EUROPEAN COMMISSION
DIRECTORATE GENERAL
ECONOMIC AND FINANCIAL AFFAIRS

ANNEX 4 TO THE TERMS OF REFERENCE

METHODOLOGICAL ORIENTATIONS

Guidelines for the Ex-Post Evaluation of Macro-Financial Assistance Operations

June 2015

TABLE OF CONTENTS

1. INTRODUCTION

The aim of these guidelines is to provide a framework for officials and contractors undertaking ex-post evaluation of Macro-Financial Assistance (MFA) operations. They provide a means of ensuring that evaluations of MFA operations are undertaken in a consistent way.

MFA is a policy-based financial instrument of untied and undesignated balance-of-payments support to partner third countries. It takes the form of medium/long-term loans or grants, or a combination of these, and generally complements financing provided in the context of an International Monetary Fund's programme.[1]

In general terms, ex-post evaluations of MFA should aim to draw lessons with respect to the EU's financial assistance:

- whether the ex-ante considerations determining the design and terms of the operation were appropriate, taking due account of the economic, political and institutional context;
- and whether the outcome of the programme met the objectives.

After briefly presenting the particular challenges that evaluations of MFA operations face, this document provides guidance on:

- Focusing the evaluations using a logic model approach
- How to attribute effects in a plausible manner to the assistance
- The core questions that an evaluation of an MFA assistance operation should address as defined in the evaluation mandate:
  - 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 the objectives to be achieved? This question mainly aims at assessing the **relevance** and **efficiency** of the intervention;
  - To what extent have the objectives of the MFA operation been achieved? This question aims at assessing the **effectiveness** of the intervention and considers the global picture (macroeconomic developments, fiscal policy, structural reforms, other sector reforms, etc.) mainly from a quantitative point of view;
  - Was the disbursement of the financial assistance appropriate in the context of the prevailing economic and financial conditions in the beneficiary country? (**efficiency**)
  - What was the rationale for an intervention at EU level? This question aims to assess the **EU added-value** of the intervention;
  - Were the measures of the MFA operation coherent with previous assessments made and in line with the relevant EU policies (including 'acquis communautaire')? This question aims to assess the **coherence** of the intervention with other EU policies.

[1] http://ec.europa.eu/economy_finance/financial_operations/market/third_countries/index_en.htm

- Drawing up conclusions and recommendations

2. CHALLENGES FOR EVALUATING MFA OPERATIONS

Any ex-post evaluation logically benefits from hindsight which allows for a critical assessment and extracts learning. In this respect, consideration has to be given to the ex-ante context of the operation when decisions are made in real time in response to an unfolding crisis in the face of uncertainty.

More specifically in the field of ex-post evaluation of MFA, five 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, e.g. "to support the government's reform efforts";
- 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;

Box 1: The form and size of an MFA operation

The Joint Declaration[2] establishes the principle of complementarity, meaning that MFA should be complementary to resources provided by the IMF and other international donors. In fact, the Commission only submits a proposal for a decision on MFA once an IMF programme is in place or about to be concluded.

The starting point for **determining the amount of the assistance** should be the residual external financing needs, taking into account the expected financial contributions from other international donors. This means that any financing by the IMF (and exceptional financing from the World Bank) should be deducted from the overall external financing needs in order to determine the residual external financing gap (to be distinguished from the overall external financing gap).

Instead of fixed minimum and maximum contribution levels, the Joint Declaration sets out two general principles when determining the amount of MFA. Fair burden sharing between the Union and the other donors should be assured on the one hand, whereas the added value of the overall Union involvement in the beneficiary should be taken into account on the other hand. This means that the evolution of the recipient country's external financing needs and effective disbursements from other donors have to be taken into account.

According to Principle 3 of the Joint Declaration, MFA should generally take **the form of a loan** and only in exceptional cases the form of a grant or a combination of a loan and a grant. In order to determine whether exceptional circumstances exist, the level of economic development of the beneficiary, as measured by per capita income and poverty ratios, should be taken into account. Furthermore, the beneficiary's ability to repay, drawing on debt sustainability analysis, should be considered. In order to respect the principle of fair burden-sharing, the Commission should also take into account the contributions of other international donors when determining the form of the assistance.

[2] In the context of the adoption of Decision No 778/2013/EU providing further macro-financial assistance to Georgia, the European Parliament and the Council adopted a Joint Declaration reflecting the compromises reached between the two co-legislators during the negotiations on the Framework Regulation and the conciliation procedure for the decision on Georgia (OJ L 218, 14.8.2013, p. 18). The Declaration is a political agreement without legally binding effects.

- The legal framework and a lengthy decision-making process for adopting MFA decisions (easily 6 months can elapse between the adoption of the proposal by the Commission and first disbursement of funds, as MFA decisions come under the ordinary legislative procedure, involving both Council and Parliament) are not conducive to effectively dealing with crisis situations;

Box 2: MFA Framework Regulation

As early as in 2003, the European Parliament identified the lengthy decision-making process — decisions on individual MFA operations were taken on a case-by-case basis by the Council, after consultation of the Parliament — as one of the main shortcomings of the MFA instrument. Since the entry into force of the Lisbon Treaty on 1 December 2009, legislative decisions on individual MFA operations have been taken by the Parliament and the Council under the ordinary legislative procedure (co-decision), resulting in an even lengthier decision-making process. However, as has been highlighted by the financial and sovereign debt crisis, dealing effectively with macroeconomic and financial emergency situations requires a crisis response instrument that can be deployed quickly and efficiently.

Responding to the need to expedite decision-making and streamline the MFA instrument, the Commission submitted on 4 July 2011 a proposal for a Framework Regulation laying down general provisions for Macro-Financial Assistance to third countries.[3] The main objectives of the proposal were: (i) to make MFA more effective through a swifter and more efficient decision-making process; (ii) to align the decision-making process with that of other financing instruments, mainly related to external relations; (iii) to formalise, clarify and simplify the rules governing MFA.

The Commission's proposal for a Framework Regulation was extensively discusssed with the Parliament and the Council. The Commission considered that the nature of its proposal had been changed during this lenghty legislative procedure, and that, if adopted, the MFA Framework Regulation would constitute a serious breach of the interinstitutional balance, in particular by affecting the Commission’s right of legislative initiative[4], The Commission therefore decided to withdraw its proposal on 8 May 2013. As a result, legislative decisions on individual MFA operations are still to be adopted by the Parliament and the Council under the ordinary legislative procedure.

- Insufficient time has usually elapsed between the implementation of reforms induced or supported by the structural conditionality of MFA and the evaluation in order to allow the observation of their structural and longer-term economic effects. This is particularly the case for conditionalities and corresponding reforms implemented late in the period of the operation.

The consequence of these challenges is that:

- If no SMART objectives and RACER indicators are defined in the ex-ante evaluation, then evaluating the effectiveness (i.e. achievement objectives) of these operations is difficult and evaluating the utility of MFA (i.e. if effects induced correspond with the needs, problems and issues prevalent in the recipient country) potentially becomes an important element of the exercise.
- 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.

---

[3] COM(2011) 396 final, 4.7.2011.

[4] For more details, see the Report from the Commission to the European Parliament and the Council on the Implementation of Macro-Financial Assistance to Third Countries in 2013. COM(2014)372

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

Ex-post evaluation of country MFA operations should therefore not only take into account the inherent features of the instrument but also the political and institutional context and legal decision-making process in place at the time of the adoption of the Commission proposal for an MFA operation.

3. FOCUSING AN EX-POST EVALUATION

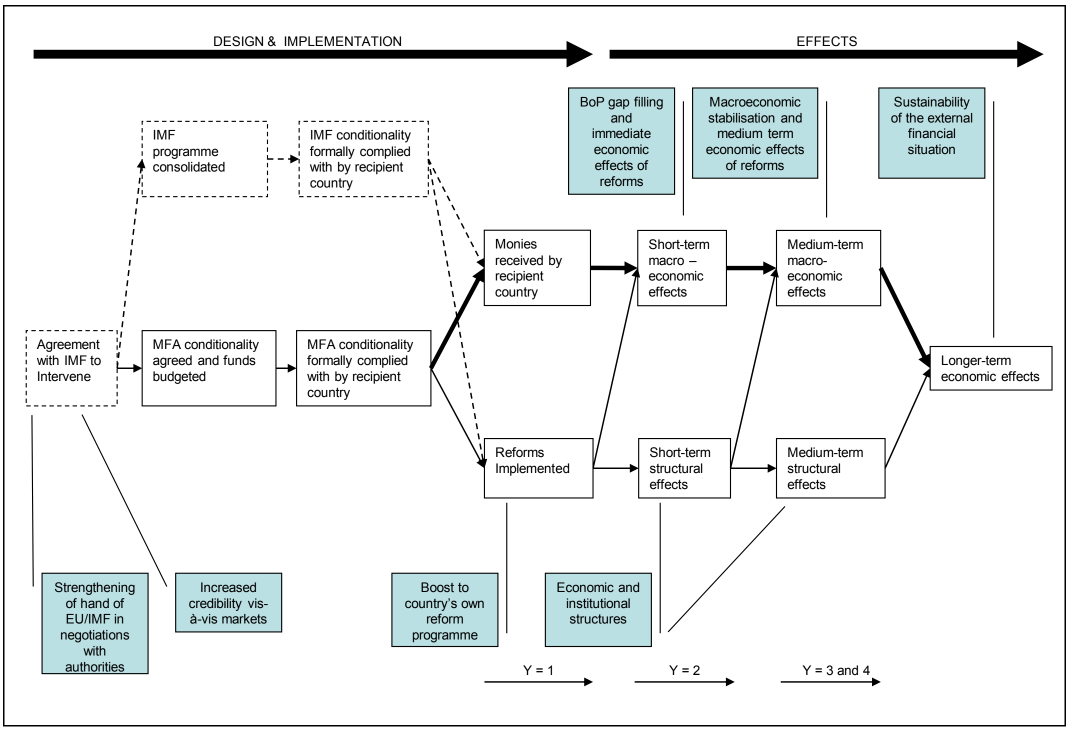
A first step in focusing an evaluation is to understand what the intervention is aiming to achieve, how this is intended to happen, over what likely timescale and who will be affected.

Generally speaking the intended longer term impact of the assistance (and its IMF complement) is to return the external financial situation of the recipient country to a sustainable path through two channels:

- macroeconomic stabilisation, the main channel through which effects are intended to occur

- structural reform of an institutional and/or economic nature, the secondary channel through which effects are sought

In general, the operations are largely similar in nature, differing only in terms of the sums disbursed and the detail of structural reform conditionalities. These similarities allow the elaboration of a generic logic model (see below), which can be detailed on the basis of particular MFA operations.



4. GENERIC EVALUATION QUESTIONS

The proposed evaluation methodology consists of an analytical framework in which the inputs, outputs, outcomes and impacts are being assessed. In line with the recently published Commission Better Regulation Guidelines (http://ec.europa.eu/smart-regulation/index_en.htm), the main generic evaluation questions to be answered are:

1) What is the current situation?
2) How effective has the EU intervention been?
3) How efficient has the EU intervention been?
4) How relevant is the EU intervention?
5) How coherent is the EU intervention internally and with other (EU) actions?
6) What is the EU added value of the intervention?

The above questions are reformulated below in order to be more concrete and specific for carrying out MFA evaluations. Evaluation questions are composed of a number of sub-questions (e.g. Q1.1, Q1.2 and Q1.3) that provide the key elements required to respond to the header question (e.g. Q.1). This is only an indicative list of potential questions. It is not prescriptive. It provides a guide to the issues to be addressed. The final set of questions developed should be tailored to the specific requirements of each MFA programme evaluation.

4.1. Design of the MFA operation

Was the programme design appropriate in relation to the objectives to be achieved and the outputs to be produced? (This question mainly addresses the efficiency and relevance of the operation)

4.1.1. MFA programme objectives and design

Q1. To what extent can the overall programme design and outcomes be considered to have been appropriate?
Q1.1 Were the objectives of the programme relevant in relation to the economic challenges of the country?
Q1.2 In what way has the design of the MFA assistance conditioned the performance of the operation in respect to its cost and its objectives? Among the factors to be examined are: • The disbursement schedule of the financial assistance (both IMF and MFA). • An analysis of whether the programme measures strike the right balance between prudence and completeness. • The consequences of the EU intervention on the size and content of the IMF programme and vice versa. • If relevant, the consequences of the establishment of a joint EU/IMF position on the negotiations with the national authorities.

4.1.2. Adequateness of financing envelope

Q2. Were the amounts and terms of financial assistance provided to the beneficiary country adequate?
Q2.1 Identify the main differences and reasons between the country's actual financing requirements and those foreseen at the inception of the programme (IMF & MFA).
Q2.2 Did the blend of loans and grants provide the appropriate mix in relation to the prevailing economic and financial conditions in the beneficiary country?
Q2.3 What has been the contribution of the grants and/or loans provided by the operation to the achievement of objectives?

4.1.3. Focus of conditionality

Q3. Was the conditionality of the MFA operation appropriate in relation to the outcomes to be produced and the objectives to be achieved?
Q3.1 Were the measures of the programme relevant in relation to the economic challenges of the country? Did they have the intended consequences? Were there un-intended consequences? What were they and what was their impact? On reflection, were other relevant measures missing from the programme?
Q3.2 To what extent were the measures of the programme well-designed to address the objectives originally established? (pace, timing, flexibility)
Q3.3 To what extent was flexibility of conditionality both important and achievable in relation to exogenous factors and/or results falling short of goals?

4.2. Implementation of the MFA operation

This question mainly addresses the effectiveness and efficiency.

Q4. How has the implementation of the MFA assistance operation impacted its effectiveness and efficiency?
Q4.1 What was the influence of the decision-making process at EU level and at beneficiary country level in the implementation of the MFA assistance?
Q4.2 What changed in the country's economic policy and financing conditions when the programme was agreed and over the lifetime of the MFA operation?
Q4.3 In what way has the implementation of the MFA assistance conditioned the performance of the operation in respect to its cost and its objectives? Among the factors to be examined are: • The disbursement of the financial assistance. • The consequences of EU/IMF support on the credibility of the national authorities vis-à-vis the financial markets • The level of ownership of the programme by the authorities and their level of commitment to effective programme implementation • The capacity and capability of the authorities to effectively implement the programme • Monitoring processes • Adjustments to implementation given unforeseen external events • If relevant, the consequences of a donor coordination role of the EU through the assistance

4.3. Outcome and impact of the MFA operation, in combination with the IMF programme

Q5. Did the outcome meet the initial objectives of the programme? If the outcome was less favourable than expected, was this due to flaws in the strategy, to implementation failures, to changes in the external environment or to other factors?

Q5.1 Macroeconomic developments, with a focus on the balance of payments

- To what extent has the MFA/IMF assistance contributed to returning the external financial situation of the recipient country to a sustainable path over the medium to longer-term?
- How did the external financial situation of the recipient country evolve prior to and during the operation (reserves of the National Bank)?
- Did the programme have a significant impact in alleviating market concerns about the country's solvency and restoring confidence in its economy?
- What are the main internal and external factors on which the current trend in the country's external financial situation and its prolongation into the future are conditional?
- How is the country's external financial situation likely to evolve in the 5 years following the final disbursement given the likelihood of changes to current conditions?

Q5.2 Fiscal policy

- To what extent has the MFA/IMF assistance contributed to returning the fiscal situation of the recipient country to a sustainable path over the medium to longer-term? Have there been other factors? What are they and what has their impact been?
- How did the fiscal situation of the recipient country evolve prior to and during the operation?
- Was the envisaged pace, ambition and composition of fiscal consolidation appropriate in the context of the economic and financial conditions in the beneficiary country?
- To what extent has fiscal governance been strengthened as a result of the intervention?

Q5.3 Structural reforms:

- What are the short and medium-term expected structural effects of the assistance (in the context of the recipient country's reform programme)?
- How relevant were the short and medium-term expected structural effects of the assistance to the needs of the recipient country?
- To what extent have the short and medium-term expected structural effects of the assistance (in the context of the recipient country's reform programme) occurred as envisaged?
- What has been the contribution of actions resulting from the respect of structural conditionality criteria to the occurrence of expected structural effects?
- To what extent have structural effects been enhanced by complementarities between the MFA assistance, IMF programme conditions and other EU instruments?
- What has been the contribution of actions resulting from the respect of structural conditionality criteria to the achievement of short and medium-term macroeconomic objectives of the assistance (i.e. the indirect effects of structural conditionality criteria)?

Q5.4 Financial sector

- If relevant, what have been the short and medium-term expected effects of the MFA/IMF assistance on the country's financial sector? Has its health and viability been restored? What are the issues still to be addressed? Should specific measures have been included in the programme to address any remaining issues?

Q5.5 Other

For example: Consider whether the political signalling associated with the intervention has

provided a contribution to the programme delivery. i.e. confidence boosting effects, of the assistance?

The medium to longer term effects (i.e. 3 or more years after the initial disbursement) of MFA assistance operations on the sustainability of a recipient country's external financial situation will, in most situations, only fully manifest themselves after the operation has finished and the evaluation taken place.

4.4. EU value added and coherence

It is important to consider the extent to which EU assistance has provided additional benefits beyond that which would have resulted from other interventions (Member States, IMF, etc)..To answer this, the analysis and conclusions related to previous questions (notably Q0.3, Q3.1 and Q5) should be taken into account.

In addition, EU added value can be addressed in relation to the coherence of the MFA assistance operations with other EU policies and objectives. Positive assessments of relevance, efficiency, effectiveness and additionality will also demonstrate that the potential for EAV is being realised.

Q6. What was the rationale for an intervention at EU level? To what extent has EU added value been maximised?
Q6.1 To what extent have the expected benefits from EU intervention been attained?
Q6.2 What is the value resulting from EU assistance which is additional to the assistance obtained at other levels (IMF, Member States…)?
Q6.3 To what extent has the sharing of roles between the European Commission (DG ECFIN and other DG's), IMF, Member States and others contributed to optimise the impact of the assistance?
Q7. Were the measures of the programme coherent with previous assessments and in line with the relevant EU policies?

5. CONCLUSIONS AND RECOMMENDATIONS

For each evaluation question one or more conclusions will be drawn on the performance of the operation (i.e. the answer to the evaluation question). Conclusions that are not specific to one particular evaluation question may also be drawn as appropriate. Conclusions should also be linked to the general performance of MFA assistance as an support instrument, and to the specific application of MFA assistance in the country and period concerned.

Following the Commission's Communication on Evaluation Standards and Good Practice[5], the following quality criteria apply to the evaluation conclusions and recommendations:

5 C(2002)5267 of 23.12.2002

- **Conclusions** must be clearly and unambiguously based on evaluation *findings*, which themselves must follow logically from, and be justified by, sound *analyses* and *interpretations* based on carefully described assumptions and reasoning. The non-respect of this criterion will lead to the rejection of the conclusions concerned.

- **Recommendations** will flow directly from the conclusions and provide a basis for addressing weaknesses and/or reinforcing strengths. A draft list of recommendations provided by the evaluator will be the object of collaborative effort between the evaluator and the steering group to ensure that the final recommendations are comprehensible, useful, applicable and detailed enough to put into practical effect.