid the vicious circle between the financial sector and the rest of the economy.

To prevent negative surprises in the financial sector during the programme, an upfront and continuous review of banking recapitalisation/restructuring needs and its related risks is imperative to ensure any financing shortage is covered.

Should disbursements be front-loaded to boost confidence or back-loaded to ensure conditions are met?

There should be no one-size-fits-all approach. The evaluation finds that disbursements should be handled flexibly. On the one hand, a sufficient financing

envelope should be available, including explicit buffers, to enhance credibility. On the other hand, to improve programme success, it is critical that disbursements be linked to the implementation of agreed measures. This would improve the ESM's capacity to maintain an appropriate level of control of the release of funds and set the right incentives for reform.

How can greater programme transparency be beneficial?

The evaluation looked at the access to programme-related information and what elements could be made public in the future. Experience, also from IMF programmes, shows that a public database would allow for appropriate scrutiny by all relevant stakeholders and improve public accountability. Therefore, the evaluator recommends setting up mandatory public reporting, including a database to disseminate harmonised data on country programmes. Ms Tumpel-Gugerell also recommends that the ESM further develop its record-keeping practices, improve databases, and enhance the traceability of documents that may be relevant for future evaluation exercises.

Should the ESM's mandate be expanded?

As a contribution to the debate on European financial architecture of the future, the evaluator recommends that ESM Members discuss a broader preventive mandate for the financial stability of the euro area and clarify the ESM's role. Currently, the ESM's early warning mandate only focuses on programme countries and is limited in purpose. While the discussion on the future of the euro area institutional architecture is ongoing, the euro area would benefit from a stronger crisis prevention capacity. The recommendations folds into this broader discussion.

Will the Board of Governors implement the recommendations?

The Board of Governors is not bound by these recommendations. It welcomes the report and will decide what further action is required to improve crisis management in the euro area. At its 15 June meeting, the Board of Governors mandated the ESM management to develop, within the remit of the current ESM Treaty and EU law, a concrete work plan and follow-up proposals, exploring how to:

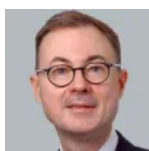
- embed contingency buffers in future ESM programme frameworks and ensure an appropriate closing programme report is drawn up;
- better reflect macro-critical conditionality and key objectives in the planning and implementation of the programme;
- improve the provision of financial assistance to the financial sector in compliance with the EU legal framework;
- further reinforce programme ownership, and foster reform momentum; and
- set up a public reporting system on non-market sensitive data for programme countries that would enhance transparency and facilitate the evaluability of programmes.

The ESM Board of Governors commits to considering further action on these elements where appropriate and possible by the end of 2017.

Will there be any more evaluations?

The evaluator recommends that the Early Warning System (EWS) and the EFSF/ESM Greek programmes be evaluated in due course. The EWS merits its own appraisal because it focuses on risks to ESM shareholders and was recently reformed. The third Greek programme will require further evaluation as it was still ongoing during the current evaluation exercise. The Board of Governors has already indicated an intention of conducting an evaluation of EFSF/ESM Greek programmes after their completion.

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