Meta-evaluation of Macro-Financial Assistance Operations (2004 – 2008)

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ACRONYMS

BiH	Bosnia and Herzegovina
BoP	Balance of Payments
CIS	Commonwealth of Independent States
CARDS	Community Assistance for Reconstruction, Development and Stabilisation
DG ECFIN	Directorate General for Economic and Financial Affairs
EC	European Commission
Ecofin	Economic and Financial Affairs Council
EFA	Exceptional Financial Assistance
EU	European Union
FBiH	Federation of Bosnia and Herzegovina
G-20	The Group of Twenty (G-20) Finance Ministers and Central Bank Governors
G-24	The Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development
GDP	Gross Domestic Product
IBRD	International Bank for Reconstruction and Development
IFI	International Financial Institution
IMF	International Monetary Fund
MFA	Macro-Financial Assistance (EC)
MoU	Memorandum of Understanding (EC)
NIS	Newly Independent States
OECD	Organisation for Economic Co-operation and Development
PRGF	Poverty Reduction Growth Facility (IMF)
RS	Republika Srpska
SAA	Stabilisation and Association Agreement (EU)

SAC	Structural Adjustment Credit (World Bank)
SAP	Stabilisation and Association Process
SBA	Stand-by Arrangement (IMF)
SMoU	Supplemental Memorandum of Understanding (EC)
TA	Technical assistance
VAT	Value Added Tax
WB	World Bank

EXECUTIVE SUMMARY

This is the final report of the *"Meta-evaluation of Macro-Financial Assistance Operations (MFA) (2004 – 2008)".* The meta-evaluation was commissioned by Directorate General for Economic and Financial Affairs in December 2008; and led by GHK Consulting Ltd on behalf of the European Policy Evaluation Consortium (EPEC, www.epec.info). The meta-evaluation had three specific objectives:

- To provide a synthesis of the results of the seven ex-post evaluation studies completed between 2004 and 2008.
- To assess the reliability and relevance of the methodology, process, outputs, and outcomes of these ex-post evaluations.
- To draw out more general conclusions and recommendations about the future use of MFA and of the related ex-post evaluations, both operationally and at the policy level.

Key findings from the synthesis of the seven MFA evaluation reports

Were the current MFA objectives sufficiently clearly formulated?

The standard objectives of the Macro Financial Assistance (MFA) operations were: to help the (recipient) country meet its external financing needs; to support the sustainability of the recipient country's external financial position; to reinforce the country's reserve position; to support the recipient country's budget; to support the policy objectives attached to the authorities' reform efforts; and, to bring the country closer to the Community.

The objective to contribute to the alleviation of the social consequences of the economic disruption caused by the conflict in Kosovo was added for the MFA operation in Former Yugoslav Republic of Macedonia (fYRoM). The objectives of the Exceptional Financial Assistance (EFA) support to Tajikistan and Armenia were modified to reflect their exceptional circumstances.

These objectives were rather general and could have been formulated more precisely. They have the following weaknesses: progress towards meeting them is difficult to measure; they could have better reflected the underlying rationales and characteristics of the MFA i.e. MFA was granted as a package of support with International Financial Institutions (IFIs) and with specific conditionalities ; and, there was scope for further elaborating the important political objectives (for example, to 'bring the country closer to the Community') in terms of benchmarks or measurable outcomes.

To what extent were the (seven) assessed MFA operations effective in terms of the short term macroeconomic stabilisation of the recipient country?

The short term macro-economic stabilisation effects that were achieved resulted from the combination of support from the International Monetary Fund (IMF) and MFA. In practice the disbursement of IMF funding took place prior to that of the MFA (on average there is a time lag of 12 to 18 months between the onset of crisis and first MFA disbursement due to various institutional constraints such as preparatory work, the need for unanimous Council approval, negotiations of MoU etc) and hence contributed more to short term stabilisation because of both its relative scale and timing. The commitment of the EU via MFA is likely to have contributed to perceptions that economic conditions in the recipient countries would improve. The net impact of the MFA (and EFA) support on macro-economic stabilisation was limited or modest in all cases.

To what extent have the MFA operations been effective in terms of supporting structural reform in the recipient country in the short to medium term?

Generally speaking, the MFA appears to have had a positive but non-uniform impact on implementation of structural reforms in the recipient countries. A political or operational reinforcing effect of MFA was more evident in the case of countries participating in the EU Stabilisation and Association Process (SAP) as compared to Armenia or Tajikistan (where the MFA was judged to have a limited net impact on the implementation of structural reforms). The most important structural reforms that MFA contributed to, were reforms linked to public finance and management (e.g. putting audit procedures in place or tax reform) – as opposed to more controversial reform areas such as privatisation. However, most structural reforms take a considerable time to take place and become embedded. MFA as a short term and crisis instrument can however, contribute to accelerating reform processes.

What have been the indirect and / or unexpected effects, if any of the assessed MFA operations?

In the main, the impact of MFA on macro-economic stability has been indirect and arisen through its reinforcing effect on the implementation of structural reforms in the recipient country. Indirect benefits have accrued in the form of increased government revenue (due to tax reforms), improved capitalisation of the banking sector (resulting from reforms initiated in the financial sector) and increased business activity (due to for example, the introduction of competition policy). In the specific case of Armenia and Tajikistan, the MFA allowed the continuation of IMF/ WB programmes and prevented these countries from cutting back on social expenditure by decreasing the cost of foreign debt servicing.

Some unexpected effects were also noted in the ex-post evaluations of Albania, Romania and fYRoM.

To what extent have the MFA contributed to returning the external financial situation of recipient countries to a sustainable path over the medium to longer term?

According to the ex-post evaluation reports, the impact of MFA on long-term external sustainability of beneficiary countries is expected to have been positive, albeit small and indirect. The overall package of structural reform is considered to have improved the growth capacity of beneficiary countries.

However, in the present global crisis context five out of the seven countries covered by this meta-evaluation have recently agreed international support packages: Bosnia and Herzegovina, Romania, Tajikistan, Armenia and Serbia.

This raises the question whether the MFA (in conjunction with support from IMF/ WB) has had any actual impact on the long–term external sustainability of recipient countries. It is plausible that in absence of previous support, the impact of the financial crisis may have been more severely felt by these economies.

How has the way in which the operations were designed and implemented conditioned their effectiveness and efficiency, more particularly as regards their legal base?

The legal base for the MFA requires that each MFA operation is approved by the Council. At the same time the MFA operations have been used to complement the financial support provided by IFIs and in particular the IMF. The IFIs are however able to approve support more quickly than the time required to get approval from all EU Member States for the MFA component of the intervention. Whilst this is a potential constraint it is a reflection of the EC not being an IFI and of the political nature of MFA support. In practice the resources from the IMF have been disbursed prior to those of the MFA.

On the basis that a Regulation for MFA to third countries would speed-up MFA approval and implementation under a co-decision procedure, there is a case for introducing such as Regulation.

The quality assessment of the seven evaluation studies

Did the evaluations have a well-defined scope?

The evaluation reports followed the scope defined in the individual ToR for each study which were themselves well defined and similar in each case. With the benefit of hindsight it would have been preferable if all of the MFA operations had been subject to evaluation (although since 2004, all MFA operations are subject to an ex-post evaluation) and if the individual ToR had requested analyses of the relevance of each MFA operation.

Did the evaluations provide descriptions of the policy context?

Whilst some reference was made to the policy context, given the importance of political considerations in the granting of MFA it would have been preferable if this context had been considered in more detail.

Did the evaluations have a defensible design?

The key parameters of the design of the evaluations: timing; overall methodology; methods and organisation were appropriate and defensible. Incremental improvements were made to the design in the light of experience. There was a degree of continuity in the teams undertaking the evaluations.

Did the evaluations make use of reliable information?

The evaluations made use of the best available information. However, there was a strong reliance on the views of and feedback from a variety of stakeholders and there are limits to the reliability of such information. Also the quality of economic information available was variable and considerably less than ideal.

Did the evaluations apply sound analysis?

The analysis and reasoning of the evaluations was sound.

Did the evaluations lead to robust findings?

The majority of findings in the ex-post evaluations follow logically from the analysis and are fully justified. The two earlier reports (namely, Romania and fYRoM) are slightly weaker than the rest in this regard as some statements are not backed by evidence triangulated from different sources.

Did the evaluations provide credible results?

The evaluations have generally provided credible results backed by sound analysis and robust findings. Again the quality of reports for Romania and fYRoM are slightly weaker than others and this reflects the reliance on stakeholder consultations for these evaluations.

Were the evaluations conducted in a professional and ethical manner?

The evaluations were, as far as it is possible to tell conducted in a professional and ethical manner. There is no evidence to suggest otherwise.

Were the evaluation reports well structured and balanced

The evaluation reports were well structured and balanced. The formats for the reports were very similar.

Overall assessment

The overall quality of the evaluations was high, with most of the meta-evaluation criteria being largely or fully fulfilled. In particular, the evaluations were applied sound analysis leading to findings which were for the most part robust and were all presented in reports which were balanced in their judgements and well structured.

Conclusions and recommendations on the future use of MFA

The continuing need for MFA

There is likely to be a continuing need for MFA as an EU short term crisis financial instrument distinct from longer term budgetary support. The MFA should continue to complement the crisis interventions of the IFIs. In a crisis there is merit in agreements being made with the IFIs and the recipient countries as quickly as possible. EU financial dispersals do not necessarily need to be made immediately.

Assuming that the scale of MFA remains small relative to the contributions of the IFI the main added value of MFA is through the political involvement of the EU. Normally there would be merit in more clearly expressing the political objectives and the associated steps planned to realise them.

The specification of objectives of MFA operations

It would be preferable if, in addition to the current (or revised) general objectives (which are by nature vague) there were a set of specific objectives against which progress could be measured relating to stabilisation and the structural changes envisaged. The conditionalities applied should also be expressed in terms of operational objectives.

The preferred characteristics of MFA

MFA should normally be granted in the form of loan. Effective conditionalities linked to MFA crisis funding are likely to have the following characteristics: close links with improvements in public finance and financial sector reform; a strong measure of ownership from the government of the recipient country; strong commonalities with IMF conditionalities; support from technical assistance and advice including transnational peer learning; and, strong complementarity with other EU programmes and measures.

In addition there is merit in the MFA having distinct political conditionalities linked to the EU political commitment to the financial support.

Conclusions and recommendations on the evaluation of MFA

All MFAs should be the subject of ex post evaluation.

The ex post evaluations should include a qualitative analysis of the factors and critical incidents leading up to the decisions on each MFA. This is because the decisions appear to be at least as much political as technical/economic. If so, the evaluations might usefully trace the subsequent political changes. This could be done at different levels (for example, through reviews of explicit statements by governments, positions taken on key reforms and changes (including security issues), and the attitudes of the population towards the EU).

The achievement of the conditionalities should be externally and independently assessed. This could be done jointly on behalf of both the IFI and EU.

The ex-post evaluations should consider the donor coordination role of the EU through MFA. The presence of the EU is expected to add value and leverage in pulling together and accelerating a multi-donor package.

The ex-post evaluations should systematically consider the effects of the MFA interventions on ‘private sector’ confidence as confidence is crucial to the effectiveness of the MFA intervention. This could be done through creating panels of potential foreign investors and panels of domestic private sector leaders. The panels could be asked periodically, (ideally before as well as after the MFA) to indicate their level of confidence in the economy in question.

The granting of each MFA should be supported by an ex ante assessments that provides an explicit ‘results framework’ indicating explicitly the expectations for key macro economic variables and structural reforms. The ex-ante evaluation statements produced by Commission services could be further developed into more detailed assessments. The report provides some suggestions as to how this might be done.

Directorate General for Economic and Financial Affairs (DG ECFIN) should consider procuring the external evaluation expertise required through a limited competition framework contract that covered both ex ante and ex post evaluation services.

1 INTRODUCTION

This is the final report of the *"Meta-evaluation of Macro-Financial Assistance Operations (2004 – 2008)"*. The meta-evaluation was commissioned by Directorate General for Economic and Financial Affairs (DG ECFIN) in December 2008; and led by GHK Consulting Ltd on behalf of the European Policy Evaluation Consortium (EPEC, www.epec.info). This study was carried out between December 2008 and August 2009.

1.1 Aims and Objectives of the Meta-evaluation

As set out in the terms of reference, this meta-evaluation has three specific objectives:

- To provide a synthesis of the results of the ex-post evaluation studies completed between 2004 and 2008. These evaluations are listed in Table 1.1.
- To assess the reliability and relevance of the methodology, process, outputs, and outcomes of these ex-post evaluations;
- To draw out more general conclusions and recommendations about the future use of Macro Financial Assistance (MFA) and of the related ex-post evaluations, both operationally and at the policy level.

Table 1.1: Ex -post Evaluations of Macro Financial Assistance to Third Countries

MFA Operation	Timeframe of MFA Operation	Date of Publication of Ex-post Evaluation Report
Armenia*	1998 – 2003	September 2006
Romania	2000 – 2005	September 2006
Former Yugoslav Republic of Macedonia (fYRoM)	2001 – 2005	September 2006
Tajikistan*	2001 - 2006	July 2007
Bosnia and Herzegovina	2002 – 2006	July 2007
Serbia and Montenegro	2002 – 2006	April 2008
Albania	2004 - 2006	April 2008

** Exceptional Financial Assistance (EFA) for Armenia and Georgia was approved via Council Decision 97/787/EC which was amended on 20 March 2000 (Decision 2000/244/EC) to extend the Exceptional Financial Assistance to Tajikistan*

Note: The MFA operations are listed in the chronological order of publication of the ex-post evaluation reports

The first ex-post evaluation covered the MFA or Exceptional Financial Assistance (EFA)[1] operation in Armenia and was carried out internally by the Commission services on the basis of a supporting study conducted by an external consultant. The remaining evaluations were carried out by a consortium of consultants comprising ECORYS, CASE and Economisti Associati within the auspices of a single tender framework contract for evaluation.

1.2 Scope of the Meta-evaluation

As per the terms of reference, this meta-evaluation is intended to be both a synthesis of existing evaluations and an ‘evaluation of evaluations’. Accordingly, the meta-evaluation is structured in two parts which are described below.

Part I: Evaluation synthesis

The first part of the meta-evaluation entails a systematic review and analysis of the results of the seven ex-post evaluation reports in order to draw out general findings in relation to the following evaluation questions:

0. Are the current MFA objectives sufficiently clearly formulated?

1. To what extent have the assessed MFA operations been effective in terms of the short term macroeconomic stabilisation of the recipient country?

2. To what extent have the MFA operations been effective in terms of supporting structural reform in the recipient country in the short to medium term?

3. What have been their indirect and / or unexpected effects, if any?

4. To what extent have the MFA contributed to returning the external financial situation of recipient countries to a sustainable path over the medium to longer term?

5. How has the way in which the operations were designed and implemented conditioned their effectiveness and efficiency, more particularly as regards their legal base?

Part II: Quality assessment

The second part of the meta-evaluation describes, analyses and assesses the seven ex-post evaluation reports (and the ex-post evaluation process itself) to provide an independent and credible review of their strengths and weaknesses. The specific questions that have been addressed are:

0. To what extent did the evaluations comply with the Commission's evaluation standards in force and what, if any, changes are necessary to the "Guidelines for the Ex-post Evaluation of MFA operations" so that a future

[1] Terminology used by the Commission to represent ‘highly exceptional’ operations i.e. ‘borderline’ cases that do not meet the ‘Genval criteria’ in a strict sense. See section 2.3 of the report for more information on ‘Genval crtieria’.

Framework Contract for the ex-post evaluation of MFA operations will result in evaluations that are fully compliant?

Designing the evaluations and methodology:

1. Was the design of the evaluations and the methodology used adequate for obtaining the results needed to answer the evaluation questions?

2. Were data collected adequate for their intended use and have their reliability been ascertained?

3. Did findings follow logically from and are justified by, the data/information analysis and interpretations based on pre-established criteria and rationale?

Conducting the evaluations:

4. Were the evaluations managed efficiently and did they produce information of sufficient value?

5. How adequate were the evaluation procedures and related milestones in the formulation of conclusions and recommendations? How can they be improved?

Quality of reports:

6. Were the reports well structured, balanced and written in an understandable manner?

7. Were conclusions non-biased and fully based on findings?

8. Were areas needing improvements identified in coherence with the conclusions? Are the suggested recommendations realistic and impartial?

Dissemination and utilisation of evaluation results

9. How useful and usable were conclusions and recommendations (i.e. the way the evaluation design shaped the extent to which its outputs could be used)?

10. Were the results adequately disseminated? How effectively has information about the evaluations, including the conclusions, executive summary and recommendations been transmitted to stakeholders?

11. Were the results used by the Commission? What follow-up actions were done and to what extent are they pertinent as regards the future use of the MFA instrument?

12. How could the relevance of the evaluations be maximised?

1.3 The Approach to and Methods of the Meta Evaluation

This meta-evaluation was carried out through the means of desk research and analysis based on the seven ex-post evaluation reports listed in Table 1.1. The information contained in these reports was supplemented by secondary data analysis;

documentation and literature review; and discussions with Steering Group members who have been closely involved with the MFA operations and evaluations. No large scale data collection exercises were undertaken. However, a core part of the study methodology was the two practitioners' workshops that took place in May 2009. These are briefly described below:

- **Workshop on the design and implementation of MFAs**: The purpose of this workshop was to discuss the key findings emerging from the meta-evaluation with respect to issues such as relevance, efficiency, effectiveness and impact of MFA operations; and, to draw out more general conclusions and recommendations regarding the design and implementation of future MFA operations. Relevant officials from the Commission services, International Monetary Fund (IMF) and World Bank participated in this workshop.

- **Workshop on the method and approach to evaluation of MFAs**: The purpose of this workshop was to discuss the strengths and weaknesses of the current ex-post evaluation framework for MFAs; and to draw out more general recommendations regarding the method of approach to future evaluations of MFA operation. This workshop comprised evaluation "practitioners" from different Commission services, Organisation for Economic Co-operation and Development (OECD) and the consultants who carried out the existing ex-post evaluations.

Annex I provides further details on the format and content of the two workshops including the list of participants.

Additionally, the study utilised expert input as follows:

- Andrew Lawson provided specialist input to inform the quality assessment and design of MFA evaluations. Andrew is a public finance specialist with extensive experience of the design, management and evaluation of budgetary aid.

- Cambridge Econometrics reviewed the existing approach to quantitative modelling of the counterfactual and they have provided some guidance on how quantitative modelling could add more value to the MFA evaluations in future.

1.4 Structure of this Report

The remainder of this report is structured as follows:

- Section 2 presents an overview of the general principles underpinning Macro Financial Assistance to third countries;

- Section 3 corresponds to part I of the meta-evaluation and provides a synthesis of the seven ex-post evaluations in relation to the key evaluation issues of relevance, effectiveness, efficiency, impact and sustainability;

- Section 4 corresponds to part II of the meta-evaluation and provides an overall assessment of quality of ex-post evaluations and the process itself;

- Section 4 draws out more general trends, findings, conclusions, lessons and recommendations regarding the future use of MFA.

The main document is supported by the following annexes:

- Annex I provides further details on the content of the two workshops including the list of participants;
- Annex II contains individual country summaries;
- Annex III sets out the detailed findings of the review of econometric modelling;
- Annex IV provides a historical overview of IMF arrangements and MFA interventions in the seven countries covered by this meta-evaluation; and,
- Annex V describes the IMF and the World Bank's approaches to conditionality and how they have evolved over time.

2 MACRO FINANCIAL ASSISTANCE TO THIRD COUNTRIES

2.1 Introduction

This section of the report describes the key characteristics of the MFA instrument and its evolution. This provides a context for the specific MFA operations that have been evaluated and that are the main focus of this meta-evaluation. Consideration is also given to the marked changes in the current economic climate as they may lead to the need to re-appraise the objectives and operational characteristics of MFA in the future.

2.2 Overview of Macro Financial Assistance to Third Countries

The instrument of MFA was initially created for intra-Community balance-of-payment (BoP) support. Since 1990, MFA has been extended to third countries with a view to supporting their political and economic reform efforts. The Council decides MFA actions on the basis of a proposal from the Commission after consultation of its Economic and Financial Committee and of the European Parliament.

MFA is implemented by the Commission in association with support programmes from the IMF and World Bank. An MFA operation comprises two interlocking elements:

- **Financial support:** MFA takes the form of medium to long term loans or grants (or a combination of the two). MFA to third countries given in the form of grants is covered by specific budget headings in the general budget of the European Union[2]. In the case of loans the effect on the general budget is limited to contributions to a Guarantee Fund[3]. This fund is used should the debtor default. Normally, the funds are paid to the Central Bank of the beneficiary country, but their final destination (for example, build up of foreign reserves, foreign exchange market interventions or government spending) is left to be decided by the national authorities in agreement with the IMF.

- **Conditionality:** the loans and/or grants are disbursed in tranches which are released on the basis of the fulfilment of economic and financial policy conditions. The conditionalities are set out in a Memorandum of Understanding (MoU)/ Supplementary Memorandum of Understanding (SMoU) agreed between the Commission and the authorities of the beneficiary countries.

[2] An MFA budget heading for grants was introduced for the first time in the general budget of the European Union for the financial year 1998 (Article B7-5 3 1 'Exceptional financial assistance to Armenia, Georgia and Tajikistan'). The 1999 budget introduced a further Article (B7-5 3 2): 'MFA to the countries of the western Balkan region'

[3] A Guarantee Fund for external action was established in 1994. Any defaults on repayments are covered by this fund within the limit of the amount available.

The primary objective of MFA assistance is to fill a foreseen residual external financing gap (or fiscal imbalance) bearing in mind the contribution from multilateral institutions (and respecting the principle of fair burden sharing between bilateral donors); a secondary goal is to introduce or reinforce structural reforms in the beneficiary countries with a view to achieving medium to long term macro-economic stability and external sustainability.

MFA complements financing provided by the relevant IFIs and therefore, the structural reform conditions attached to the MFA are often fully consistent with the beneficiary countries' economic programmes as agreed with the International Financial Institutions. However, the structural reform conditions attached to the implementation of the assistance are also inspired by the economic cooperation agenda between the EU and the recipient country, as set out in association or cooperation agreements.

2.3 Legal Basis and General Principles

In the absence of a framework regulation, MFA interventions are based on individual Council decisions [taken on the basis of Article 308, EC[4] (former Article 235)]. There is no framework regulation defining the overall strategy and objectives, as MFA was not seen as a permanent but as an exceptional instrument. However, the Economic and Financial Affairs Council (Ecofin Council) agreed in 1995 on five principles – referred to as 'Genval principles'- which govern the policy of MFA[5] (see Box 2.1).

Box 2.1: Genval Principles

Exceptional character: The EC is not an IFI and the MFA must remain exceptional in nature and be discontinued when the recipient country can rely on financing from these institutions and private sources of capital.

Scope: The MFA is in principle reserved for third countries with which the EU has important political, economic and commercial ties and taking into account their geographical proximity to the EU territory. A pre-condition is that they fully respect democracy, rule of law and human rights.

Complementarity: MFA is warranted only if a significant and commonly identified residual external financing gap is identified over and above IFI resources and only on the basis of a fair burden sharing with bilateral donors.

Policy based conditionality: MFA is untied and undesignated but bears economic policy conditionality (macro-economic performance and structural adjustment criteria) the observance of which is verified before the release of the successive tranches of the assistance. This conditionality is generally based on and is always consistent with the macro-economic adjustment and structural reform programmes implemented by the beneficiary countries with the support of the IMF (and possibly the World Bank).

[4] Article 308, EC: 'If action by the Community should prove necessary to attain, in the course of the operation of the common market, one of the objectives of the Community and this Treaty has not provided the necessary powers, the Council shall, acting unanimously on a proposal from the Commission and after consulting the European Parliament, take the appropriate measures'.

[5] The Genval principles refer to the informal Economic and Financial Affairs Council (ECOFIN) conclusions first agreed on 9 October 1993, revised on 20 March 1995 and subsequently adjusted and adopted on 8 October 2002.

However, the conditionality may also reflect specific priorities of EU's external policy.

Financial discipline: The amounts provided under MFA have to be consistent with the annual budget ceilings established by the Community's financial perspective and the agreed ceilings of the Guarantee Fund mechanism for external actions (when the assistance takes the form of loans) or for the relevant budget appropriations (when grant financing is involved).

Source: Vademecum on EC Macro Financial Assistance to Third Countries, Version of 3 January 2008

The formal Ecofin Council conclusions were accompanied by a letter from the President of the Council to the President of the Commission which identified two broad groups of partner countries to be eligible for MFA:

- Candidate and potential candidate countries:
  - Candidate countries of the Central and Eastern Europe which had signed Europe or Association Agreements with the EU (Cyprus, Malta, Turkey); and,
  - Countries of the Western Balkans (which had signed or were expected to sign, Stabilisation and Association Agreements).
- Neighbourhood countries:
  - European countries of the Commonwealth of Independent States (CIS) namely, Belarus, Moldova and Ukraine; and,
  - Mediterranean third countries which are concerned by the Barcelona process (which had signed or were expected to sign the Euro-Mediterranean Association Agreements).

The second group can also include other third countries in 'very exceptional' and 'duly justified' circumstances. This was the case for MFA granted to Armenia, Georgia and Tajikistan (given the 'highly exceptional' nature of these operations, they are also referred to as 'Exceptional Financial Assistance')[6].

The above mentioned letter of the Council of the President also sets out the indicative limits for EC contribution. For the first group, the MFA can in principle cover up to 60 per cent of the residual financing needs of the beneficiary country (over and above contributions from multilaterals); whereas, for the second group only up to a third of the financing needs can be covered by an MFA. Moreover, it restricts the provision of grants to low income countries with limited debt repayment capacity.

[6] Under the 1 250 million euro Community credit facility made available to the new independent States in 1992 to import food and medical products, Armenia and Georgia benefited respectively from 58 million euro and 113 million euro in the form of loans. They were unable to comply with the time limits for repayment of the loan capital or interest. In order to facilitate the settlement of this debt problem, the Council decided in November 1997 to provide Armenia and Georgia with exceptional financial assistance in the form of a combination of loans and grants. This Council decision was amended in March 2000 in order to extend it to Tajikistan

It should however, be noted that whilst the 'Genval Principles' provide an overarching 'political' framework for MFA operations, they cannot legally limit or constrain the right of initiative of the Commission or the prerogatives of the Budgetary Authority with respect to the decision-making processes for individual MFA operations.

2.4 The Evolution of MFA Operations

Table 2.1 illustrates the evolution of MFA operations since 1990. In the period 1990 to 2007 there have been 49 MFA approvals (including four EFA operations) supporting 23 different countries[7]. These countries include:

- Eight countries that are now EU Member States – Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Romania and Slovakia
- Three Mediterranean countries - Lebanon, Algeria and Israel
- Six neighbouring countries from the CIS - Armenia, Belarus, Georgia, Moldova, Tajikistan and Ukraine
- Six countries from the Western Balkans - Albania, Bosnia and Herzegovina, Kosovo, Yugoslav Republic of Macedonia, Serbia and Montenegro

The amounts received by individual countries ranged from 1,050 million euro to Hungary and 20 million euro to Montenegro. Eleven countries received MFA on more than one occasion. Moldova received MFA five times and Bulgaria, Romania and Albania each four times. A total of 6,357 million euro has been approved (at current prices). However, 5,181 million euro (81 per cent) was provided before 2000. Since 2002 there have been only six approvals of MFA accounting for less than 5 per cent of the total.

Several other trends can also be observed. These in summary are:

Transition economies, enlargement and post conflict reconstruction: The first countries that were recipients of MFA operations were Hungary, Romania, the Czech and Slovak Federal Republic, Albania, the Baltic States (Estonia, Latvia and Lithuania) where the support was given shortly after the fall of the Warsaw Pact and to support transition, and Israel and Algeria[8]. As a result of the conflicts in the Western Balkans, in particular the Kosovo conflict of 1999 and of the political changes in the Federal Republic of Yugoslavia (Serbia and Montenegro), since 2000, MFA has been mainly provided to the Western Balkans (83 per cent of the decisions from 2000 to 2006). The other main recent recipients have been the low-income New Independent States (NIS). In 2007 Lebanon received MFA in the aftermath of conflict.

Widening of scope: MFA was conceived as an emergency instrument designed to fill a residual BoP financing gap (in the context of an IMF intervention). It was developed at a time when funds available from the Bretton Woods institutions were insufficient and flows from the private sector virtually non-existent. Overtime, the MFA has evolved into

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[7] The Czec and Slovac Republic is counted as one country here and Montenegro and Serbia and Montenegro as two countries.

[8] In the context of Community support for Mediterranean countries, the Council made available loans to Israel and Algeria in 1991, and a further loan to Algeria was decided in late 1994

a policy orientated instrument providing budgetary support and paying more attention to structural adjustment and reform issues. Almost 10 per cent of the total MFA approvals (or 577 million euros) represents general budget support or assistance to support structural adjustment in the recipient country.

Links with other EU support: MFA has complemented assistance from other EU instruments such as the PHARE[9]/ Instrument for Structural Policies for Pre-Accession (ISPA), Technical Aid to the Commonwealth of Independent States (TACIS) or CARDS[10] programmes (now replaced by European Neighbourhood and Partnership Instrument) with a view to strengthening the institutional capacity of beneficiary countries. By providing support to countries facing BoP or budget difficulties, the MFA has prevented disruption of regular EU support / programmes to these countries.

A reduction in the relative financial contribution from the EU: Initially, Community assistance was substantial in comparison with the funding provided by IFIs. The Community played a key role, both as a major provider of funds and as the coordinator of bilateral assistance to the Central and Eastern European Countries through the G-24[11] process. However, as the IFIs were progressively able to draw on more resources through new instruments, their share in the financing packages rose substantially.

A shift from loans to grants: During the 1990's, MFA consisted predominantly of loans (grants represented only 6% of the total support). Since 2000, the grant element of the MFA operation has increased – over the period 2000-2004, 47 per cent of the total assistance took the form of grants. The Balkan states in particular have benefitted from generous grant components. The new grant/loan balance of the assistance packages reflected the assessment made by the EU bodies of the per capita income and debt servicing capacity of the recipient countries.

Although, the MFA instrument has evolved in recent years to provide budgetary support, a prerequisite for the mobilisation of this assistance is the existence of a 'significant' and 'commonly identified' residual financing gap. MFA is intended for exceptional use; unlike other EU financial instruments with macroeconomic objectives, (notably direct budget support provided under the Instrument for Pre-accession to candidate or potential candidate countries, under the European Neighbourhood and Partnership Instrument, or the European Development Fund), MFA is not meant to provide a regular financial support framework for structural changes or, more generally, the economic and social development of the beneficiary countries.

[9] The Phare programme is one of the three pre-accession instruments financed by the EU to assist the applicant countries of Central and Eastern Europe in their preparations for joining the EU. Originally created in 1989 as the Poland and Hungary: Assistance for Restructuring their Economies (PHARE) programme, Phare expanded from Poland and Hungary to cover ten countries. It assisted the eight of the ten 2004 accession Member States: the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia, as well as those countries that acceded in 2007 (Bulgaria and Romania), during a period of economic restructuring and political change.

[10] The CARDS programme is intended to provide Community assistance to the countries of South-Eastern Europe with a view to their participation in the stabilisation and association process with the European Union.

[11] The Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development (G-24) was established in 1971. Its main objective is to concert the position of developing countries on monetary and development finance issues.

Table 2.1 Summary of MFA approvals over the Period 1990 – 2007 (mEUR unless otherwise stated)

	Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Total	Count
New EU MS (CEEC)	Bulgaria		290	110					250		100									750	4
	Czec and Slovak Federal Republic		375																	375	1
	Estonia			40																40	1
	Hungary	870	180																	1,050	2
	Latvia			80																80	1
	Lithuania			100																100	1
	Romania		375	80		125					200									780	4
	Slovakia					130														130	1
Mediterran	Algeria		400			200														600	2
	Israel		187.5																	188	1
	Lebanon																		80	80	1
CIS or NIS	Armenia (EFA)								58											58	1
	Belarus						55													55	1
	Georgia (EFA)								175									33.5		209	2
	Moldova					45		15				15		15					45	135	5
	Tajikistan (EFA)											95								95	1
	Ukraine					85	200			150				110						545	4
Western Balkans	Albania			70		35					20					25				150	4
	Bosnia and Herzegovina										60			60						120	2
	fYRoM								40		80		18							138	3
	Kosovo (EFA)											35	30					50		115	3
	Montenegro (EFA)											20								20	1
	Serbia and Montenegro												345	130	70					545	3
	Annual Data:																				
	No. of Operations Approved	1	6	6	0	6	2	1	4	1	5	4	3	4	1	1	0	2	2	49	
	Approval Amount	870	1,808	480	-	620	255	15	523	150	460	165	393	315	70	25	-	84	125	6,357	

Source: MFA Annual Reports — MFA Operation covered by the meta-evaluation

Note: General Budget Support/ Structural adjustment assistance is indicated in red font; remaining operations reflect BoP support

Source: Annual Reports on the implementation of Macro Financial Assistance to Third Countries

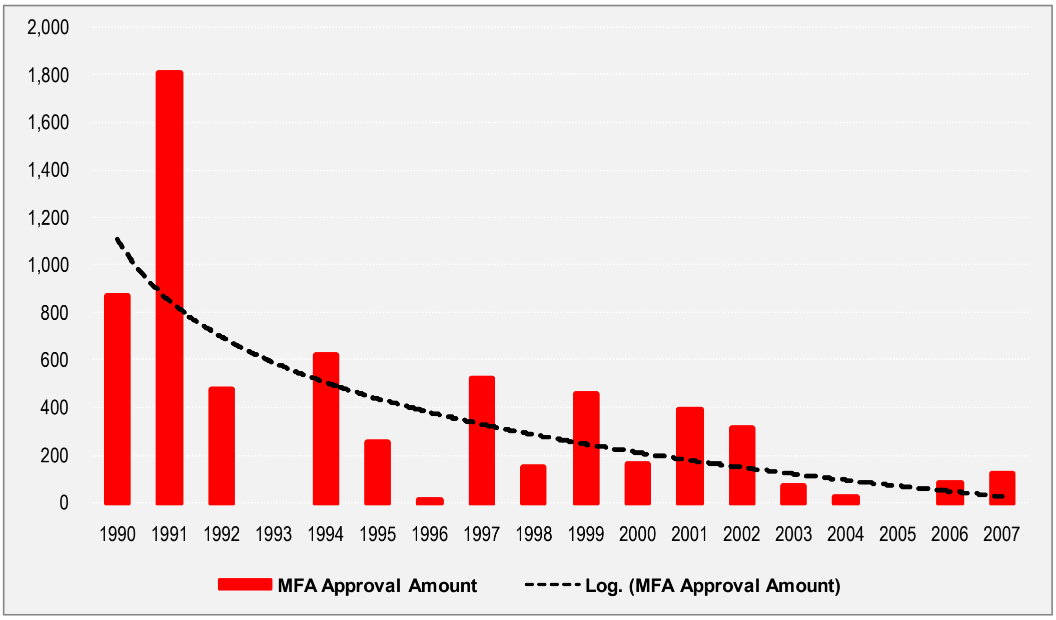
2.5 The MFA Evaluations in Context

The seven MFA operations whose evaluations are the main focus for this meta-evaluation represent in total around 12 per cent of the MFA resources deployed. They comprise: one accession country (Romania), that had received four MFAs in total; two CIS countries (Armenia and Tajikistan) which had received EFA; and four Western Balkans countries: Albania, fYRoM, Serbia and Montenegro and Bosnia and Herzegovina.

2.6 The Current Economic Crisis

During recent years (and prior to the advent of the present global financial crisis) the use of MFAs has progressively declined (Figure 2.1) due to a relatively stable global economic environment characterised by abundant supply of relatively cheap private capital.

Figure 2.1 MFA Approvals by Year, 1990 – 2007, EUR million



Data Source: Annual Reports on the implementation of Macro Financial Assistance to Third Countries

There has however been a recent resurgence in lending in the wake of the present financial crisis. The G-20[12] has empowered the IMF by making it the key lending institution for crisis-affected countries in need of balance of payments support. As a result, the IMF's lending portfolio has increased and the cumulative amount of its loans now stands at EUR 116 billion[13].

[12] The Group of Twenty (G-20) Finance Ministers and Central Bank Governors was established in 1999 to bring together systemically important industrialised and developing economies to discuss key issues in the global economy. The G-20 was created as a response both to the financial crises of the late 1990s and to a growing recognition that key emerging-market countries were not adequately included in the core of global economic discussion and governance.

[13] Total IMF Lending under Stand-by Arrangements, Flexible Credit Line, Poverty Reduction and Growth Facility and Exogenous Shock Facility stands at 106,349 million SDR as of 27 August 2009 . Converted into euros using an exchange rate of 1SDR = 1.093537 euro. Source: key IMF Financial Statistics, IMF)

Since September 2008, the IMF has negotiated Stand-by Arrangement (SBA) loans with seventeen countries (see Table 2.2). Seven of these are potential MFA countries (while Hungary, Latvia and Romania have received support via the BoP support instrument for Member States). The SBA financing ranges from EUR 19.2 million for Seychelles, the lowest amount, to a maximum of EUR 12.5 billion for Romania and comprises some of the largest loans disbursed in the Fund's history.

Table 2.2 IMF Stand-by Arrangements negotiated since September 2008

Member	Date of Arrangement	Expiration	Total Amount Agreed (in Thousands of SDRs)	Total Amount Agreed (in Thousands of euros)
Sri Lanka	24 July 2009	23 March 2011	1,653,600	1,808,272
Bosnia and Herzegovina	08 July 2009	30 June 2012	1,014,600	1,109,502
Romania	04 May 2009	03 May 2011	11,443,000	12,513,340
Guatemala	22 April 2009	21 October 2010	630,600	689,584
Costa Rica	11 April 2009	10 July 2010	492,300	538,348
Mongolia	01 April 2009	01 October 2010	153,300	167,639
Armenia, Republic of	06 March 2009	05 July 2011	533,600	583,511
El Salvador	16 January 2009	31 March 2010	513,900	561,968
Serbia, Republic of	16 January 2009	15 April 2011	2,619,120	2,864,104
Belarus, Republic of	12 January 2009	11 April 2010	2,269,517	2,481,800
Latvia, Republic of	23 December 2008	22 March 2011	1,521,626	1,663,954
Pakistan	24 November 2008	23 October 2010	5,168,500	5,651,944
Iceland	19 November 2008	18 November 2010	1,400,000	1,530,951
Seychelles	14 November 2008	31 November 2010	17,600	19,246
Hungary	06 November 2008	05 April 2010	10,537,500	11,523,143
Ukraine	05 November 2008	04 November 2010	11,000,000	12,028,903
Georgia	15 September 2008	14 March 2010	477,100	521,726
			51,445,863	**56,257,938**

Source: IMF Statistics, August 2009; Exchange Rate: 1SDR = 1.093537 euros
http://www.imf.org/external/np/fin/tad/extarr11.aspx?memberKey1=ZZZZ&date1key=2020-02-28

The current circumstances are markedly different from those that pertained during the period of MFA operations reviewed in this meta-evaluation. The MFA operations were implemented in the context of economic and political transition and the need for stabilisation following conflicts within the recipient countries. Today's economic context is different. Most of the world has adopted one form of capitalism or another. The current economic crisis was triggered by a financial crisis of unprecedented scale that spread rapidly across the world and quickly turned into a recession. The new type of crisis associated with the capital account and the volatility of capital flows, calls for much larger amounts of support than the more traditional one resulting from trade or current account imbalances. For example, the Western Balkans haven't faced such shocks in the past i.e. sudden stops in capital inflows that immediately raise external sustainability issues coupled with the more traditional trade shocks (e.g. 30 per cent fall in exports) impacting the current account. Many EU Member States are themselves affected markedly. The pace of enlargement has slowed.

In response to the global crisis, there has been a major overhaul of the IMF’s lending framework by establishing a new instrument and new guidelines for providing large, upfront financing on a precautionary basis and better tailoring conditionality to countries’ varying strengths and circumstances

These circumstances and recent developments complicate the derivation of pointers for future policy based on the experience of MFA in the past. Specifically, these have implications for the design of MFAs going forward.

3 PART I: SYNTHESIS OF EX-POST EVALUATIONS

This section presents a synthesis of the findings and conclusions of the seven ex-post evaluation reports in relation to the substantive meta-evaluation issues. It is essentially summative in nature and is structured as follows:

- Overview of the MFA operations covered by this meta-evaluation; and,
- Summary of the main findings and conclusions emerging from the ex-post evaluations covering the following issues:
  - Impact of MFAs on short term macroeconomic stabilisation of the recipient country and supporting structural reform in the short to medium term;
  - Indirect and / or unexpected effects of MFAs;
  - MFA's contribution to returning the external financial situation of recipient countries to a sustainable path over the medium to longer term; and,
  - Design and implementation of MFAs.

For detailed supporting evidence on which these findings are based, the reader is directed to Annex II which sets out the individual country fiches.

3.1 Overview of MFA Operations

Table 3.1 briefly describes, for each country, the economic and political context in which the MFA operation was approved, the size and objectives of the MFA operation, and other EC assistance available to the country during the period of the MFA operation.

Table 3.1: Overview of MFA Operations

	Armenia (1998 – 2003)	Romania (2000 – 2005)	FYROM (2001 – 2005)	Tajikistan (2001 – 2006)	Bosnia and Herzegovina (2002 – 2006)	Serbia and Montenegro (2002 – 2006)	Albania (2004 – 2006)
Size of MFA	EUR 30m Grant EUR 28m Loan	EUR 200m Loan Actual disbursement was EUR 150m)	EUR 30m Grant (+18m in 2001) EUR 50m Loan	EUR 35m Grant EUR 60m Loan	EUR 40m Grant EUR 20m Loan	EUR 75m Grant (+45m in 2003) EUR 55m Loan (+25m in 2003) Actual disbursement: EUR 100m Grant + EUR 55m Loan	EUR 16m Grant EUR 9m Loan
Context	The MFA to Armenia was highly exceptional in character as it was designed and implemented to help Armenia clear its external arrears towards the EC (amounting to EUR 51m) – originating from the food supply trade credit facility that the Community had extended to the NIS in the early 1990's.	The fourth MFA operation was approved in 1999 in anticipation of a large BoP financing gap - IMF estimated a residual financing gap of USD 322m (c. EUR 349m) for 2000.	The MFA was approved in 1999 in the context of the Kosovo crisis to fill an IMF estimated residual BoP financing gap of USD 510m (c. EUR 479m); and topped-up in 2001 (by EUR 18m) in response to the increased external financing needs caused by the security crisis.	The MFA to Tajikistan was highly exceptional in character as it was designed and implemented to help Tajikistan clear its external arrears towards the EC amounting to EUR 79m – originating from the trade credit facility that the Community had extended to the NIS in the early 1990's.	IMF SBA was approved in August 2002 in the context of a sharp slowdown in GDP growth with Republika Srpska (RS) in recession; high unemployment rate; large current account imbalances (mainly due to a trade deficit of about 50% GDP); and declines in reconstruction aid inflows.	The EU approved 2 MFA operations in 2001 and 2002, to assist Serbia & Montenegro deal with the economic consequences of the break-up of Federal Yugoslavia leading to wars and years of sanctions; and to facilitate its transition to a market economy. The 2nd MFA was increased by EUR 70m in 2003 following the assassination of the Serbian Prime Minister.	The EU approved 3 MFA operations over 1992 – 2002 to support Albania's transition to democracy and market economy; as well as to deal with the influx of refugees caused by the Kosovo conflict in 1999. The 4th MFA was approved in 2004 to cover the estimated residual financing gap of $46m (c. EUR 37m).

	Armenia (1998 – 2003)	Romania (2000 – 2005)	FYROM (2001 – 2005)	Tajikistan (2001 – 2006)	Bosnia and Herzegovina (2002 – 2006)	Serbia and Montenegro (2002 – 2006)	Albania (2004 – 2006)
Stated Objectives of the MFA Operation	To meet the residual financing needs of the country in the context of international donor assistance; to support the reform efforts of the Armenian government; and to alleviate social hardship; the objectives of the MFA were modified at later stages – the alleviation of social hardship was dropped-off the agenda.	To ease external financing constraints; support BoP; strengthening the reserves position; and to support the implementation of structural reforms.	To cover the financing gap in order to strengthen the country's reserve position; to ensure sustainable BoP; to support policy objectives attached to the Government's reform programme; and contribute to alleviation of social consequences of the economic disruptions caused by the conflict in Kosovo.	To encourage the Tajik authorities to implement macroeconomic and structural policies fostering external and fiscal sustainability; to help Tajikistan to improve its financial position by reducing its net debt position towards the Community.	To ease external financing constraints; support BoP; secure the foreign exchange reserves position; to support the Government's reform programme; and to bring BiH closer to the Community.	To ease the country's external financing constraints; to support balance of payments; to secure the foreign exchange reserve position; and to support the government's reform programme.	To help the country meets its external financing needs; to support the sustainability of Albania's external financial position; to reinforce the country's reserve position; to support its budget; to support the policy objectives attached to the authorities' reform efforts; and to bring Albania closer to the Community.
Other EC Assistance to the beneficiary country	Total EU grants to Armenia over the period 1991 to 2002 amounted to EUR 331.6m (including the MFA). Key instruments were FSP (81.3m); TACIS (78.9m); ECHO (69m), FEOGA (50.2m). Other forms of assistance included grants for nuclear safety and aid to mitigate the effects of the Russian crisis.	Romania signed the Treaty of Accession to the EU in 2005.During 2000 to 2003, Romania received approximately EUR 660m per year through three pre-accession instruments: PHARE, ISPA and SAPARD. This represents 1.62% of GDP in 2000 and 1.26% of GDP in 2003.	SAA came into force of 1st April 2004; candidate status granted in 2005. Over the period 1998 to 2004, FYROM received EC assistance of over EUR 370m as follows: CARDS (EUR 200.2m); ECHO (EUR 49.8m); PHARE (EUR 97m); other (EUR 26m).	Total EU grants to Tajikistan over the period 1991 to 2002 amounted to EUR 294m (including the MFA).The main assistance instruments used by the European Commission in Tajikistan were: TACIS (76m), FSP (42m), and ECHO (75m). Other instruments such as EIDHR were also used.	SAP kicked-off in 2003; SAA signed in 2008. Over 2001 to 2006, the main source of EU assistance for BiH was the CARDS programme with over EUR 500m of financial support in different areas.	SAP kicked-off in 2003. During the period 2000 to 2007, other EC assistance to Serbia and Montenegro included EUR 158.8m from Obnova/ CARDS, EUR 144.8 m from ECHO and EUR 9.6 m from EIDHR.	SAA signed in 2006. During the period from 2001 to 2006, Albania received EUR 283.5m through CARDS.

3.2 Impact of MFA on Macroeconomic Stabilisation

In theory, the direct short-term impact of the MFA instrument (up to two years after initial disbursement) on macroeconomic stabilisation is anticipated to arise primarily from the financial component of the package (including IMF/ WB complement); while an indirect impact, observable over a medium-term time horizon (2 to 4 years), is associated with the structural reform programme. The ex-post evaluation reports have assessed the gross impact of MFA by analysing:

- The key macroeconomic variables such as: Gross Domestic Product (GDP) and its components; inflation rates, interest rates and exchange rates;
- The growth and pattern of public finances over the period of the operation; and,
- Developments in the external sector.

The net macroeconomic impact of MFA has been estimated in the evaluations as the difference between the gross effects and the effects corresponding to the most likely counterfactual situation.

Table 3.2 summarises the key evaluation findings and conclusions of the ex-post evaluations for each of the seven countries. The following general observations can be drawn from the ex-post evaluations:

- All beneficiary countries demonstrated an overall improvement in the macroeconomic environment over the course of their respective MFA operations and on that basis the MFA (in conjunction with support from IFIs) is assumed to have had a positive gross effect on the macroeconomic situation of beneficiary countries.

- However, the scale of the MFA support itself was very small in comparison with the key macro-economic variables (such as the GDP and the current account deficit), and

- In most cases, the net impact of the MFA support on macro-economic stabilisation has been described as ‘limited’ and ‘indirect’ in the ex-post evaluation reports. The indirect effect was associated with the ‘reputational’ and ‘confidence building’ effect of the MFA operation; as well as the impact of structural reform. The recipient countries saw the MFA as a means of gaining credibility and this appears to have been the most significant effect of MFA. In case of Armenia and Tajikistan, the MFA prevented these countries from cutting-back domestic expenditure (by reducing the cost of foreign debt servicing) and thus maintaining the continuity of IMF/ WB programmes.

- A notable exception was Bosnia and Herzegovina where the MFA is judged to have had a ‘non-negligible’ net impact – it is estimated to have contributed 18 per cent to 20 per cent of the overall stabilisation effect. However, the direct effect of MFA on key macroeconomic variables was limited. MFA is considered to have had an indirect and cumulative effect on macroeconomic stabilisation by accelerating structural reforms (particularly, tax reform), influencing the international perceptions of country risk and fostering coordination/ policy dialogue between Bosnia and Herzegovina.

Table 3.2: Impact of MFA on Macroeconomic Stabilisation: Synthesis of Ex-post Evaluations

Armenia	Romania	FYROM	Tajikistan	Bosnia and Herzegovina	Serbia and Montenegro	Albania
Over the period of the MFA operation (1998 to 2003), significant improvements were noted in Armenia's economic performance: real GDP growth accelerated from 5% in 1999 to 14% in 2003; inflation was brought under and current account deficit levelled off at around 7% in 2003. However, the net impact of MFA on Armenia's macroeconomic situation was relatively modest and indirect. By allowing the continuation of IMF activities (and Armenia's reform programme), the MFA had a net positive effect on Armenia's macro-economic environment. The ex-post evaluation report also emphasises	Economic developments in Romania, over the period 2000 to 2005, show a positive trend – the economy experienced a period of positive growth, relatively low fiscal deficits and lower inflation levels. The current account deficit was relatively modest over 1999 to 2002; but increased sharply thereafter. After 1999, Romania benefitted from increased capital inflows which contributed to a large build-up in its foreign exchange reserves. However, the net impact of MFA on macro-economic stabilisation is judged to have been "very limited" in case of the disbursement of the first tranche and 'practically non-existent' in case of the disbursement of the second tranche.	As a result of the security crisis, real GDP fell by 4.5% in 2001; but it started to recover in 2002. Over the period 2002 to 2005, real GDP demonstrated positive growth and overall macroeconomic stability was restored. According to the evaluation report, in absence of the MFA, the recession in 2001 would have been longer and deeper. Nonetheless, the direct net impact of MFA was assessed to be "small to moderate". The ex-post evaluation report highlights an important indirect effect of MFA on macroeconomic stabilisation. According to the report, continued EC support sent a clear signal	Over the period of the MFA operation (2001 to 2006), annual growth in real GDP ranged from 6% to 10%, inflation was brought under control and the net international reserve position changed from negative to positive. An improvement in public finances also contributed to overall macroeconomic stabilisation. The net impact of MFA on macroeconomic stabilisation was limited - the results of the econometric modelling showed that the MFA contributed to a circa 1.5% cumulative increase in GDP over 2001 to 2006. Moreover the MFA operation took place in an environment where the risk of economic stability was decreasing.	Due to the poor quality of the macroeconomic data and reliability issues, the evaluation report warns against drawing definitive conclusions from the data. Nonetheless, the data shows that: During 1996-2000, GDP grew at an average rate of 22% per annum; over the period of the MFA operation (2002 – 2006), it grew at an average rate of 5%. The BoP was characterised by a high trade deficit and current account deficit over the period however, official reserves continued to grow over the period due to sustained inflows of remittances. Fiscal surpluses were recorded over the period	Both Serbia and Montenegro achieved sound economic growth over the period of the MFA operation (2002 to 2006). The current account deficit remained high in the two Republics; but they experienced a positive inflow of FDI and accumulation of reserves. Public finances also improved in Serbia and Montenegro. The direct short term net impact of the MFA on the Serbian economy is estimated to be "very small" – MFA allowed for a slightly more expansionary fiscal and monetary policy. (Note: net impact was not estimated for Montenegro due to data constraints and on the basis that 90% of MFA was allocated to Serbia)	Over the period of the MFA operation (2004 to 2006), the general macroeconomic situation was positive and stable with steady growth in real GDP, price stability, sustainable fiscal situation and a strong reserves position (corresponding to 4 months of imports). However, given the very limited size of the operation itself, the net impact of the MFA on macroeconomic stabilisation is estimated to be small. The evaluation report refers to an indirect effect resulting from channelling public wages through the banking sector which led to an increase in credit facilities. The MFA is also

Armenia	Romania	FYROM	Tajikistan	Bosnia and Herzegovina	Serbia and Montenegro	Albania
the 'reputational effect' of MFA - by avoiding a default, the MFA was crucial in maintaining the reputation and credibility of both the EU and Armenia. This was also applicable to Tajikistan.	The ex-post evaluation report highlights the 'confidence-building' effect of MFA (along with SBA) – the MFA/ SBA instilled confidence in the Romanian economy which helped mitigate 'the risk of policy reversals'.	of EU commitment to the authorities in Skopje. This had a bearing on the authorities' willingness to pursue restrictive macroeconomic policies (that helped maintain stabilisation) despite a series of adverse events.		2003 to 2006. The MFA is judged to have a 'non-negligible' net impact – it is estimated to have contributed 18% to 20% of the overall stabilisation effect. The direct effect of MFA on main macroeconomic variables such as fiscal balance, international reserves, current account and money supply was judged to be limited. However, MFA is expected to have had an indirect and cumulative effect by influencing the international perceptions of country risk and fostering coordination/ policy dialogue between the two entities.	The evaluation report mentions the added value of MFA in re-establishing the relations between Serbia and EU . It also highlights that in the case of Montenegro, officials emphasised the budget support and the image-building elements of the MFA.	considered to have a confidence building effect i.e. a declaration of confidence by the EU in the Albanian political and economic situation.

3.3 Impact of MFA on Structural Reforms

Table 3.3 provides an overview of the structural conditionalities and key reform areas linked to the seven MFA operations; while Table 3.4 summarises the conclusions drawn in the ex-post evaluation reports regarding the effectiveness of conditionalities and the role of MFA in reinforcing reform.

The following observations can be made from the above cross-cutting review of structural reforms across the seven countries:

- Most of the ex-post evaluation reports distinguish between formal progress[14] and structural progress[15]. The ex-post evaluation reports suggest that the majority of the structural conditionalities were formally fulfilled by beneficiary countries; however, structural progress has been less satisfactory and varied. Romania, Albania and Serbia and Montenegro were more successful than the other four countries (Armenia, fYRoM, Bosnia and Herzegovina and Tajikistan) in demonstrating structural progress across a range of policy areas.
    - The MFA operation in Albania, had a limited number of conditionalities (14), most of which were of a short term nature i.e. they could be fulfilled within one to two years (except for administrative reform).
    - In the case of Romania, MFA played a substantial politically reinforcing role on the credibility of the overall reform package. The EU accession criteria – in particular the functioning market economy status Romania needed to enter the EU – also contributed to the implementation of the reform package.
    - In Serbia and Montenegro, despite a relatively large number of conditionalities (54), the authorities made significant progress. There was a strong link between the conditionalities and short-term macroeconomic objectives of the MFA; strong coherence between MFA conditionalities and IFI requirements.
- Generally speaking, the MFA appears to have had a positive but non-uniform impact on implementation of structural reforms in the recipient countries. For example:
    - The ex-post evaluation could not find any evidence proving an operational reinforcing effect of MFA conditionalities in Romania. Although political reinforcing effect was noted in three out of six on reform areas: trade policy, privatisation and to a lesser extent in public finance management. In addition the MFA was seen to have a more general, albeit significant, reinforcing effect on the successful implementation of the IMF and World Bank conditions.

[14] A conditionality is assessed as having achieved formal progress if it has been fulfilled in accordance with the literal formulation of the conditionality.

[15] If the reform has become structurally embedded in the recipient country's institutional context as evidenced by a country's performance in relation to structural indicators (e.g. tax collections), investor sentiment and its business environment.

– In case of former Yugoslav Republic of Macedonia, the MFA had a politically reinforcing effect on conditionalilties relating to trade policy, privatisation and public finance management. The ex-post evaluation found no evidence of operational reinforcing effect. However, a more general (yet consequential) reinforcing effect of MFA – associated with the generous grant component - was noted by stakeholders. Moreover, continued EC support was perceived by national authorities as a signal of EU commitment to closer relations with the country.

– In the case of Tajikistan, the net effect of MFA on structural reforms was relatively limited and a political reinforcing effect was noted for only two conditionalities. The ex-post evaluation report highlights the added value of MFA with respect to two EC specific conditionalities.

– The added value of MFA in the case of Bosnia and Herzegovina was seen to be arising from its role in accelerating structural reforms. For example, according to the evaluation report, the most visible effect of structural conditionality had been in the area of indirect tax and customs reforms, which led to an increase in indirect tax revenues and thus contributed to a fiscal surplus. However, in general the evaluation report points to a weak reinforcing role of the MFA.

– As regards the Albanian operation, an operational reinforcing effect (speeding up of reform implementation) was identified for five out of fourteen conditionalities.

- As regards the effectiveness of conditions in individual reform areas, the following can be said:

  i. **Public finance** – This is an area where almost all the ex-post evaluations noted significant structural progress. The only exception was Armenia where progress in tax administration was impeded by corruption among tax authorities. The impact of structural conditionalities on short-term macroeconomic stabilisation was most visible in Bosnia and Herzegovina where reform in the area of indirect tax and customs, led to an increase in indirect tax revenue and contributed to a fiscal surplus.

  ii. **Public administration** – Conditions in this area were applied to six out of the seven countries. Limited structural progress was noted in this area (only two out of six countries demonstrated structural progress). For example, in the case of Bosnia and Herzegovina, conditionalities relating to public procurement were formally met; but the effectiveness of the procurement law was weakened by operational problems in establishing the Public Procurement Agency and the Procurement Review Body. In the case of Tajikistan, although the authorities made good progress in establishing a modern treasury system and improving the budgetary processes, much remained to be done to improve the transparency in fiscal operations. On the other hand, substantial progress was noted in Serbia and Montenegro and Albania.

iii. **Financial sector** – Structural progress was noted in four out of the six countries where such reforms were applicable. Limited structural progress was noted in Bosnia and Herzegovina and Tajikistan. In the case of Bosnia and Herzegovina, banking supervision could not be freed from political interference. In the case of Tajikistan, although the Tajik authorities made significant progress in improving banking sector regulation and supervision, their efforts did not translate into a stronger banking sector or well-functioning capital markets. The banking sector remained weak due to a high level of non-performing loans (due to weak operational management) and the efficiency of the banking system was further constrained by the continuing government influence on credit allocation to specific sectors.

iv. **Privatisation** – Conditionalities relating to privatisation were applicable to all seven countries. Structural progress was noted in Romania and to some extent in Bosnia and Herzegovina. In a number of other countries, the privatisation process was affected by lack of interest among potential investors.

v. **Trade policy** – Structural conditions in this area were applicable only in the case of fYRoM. The MFA MoU included two conditions relating to the SAA process and the Free Trade Agreement process (linked to Acquis Communitaire). The Commission concluded in its 2005 Opinion Report that most elements of the Acquis were not yet in place, but progress was underway. The ex-post evaluation report identified two positive structural trends: increasing openness of the economy and declining import barriers

vi. **Business environment** – Of the six countries, only Romania demonstrated significant structural progress. Reforms in this area are longer term and fall within the domain of World Bank's activities. The apparent success of Romania in improving its business environment could be attributed to reforms previously undertaken and the impact of the EU accession process.

vii. **Energy sector** – The ex-post evaluation for Armenia noted that authorities had made significant progress in reforming the energy sector.

It can be concluded from the above analysis that structural reforms have been most successful in:

- Countries where they were focused on short-term objectives and adequately tailored to the varying strengths of countries' policies and fundamentals;
- Areas of public finance and the financial sector. Reforms in the area of public finance are directly related to macroeconomic stabilisation as measures to improve the tax structure, tax administration, or public expenditure management make fiscal adjustment more durable. Reforms in the financial sector include institutional and regulatory changes aimed at strengthening the efficiency and stability of the banking and insurance sector.

Table 3.3 Overview of Conditionalities and Key Reform Areas linked to the MFA

	Armenia	Romania	FYROM	Tajikistan	Bosnia and Herzegovina	Serbia and Montenegro	Albania
No. of Conditions	N/A	22	25	48	28	54	14
Public finance	Tax reform - improvement in tax administration and tax collection with a notable ban on advance VAT collection	Fiscal discipline - reduction in losses from mining companies; introduction of law for social security contributions; provisions hindering direct financing of debt by Central Bank	Tax reform and strengthening of budget control	Tax reforms – computerisation, improvements to coverage and collection of taxes; reduction in tax exemptions Improve treasury systems	Improvements to treasury system, stop double taxation on excises; streamline customs and tax administration	Improvements to treasury system, debt and asset management, revenue collection and customs harmonisation	Reform of treasury : segregation of duty, double signature rule, introduction of IT system, internal controls
Public administration	Public employment reduction and an effective anti-corruption policy		Reform of the civil service – greater independence, establishment of a merit system; wage decompression	Public sector management – external audit function; code of ethics for public servants	Ensure proper functioning of the State Border Service, harmonisation of statistics and introduce draft legislation on public procurement	Reforms to pension policy and laws relating to anti-money laundering; enhance quality, performance and accountability of public administration	Channelling public sector wages through banks, legal framework for conflict of interest and measures to limit delays in judicial processes
Financial sector	Improve banking regulation	Strengthening the banking supervision department of the Central Bank	Operational independence and supervisory role of Central Bank	Restructuring the banking sector; strengthen regulatory environment; changes to monetary policy	Strengthen banking supervision and adopt State Framework law on Insurance	Improving banking sector supervision and regulation; improve efficiency and stability of banking and	Introduce new law in banking sector, integrated IT software system for the Central Bank; adoption of

	Armenia	Romania	FYROM	Tajikistan	Bosnia and Herzegovina	Serbia and Montenegro	Albania
						insurance sector	secondary legislation on insurance/ reinsurance
Privatisation	Liquidation of non-profitable state-owned enterprises/ privatisation of banking/non-banking firms	Large scale privatisation of state owned enterprises including banks, gas & electricity distributors	Privatisation and liquidation of state owned enterprises	Complete small scale privatisation; progress towards large scale privatisation of infrastructure and public utilities; transformation of state farms into private farms	Privatisation of banks; amendments to law obstructing privatisation; privatise 12 companies on the list of 56 strategic enterprises	Build privatisation capacity and privatisation of state-owned enterprises	Offer for sale (final tender) of Albtelekom and ARMO
Trade policy	N/A	Elimination of import surcharge and reduced profit tax rate on exports	Steps towards implementation of trade provisions of the SAA and elimination of 1% fee for processing customs				
Business environment/ Private sector development	WTO accession and a positive climate for foreign investments	Reducing delays in VAT refunds and reduction of administrative barriers	SME development		Harmonise bankruptcy legislation; implement competition law	Adopt bankruptcy law, competition law and new accounting law; strengthen regulatory framework for tele-communications and energy sectors	Action plan on administrative barriers; law on commercial Registration

	Armenia	Romania	FYROM	Tajikistan	Bosnia and Herzegovina	Serbia and Montenegro	Albania
Energy sector	Energy strategies linked to privatisation and the closure of the nuclear power plant						

NB: BiH included additional conditionalties relating to State Veterinary Office and phytosanitary legislation

Table 3.4 Reform Areas where progress and reinforcing effect of MFA was observed in evaluations

Reform Area	Armenia	Romania	FYROM	Tajikistan	Bosnia and Herzegovina	Serbia and Montenegro	Albania
Public finance	Limited structural effect	IMF substantially satisfied with improvements in fiscal discipline. High politically reinforcing effect of MFA	Conditions fulfilled or broadly fulfilled. Structural progress noted. Medium – low reinforcing effect of MFA	Formal and structural progress noted in all but one area (tax exemptions)	Structural progress noted in areas of treasury, customs and indirect tax reform Political and operational reinforcing effect of MFA	Most conditionalities were met. Substantial structural progress noted. Weak operational reinforcing effect of MFA	All 5 conditions formally fulfilled. Structural progress noted for 2 conditions Political and operational reinforcing effect of MFA
Public administration	Public sector employment was reduced. Doubts over effectiveness of anti-corruption strategy		Conditions formally achieved (except for wage decompression); limited structural progress Low reinforcing effect of MFA	8 conditions formally achieved and 2 partially met. Limited structural progress Political reinforcing effect on 2 conditionalities and added value effect on	Limited structural progress Weak operational reinforcing effect of MFA	All conditionalities were met. Substantial structural progress was also noted. Weak operational reinforcing effect of MFA	2 conditions fully fulfilled; 1 replaced. Political and operational reinforcing effect of MFA on 1 condition

Reform Area	Armenia	Romania	FYROM	Tajikistan	Bosnia and Herzegovina	Serbia and Montenegro	Albania
				1			
Financial sector	Reforms resulted in a relatively well-regulated banking sector		Not all conditions were met; although structural progress noted (fall in interest rates and non performing loans) Low reinforcing effect of MFA	Significant formal progress; limited structural progress	Limited structural progress in banking supervision and insurance Weak operational reinforcing effect of MFA	Except for one, all conditionalities were fully achieved. Substantial structural progress in all cases. Low political and operational reinforcing effect of MFA	All 3 conditions fully fulfilled. MFA had substantial reinforcing effect on 1 condition
Privatisation	Progress was slower than planned and fell significantly short of its objectives	Successful implementation of large scale privatisation, elimination of state ownership of banks and privatisation of four electricity distribution companies High politically and operationally reinforcing effect of MFA	Although conditions were formally met; limited structural progress due to the applied privatisation model and ongoing systemic problems in the judicial sector Medium – high reinforcing effect of MFA	6 conditions formally fulfilled and 2 partially achieved. Small scale privatisation successful; no structural progress in large scale privatisation / land reforms Added value effect on 1 conditionality	Substantial structural progress in bank privatisation and strategic enterprises (strong in RS; limited in FBiH) Political and operational reinforcing on bank privatisation only	Bank privatisation successful; limited success in privatisation of state owned enterprises. Medium political and operational reinforcing effect	Conditions formally fulfilled – too early to make final judgement on structural progress. No verifiable effect of MFA
Trade policy			Conditions broadly fulfilled; structural progress noted in form of increasing openness of the economy and declining				

Reform Area	Armenia	Romania	FYROM	Tajikistan	Bosnia and Herzegovina	Serbia and Montenegro	Albania
			import barriers High reinforcing effect of MFA				
Business environment/ Private sector development	No effects noted as contingent on the success of reforms in tax administration and corruption	Structural progress noted in business environment High politically reinforcing effect of MFA	Condition formally met; no structural impact Low reinforcing effect of MFA		Limited structural progress Weak operational reinforcing effect of MFA	Conditions sufficiently met or became irrelevant; limited structural progress. Medium – low political and operational reinforcing effect of MFA	Conditions formally fulfilled – too early to make final judgement on structural progress. No verifiable effect of MFA
Energy sector	Significant progress was noted in reforming the energy sector						

Notes:
Formal progress refers to the fulfilment of conditionality in accordance with the literal formulation of the conditionality
Structural progress refers to reform which is structurally embedded within the economic environment and institutional context of the beneficiary country
Political reinforcing effect – were MFAs was instrumental either in overcoming political resistance to reform or in signalling the importance of reforms
Operational reinforcing effect – when the MFA led to a verifiable speeding up, deepening or widening of the scope of reform
Added value effect refers to EC specific conditionality

3.4 Indirect or Unexpected Impact of MFAs

The evaluations also considered the indirect or unexpected impacts of MFAs. The findings from individual country evaluations are summarised in Table 3.5.

As discussed in section 3.2, the impact of MFA on macro-economic stability has, in the main, been indirect and has arisen through the following channels:

- In most cases, MFA contributed to overall macroeconomic stability by reinforcing the implementation of structural reforms in the recipient country. Indirect benefits have accrued in the form of increased government revenue (due to tax reforms), improved capitalisation of the banking sector (resulting from reforms initiated in the financial sector) and increased business activity (due to for example, the introduction of competition policy).

- In the specific case of Armenia and Tajikistan, the MFA allowed the continuation of IMF/ WB programmes and prevented these countries from cutting back on social expenditure by decreasing the cost of foreign debt servicing.

Some unexpected effects were also noted in the ex-post evaluations of Albania, Romania and fYRoM as follows:

- Albania: The channelling of public wages through the banking sector led to an increase in credit availability.

- Romania: The mention of a deadline for the privatisation in the conditionality documents may have hampered the ability of the privatisation agency to identify the best timing for the best opportunities, hence possibly reducing potential proceeds for the budget, because of the lower quality of investors or lack of competition.

- fYRoM: An unexpected impact related to the timing of the disbursement of first tranche of MFA which mitigated the financing needs of the Government at the start of the security crisis.

Table 3.5: Indirect and unexpected Impact of MFA: Synthesis of Ex-post Evaluations

Armenia	Romania	FYROM	Tajikistan	Bosnia and Herzegovina	Serbia and Montenegro	Albania
The MFA impact on the macro-economy was indirect - it allowed the continuation of IMF/WB activities and more prudent debt management by the Central bank, thus securing price stability. The MFA prevented Armenia from cutting back its social expenditure or drawing down on its foreign reserves to service its debt.	The MFA operation may have had a possible unexpected impact on structural reforms. The mention of a deadline for the privatisation in the conditionality documents may have hampered the ability of the privatisation agency to identify the best timing for the best opportunities, hence possibly reducing potential proceeds for the budget, because of the lower quality of investors or lack of competition. The abolishment of the EU visa regime for Romanian citizens in 2003, triggered and almost-immediate rise in remittances and mitigated to a small extent the increase of the trade deficit.	Indirect macroeconomic effects were identified with respect to 2 structural conditionalities: The successful introduction of VAT in 2000 had positive effects for tax collection and subsequently for fiscal balance. The privatisation of loss making enterprises stopped the process of subsidising public enterprises through the budget. An unexpected impact related to the timing of the disbursement of first tranche – which mitigated the financing needs of the Government at the start of the security crisis.	The evaluation highlighted the following indirect contribution from EFA conditionalities to the achievement of macroeconomic stability: Improved tax collection; Higher than expected job creation due to privatisation; Improved capitalisation resulting from banking sector reform. There were no unexpected macroeconomic effects of MFA or those relating to structural reforms.	The impact of MFA on macroeconomic stabilisation was indirect and resulted from effects of structural reforms and in particular the indirect tax policy and tax administration reform.	The net impact of MFA was indirect emanating from the accelerated privatisation of banks and enterprises as well as their restructuring.	The net impact on macroeconomic stabilisation originated from an increase of budgetary funds in 2006 and 2007. MFA was, in effect, used as budget support – the MFA flows allowed a higher level of expenditure on infrastructure projects and on the land compensation fund. An indirect effect resulted from channelling public wages through the banking sector which led to an increase in credit availability.

3.5 Impact of MFAs on Long-term External Sustainability

According to the ex-post evaluation reports, the impact of MFA on the long-term external sustainability of beneficiary countries is considered to have been positive, albeit small and indirect. The overall package of structural reform is considered to have improved the growth capacity of beneficiary countries.

However, as with almost any country in the post credit crisis world, growth in these countries has been affected in 2008/2009. As indicated in Table 2.2, four out of the seven countries covered by this meta-evaluation have recently negotiated SBA lending from the IMF. In addition, the IMF approved a three-year, SDR 78.3 million (about EUR 85.98 million) arrangement under the PRGF in April 2009 for the Republic of Tajikistan to help its economy adjust to the impact of the global crisis. All seven countries have benefitted from multiple IMF interventions over the past decade (see Annex IV for a historical overview of all IMF/ MFA operations in these countries) which raises questions regarding the efficacy of the IMF/ MFA support on the long–term external sustainability of recipient countries. It is quite possible that in absence of this support, the impact of the financial crisis may have been more severely felt by these economies. And although it is beyond the scope of this meta-evaluation to offer definitive analysis and conclusions in response to this issue, Table 3.6 below provides an overview of the key structural weaknesses that continue to affect these countries, making these economies highly vulnerable to the global economic crisis. The global economic crisis has spread quickly to these countries over recent months, reversing some of the effects of strong growth of the last years and putting at risk macroeconomic stability and some important economic reforms.

Table 3.6 Overview of Continuing Structural Weaknesses

ARMENIA
Corruption: Reforms of the civil service, under way since 2002, include a rise in public sector salaries as part of measures to reduce corruption and attract higher calibre staff. However, a three-year anti-corruption strategy, which started in 2003, resulted in little tangible progress. **Weak tax administration:** Although tax revenue has risen strongly in nominal terms, the tax/GDP ratio remains low (around 15% in 2007), compared with other countries. This reflects the fact that some important and growing sectors of the economy (such as grant-financed construction) are untaxed. Also, the tax administration is still too weak to combat tax evasion by business effectively. **Public expenditure:** Despite the IMF's sponsored poverty reduction strategy, education, healthcare and pensions continue to receive lower budget spending allocations than defence (in a context where Armenia and Azerbaijan have embarked on an intensifying arms race). **Land reform:** The small size of private farms is a structural constraint on the development of the sector. **Underdeveloped financial sector:** Financial services others than banking are undeveloped. The stock market is currently tiny and illiquid. **Privatisation:** The privatisation of the large industrial plants has been difficult, partly

because of populist objections to the sale of what are regarded as national institutions, such as the Yerevan brandy factory (which was bought by *Pernod Ricard* of France). There has also been criticism that the lack of transparency in the privatisation process has sometimes resulted in sales to un-qualified enterprise insiders. Many of the remaining state-owned enterprises have accumulated large debts and are burdened by obsolete equipment, and are therefore unattractive (although, the pace of privatisation has recently picked up notably in mining and metals).
ROMANIA
Overheating: Wages have grown substantially faster than productivity in recent years. There has been a rapid expansion of consumer credit by the largely foreign-owned banks. The resulting growth of household consumption, together with a rapid growth of investment, contributed to growing external deficits and inflationary pressure. Private capital inflows have reduced to low levels since October 2008. The NLP government continued to pursue loose fiscal policies in 2008, despite evidence that the economy was overheating. This pushed the budget further into deficit, estimated at 4.2% of GDP in 2008, and the current-account deficit was more than 13% of GDP. **Exchange rate volatility:** The introduction of inflation-targeting and the liberalisation of the capital account have contributed to high exchange-rate volatility. The leu appreciated in real terms by 50% in the period from October 2004 until July 2007, before coming under increasing pressures since then, as the global financial situation deteriorated. **Public finances:** The need to reduce the budget deficit means that the government is being forced to review plans for infrastructure projects in 2009, as well as long-term plans for investment in motorway construction. Although most infrastructure projects will attract external finance from the World Bank, the EIB and the EU, the government will be expected to meet about half of the costs and thus need to secure public-private partnerships, which may be difficult in the current global financial climate. **Underdeveloped private sector**: The share of the private sector in GDP, at 70%, remains low by the standards of other accession states. The majority of large banks are foreign-owned, although the government has postponed indefinitely the privatisation of the State Savings Bank (CEC). There is ambivalence regarding privatisation in the energy sector. The government holds majority shares in a number of power generators, the main gas generator and the gas pipeline operator, all of which are in urgent need of investment. Although the energy and natural gas markets were liberalised in 2007, prices remain controlled, and there is a need for greater competition between producers.
FYROM/ MACEDONIA
Public finances: Although fiscal policy was generally assessed as positive, authorities' have come under criticism for their consistent failure in meeting the targets set for capital spending. Financial controls in the healthcare sector are loose, and wage pressures and unfunded spending commitments risk leading to an increase in arrears.

Other structural weaknesses: These include burdensome regulations, inflexible labour markets, the small size of the market. These issues as well as concerns about political stability have played an important part in keeping foreign investors out and as a result keeping Macedonia's export base weak and undiversified. **A weak judiciary**: A combination of delays, incompetence and inefficiencies creates uncertainty about the enforcement of contracts, impedes economic activity, and hinders progress in settling outstanding property disputes. **Privatisation:** Many of the privatisations to date have involved sales to management and/or employees, with the result that privatisation has not led to radical restructuring or significant improvements in corporate governance. Moreover, sales to Macedonian investors have raised little money for the state, because the buyers often paid with frozen savings deposits and bonds rather than in cash (although this payment method did at least reduce public debt).
TAJIKISTAN
Financial sector weaknesses: Weak institutional capacity, the low capitalisation of the Central Bank and the underdeveloped nature of Tajikistan's financial sector have constrained the conduct of monetary policy. In the absence of sufficient domestic sources of finance to support investment and reform, Tajikistan depends heavily on funds from countries such as China and Russia, and on the major international lenders and donor agencies. **Corruption and mismanagement:** Tajikistan's annual average FDI inflows over the past decade have been the lowest of all the members of the CIS. Investors are deterred by corruption and the poor business environment. The slow pace of privatisation has also kept investment inflows low. **Energy and food crisis:** The current-account deficit had been below 3% of GDP since 2002 (due to transfer credits and remittances). However, there was a rapid deterioration in the trade balance in 2007, owing to higher costs of gas and food imports. 2007 data put the current-account deficit at USD 381 Mio, or almost 15% of GDP (vs. 0.8% in 2006).
BOSNIA AND HERZEGOVINA
Public finances: Government expenditure remains well above the regional average of 40% of GDP, and current spending on the administration impedes much needed public investment. BiH's complex and cumbersome governance structure means that fiscal policy across the country has been disjointed and uncoordinated, threatening macroeconomic stability. **Overvalued currency**: The convertible marka also appears to be considerably overvalued. If the Baltic states with similar currency board arrangements are forced to abandon their pegs to the euro, there is a risk that the contagion might spread to BiH. The Central Bank maintains sufficient reserves to cover its monetary liabilities, although the recent surge in the current-account deficit has forced the authorities to use some reserves to finance the deficit.

Poor Infrastructure: Political divisions in BiH have left the electricity sector in a fragmented state and have prevented the creation of a country-wide energy strategy. Notably, BiH is estimated to be exploiting less than 40% of its vast hydropower potential. The country also has large reserves of coal and substantial wind energy potential.

Privatisation: of other state-owned companies has occurred at a slow pace, and the private sector's contribution to GDP is still lower than in a number of other countries in the broader region. Early attempts at privatisation have resulted in diluted ownership and weak governance, and large-company divestiture has been slow.

SERBIA AND MONTENEGRO

Maintaining macroeconomic stability: Due to fiscal deficit and high current account deficit, macroeconomic stability remains vulnerable, particularly to external shocks.

Financial sector: Economic growth is constrained by the low rate of financial intermediation (lending to the private sector as a percentage of GDP). Companies suffer from a lack of liquidity and high lending rates. Banks in turn say that the absence of properly functioning bankruptcy legislation and the time taken by commercial courts to resolve disputes act as deterrents to further lending.

Agriculture: The agricultural sector has the potential to increase production and efficiency. The main obstacles to the sector's development are the problems of access to rural credit and clearly defined, readily transferable land-use rights.

Business environment: Evidence (notably the World Bank doing business index) suggests that longstanding problems with red tape and administration are getting worse.

Montenegro ***(independent since 2006)***

The IMF is currently urging Montenegro to safeguard its fiscal stability and to reduce public debt, while carrying out structural reforms to increase labour market flexibility and to boost export competitiveness

ALBANIA

Poor infrastructure: Inadequate electricity supplies and infrastructure hinder expansion:

- In agriculture produce often cannot be transported further than the nearest city.
- Troubled power sector: lack of investment in infrastructure, large electricity losses from the transmission/ distribution system and low collection rates from customers

Other structural weaknesses: Privatisation in agriculture has left land ownership highly fragmented, with the average farm little more than 1 ha in size. This, together with disputes over property titles, has impeded the development of a land market. There remain shortcomings in the public administration and the legal system, as well as widespread corruption

Delays to large privatisations: the privatisation of the Durres Port Authority (the second city and the main seaport, accounts for around 80% of the total volume of international trade processed in Albanian ports) has been completed, but the following privatisations have been delayed or stalled:

- The privatisation of the distribution arm of KESh, the state-owned power generator and wholesale supplier;
- State-owned oil refiner, ARMO;
- A minority shareholding in AMC, a mobile-telephone operator;
- The privatisation of the government's majority stake in a leading insurer, INSIG.

3.6 Design and Implementation of MFAs

The ex-post evaluations focus on design and implementation issues in their assessment of efficiency of the MFA operations. Design features such as loan-grant mix have direct implications for the EU budget; and issues such as selection of conditionalities influence the extent to which the MFA objectives are achieved for a given cost to the EU budget. Similarly, implementation aspects such as timing of disbursements and monitoring of operations can influence the efficiency of the MFA instrument in a particular country context. The ex-post evaluations raise some pertinent issues regarding the design and implementation features of MFAs. These in summary are:

- **Flexibility**: A key feature of the MFA instrument is its flexibility. Serbia and Montenegro: The front-loading and topping-up of MFA following the assassination of the Serbian Prime Minister acted as a strong signal of support from EU for the Serbian authorities. The fifth and final tranche (EUR 20m grant + EUR 10m loan) was not disbursed due to substantial improvements in external financing situation in Serbia and Montenegro in 2006. Similar flexibility was also highlighted in the ex-post evaluation report of the Romanian operation.

- **Loan-grant mix**: In case of Bosnia and Herzegovina, as the majority of the support was in grant form, the MFA loan increased the external debt by only 0.2% of GDP - thus limiting future debt servicing costs. The relatively large grant component was intended to soften the whole package of support and to signal support.

- **MFA objectives and rationale**: the ex-post evaluation of the MFA operation in fYRoM points to a shift in rationale of MFA from residual gap-filling to structural issues and conditions. According to the evaluator's assessment, MFA disbursement was hampered by structural conditions at times when, from an economic point of view, the financial support was most needed – e.g. during the Kosovo conflict and the internal crisis. This issue was not observed in other country contexts and does not reflect a recurrent pattern. It is important that EU assistance is not taken for granted by beneficiary countries; and although MFA support is 'undesignated', the EC has valid reasons to stop or delay disbursements if there is potential for funds to be used for unintended purposes (such as military expenditure). In the case of Albania, the 4th MFA operation was designed in response to a financing gap for 2004. However, this gap was completely filled by the proceeds of the privatisation of the Savings Bank (resulting in inflow of FDI of EUR 103m). Therefore, MFA disbursements were postponed until 2005 (EUR 3m) and 2006 (EUR 22m). In this context MFA acted as an insurance against potential shortages in foreign exchange reserves and was used as a general budget support mechanism.

- **'Exceptional' character:** In the case of, Armenia and Tajikistan, the MFA package became in effect a conditional debt restructuring mechanism. Moreover, in case of Armenia, due to the significant grant component, overall net payment by the Armenian government (in terms of own resources) amounted to EUR 21m. The Commission's proposal to extend the EFA operation for 3 years (2005 – 7) with an additional grant element of EUR 10m was rejected by ECOFIN in recognition of the progress made by Tajikistan in debt sustainability and on grounds that it was not compatible with 'Genval principles'.

The above issues (along with the issues highlighted in Table 3.7 have implications for the design and implementation of MFA instruments going forward. These issues are further discussed in section 5.

Table 3.7: Efficiency, Design and MFA Implementation Issues: Synthesis of Ex-post Evaluations

Armenia	Romania	FYROM	Tajikistan	Bosnia and Herzegovina	Serbia and Montenegro	Albania
The EFA (EUR 30m grant + EUR 28m loan) was designed to help Armenia repay its outstanding debt towards the EC (EUR 51m). Due to the significant grant component, overall net payment by the Armenian government (in terms of own resources) amounted to EUR 21m.	The monitoring of the MFA was unsystematic – reflecting the limited capacity of the EC. This reduced the operational reinforcing effect and visibility of MFA. The selection of structural conditions was partly influenced by the limited availability or lack of preparatory studies in certain areas. This led to a bias against conditions based on quantifiable objectives. When Romania achieved the status of an accession country, the MFA conditionalities could not be quickly adapted in response to the changed political status/ circumstances of Romania.	In the period 1999-2002, the Government seemed to have significant difficulties in implementing 25 reforms in all 6 areas in a relatively short time frame. In this period, the IMF programmes went off-track and the implementation of reforms was repeatedly postponed. With the benefit of hindsight, a more focused approach with a limited number of conditions might have been more appropriate under such circumstances. The topping up of MFA by €18 million of grants in December 2001 softened the average terms of the MFA. This contributed to an increased willingness to implement the IMF reform programmes.	The EFA (EUR 35m grant + EUR 60m Loan) was designed to help Armenia repay its outstanding towards the EC (EUR 79m). The inclusion of grant element in the MFA package reduced Tajikistan's net payment to the Commission to 44m.	BiH is another country to have benefitted from a generous grant component. The grant element is seen to have acted as an essential incentive for reform. Softening the terms not only gave a strong political signal to the beneficiary country; but also reduced its external debt burden. In terms of design considerations the ex post evaluation points to the inappropriate use of MFA instrument to support EC accession agenda such as institution building.	A key strength of the design of the MFA was the strong link between conditionalities and macroeconomic sustainability. Another important design feature of the MFA was its flexibility. For example there was a relatively quick reaction of the EC after the assassination of the Prime Minister and to the use of a waiver concerning a condition in the area of privatisation. The significant and exceptional grant component was appropriate at the time in the context of political circumstances facing Serbia – despite its relatively high cost to the EU.	The design and mode of the Albanian MFA was appropriate to its implicit objective; but less so to its stated objective. The MFA operation had a strong signalling effect and the grant element provided incentives to the Albanian authorities to fulfil conditionalities. However, the stated objective of the MFA was to fill BoP financing gap – which did not materialise and MFA was used as a budgetary support instrument.

4 PART II: QUALITY ASSESSMENT OF EX-POST EVALUATIONS

This section of the report first summarises the current approach to the evaluation of MFAs; followed by a description of the approach to and results of the quality assessment of the seven ex-post evaluation reports.

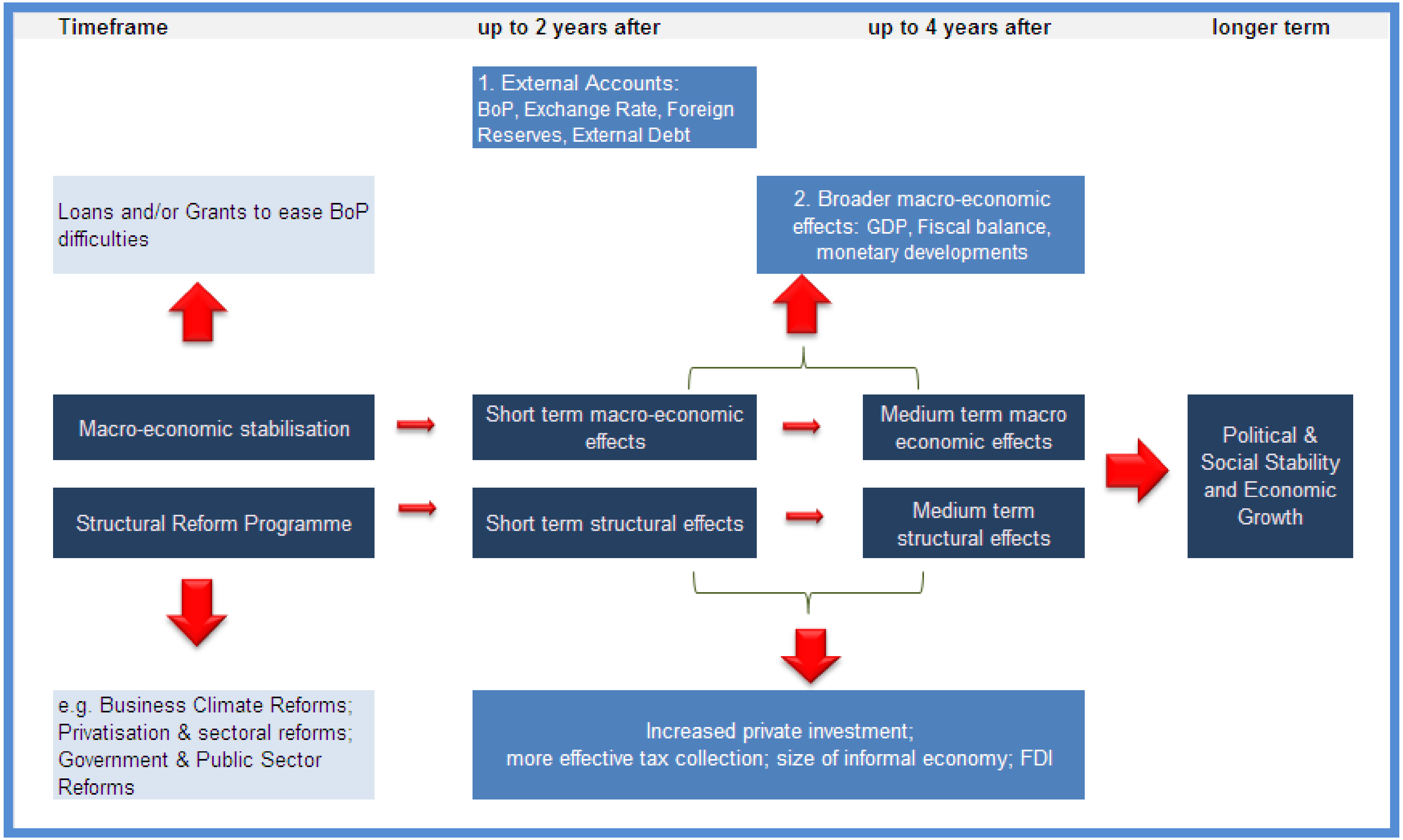
4.1 Current Ex-post Evaluation Framework

The current approach to ex-post evaluation of MFAs is informed by Commission *Guidelines for the Ex Post Evaluation of MFA Operations*. These Guidelines were drawn-up following the evaluation of and on the basis of the Commission's experience with the evaluation of MFA operation in Armenia.

The Commission Guidelines set out:

- A generic logic model for MFA operations as the basis for attributing short to medium term effects to MFAs (see Figure 4.1 overleaf);
- The key challenges faced in evaluation of MFAs (see section 4.1.2);
- Guidelines for assessing the net effects of MFAs using counterfactual analysis (quantitative as well as qualitative);
- Generic evaluation questions structured around:
  - Short to medium term effects of MFA operations – macroeconomic effects, structural effects, indirect and unexpected effects;
  - Medium to long term effects of MFA operations on sustainability of the recipient country's external financial situation; and
  - Implications of the design and implementation of an MFA operation on its efficiency and effectiveness.
- Guidance on data sources and analytical tools that can be used to answer the evaluation questions relating to effectiveness, efficiency, impact etc.

Figure 4.1 Generic Logic Model of MFAs (adapted from Commission Guidelines)



4.1.1 *Overview of Ex-post Evaluations carried out between 2004 and 2008*

This sub-section summarises the key aspects of the ex-post evaluations covered by this meta-evaluation.

Core Evaluation Questions

The Terms of Reference for the ex-post evaluations contain the following core evaluation questions:

1. To what extent has the MFA been effective in terms of the short-term macroeconomic stabilisation of the country concerned?
2. To what extent has the MFA been effective in terms of supporting structural reform?
3. What have been the indirect and/or unexpected effects of the MFA?
4. To what extent has the MFA contributed to returning the external financial situation of the country concerned to a sustainable path over the medium to longer term?
5. How has the way in which the MFA operation was designed and implemented conditioned its effectiveness and efficiency?

Questions three and five did not apply to the ex-post evaluation of MFA operation in Armenia. The evaluations for fYRoM and Armenia, included an additional question relating to the contribution of the MFA in alleviating social hardship. The Armenian evaluation also included a specific question: How would the Armenian economy have evolved in the absence of the MFA?

Methods used in Ex-post Evaluations

The range of methods used in the seven ex-post evaluations is illustrated in Table 4.1.

Table 4.1 Methods used in MFA ex-post evaluations

Methods	Ex-post evaluation report						
	Albania	Bosnia and Herzegovina	Serbia and Montenegro	FyRom	Romania	Armenia	Tajikistan
Secondary data collection & analysis	✓	✓	✓	✓	✓	✓	✓
Literature review	✓	✓	✓	✓	✓	✓	✓
Stakeholder interviews	✓	✓	✓	✓	✓	✓	✓
Econometric modelling	✓	✓	✓	✓	✓	✓	✓
Delphi technique	✓	✓	✓				

Case studies on structural reforms	✓	✓	✓	✓	✓	✓	✓

These methods are briefly described as follows:

Secondary data collection and literature review

The ex-post evaluation reports draw on a wide range of information sources, most notably:

- **Commission documentation** relating to the operation such as the Council decisions on MFA, Memorandum of Understanding (MoU)/ Supplementary Memorandum of Understanding (SMoU) and the Annual Reports on the implementation of MFA; as well as other relevant documentation (e.g. Enlargement papers, Stabilisation and Association Report etc.)

- Relevant **documentation on support programmes** from the IMF (e.g. Poverty Reduction Strategy Papers, MoU/SMoU and Article IV Reports) and the World Bank (e.g. Country Economic Memorandum, Country Assistance Strategy Report etc.); and,

- **Statistical data and reports** produced by the National Statistics Office, Ministry of Finance, the National Central Bank as well as European Bank for Reconstruction and Development (EBRD), IMF and the World Bank.

Stakeholder interviews

The main stakeholder groups consulted by the evaluators were:

- **Commission officials**: officials from relevant DGs (such as DG Economic and Financial Affairs, DG Enlargement, DG External Relations) as well as representatives of the EC delegation(s) based in the recipient country

- **International development community**: representatives of International Financial Institutions (IFIs) and other donors (World Bank and IMF, other bilateral / multilateral donors);

- **National authorities**: officials who were involved in preparing and implementing the MFA operation and in preparing other types of financial assistance, such as IMF/ World Bank programmes; as well as officials in charge of economic affairs in the relevant institutions at the time of the evaluation. Relevant institutions included the National Central Bank, Ministry of Finance, Directorate for European Integration, Privatisation Agency, Economic Ministry etc; and,

- **Other external actors**: for example, economic experts from research or academic institutes.

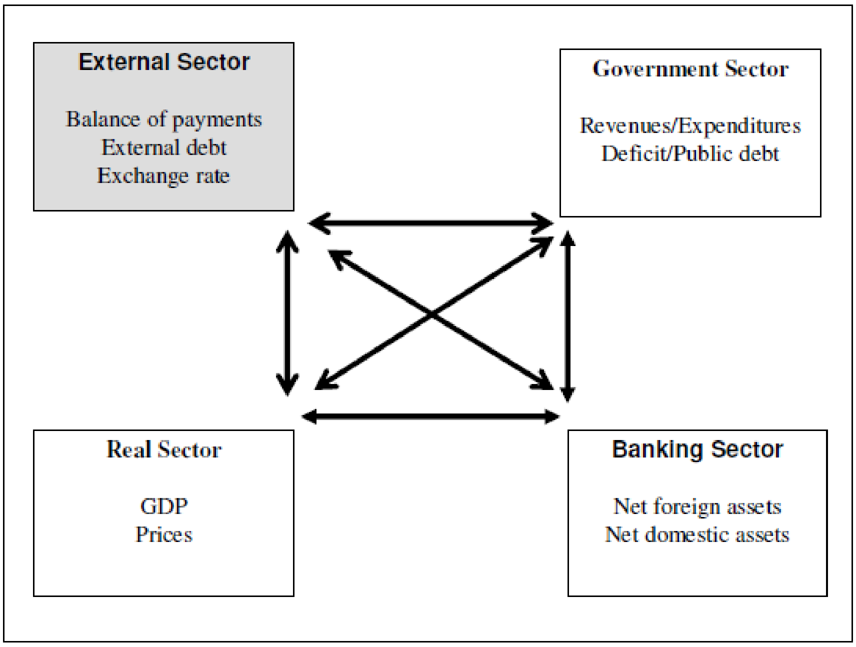
Econometric modelling

A fairly simple econometric model was set-up. The basic model was made up of four sectors:

- External Sector
- Government Sector
- Real Sector
- Banking Sector

These are shown in Figure 4.2, which is taken from the report for the evaluation of the fYRoM but also appears in the other national reports. The arrows in this diagram suggest that there are direct, two-way linkages between all four modules. This is backed up by the equation specification.

Figure 4.2 Basic Econometric Model Structure



Delphi technique

In the cases of Bosnia and Herzegovina, Albania and Serbia and Montenegro, the modelling was complemented by additional analysis – the Delphi method was used to assess the counterfactual scenario. This was designed to compensate for limitations in the econometric model due to data quality/ consistency and parameter estimation. The Delphi method is based on a system of iterative questionnaires and attempted to form a qualitative and consensus view.

Case studies on structural reforms

Case study method was also used in the ex-post evaluations to provide an in-depth analysis of the structural reform progress.

Stakeholder workshops

Stakeholder workshops were held in recipient countries to communicate the findings of the evaluation to national authorities; seek clarifications; check for factual inaccuracies or misrepresentations; and to validate the findings of the ex-post evaluation,

4.1.2 Evaluation Issues

The Commission *Guidelines for the Ex-post Evaluation of MFA Operations* highlight four challenges arising in the field of ex-post evaluation. These are summarised in Table 4.2.

Table 4.2 Identified challenges in the ex post evaluation of MFA operations

Characteristics of MFA Operations	Challenges for Evaluation
Objectives of MFA operations are largely implicit and when they are explicitly presented in an MoU, they are not specific in nature, e.g. " to support the government's reform efforts"	Evaluating the effectiveness of MFA operations is difficult unless it is possible to draw out implicit objectives (i.e. expected effects) and make these and explicit objectives more specific. In absence of identified objectives, evaluating the utility of the MFA (i.e. if the effects induced correspond with the needs, problems and issues prevalent in the recipient country) potentially becomes an important element of the exercise.
MFA is not earmarked in any way. It therefore cannot be linked directly to identifiable outputs as in the case of programme or project inked aid.	A classic assessment of efficiency or cost-effectiveness is not feasible. The suitability of the blend of grants and loans making up the MFA and other questions about the design and implementation of the assistance and consequences for the achievement of objectives are pertinent issues.
MFA grants/ loans are provided in addition to the provision of an IMF loan and may represent a small proportion of the total monies accorded to the recipient country (e.g. in the case of Bosnia and Herzegovina MFA grants/ loans represented 3% (2003) to 6% (2005) of the total international	Effects on macro-economic variables over time cannot be uniquely attributed to MFA, requiring that analyses take into account the global package of which the MFA is part.

Characteristics of MFA Operations	Challenges for Evaluation
financial assistance). Thus the financial components of both instruments cannot usually be easily or meaningfully disassociated.	
Insufficient time has usually elapsed between the implementation of reforms induced or supported by the structural conditionality of an MFA and the evaluation in order to allow the observation of their structural and longer-term economic effects. This is evidently even more the case for conditionalities and corresponding reforms implemented late in the period of the operation.	It is difficult to assess the effectiveness of MFAs in terms of supporting structural reform in the recipient country.

As regards causality and attribution of impact, it is also worth bearing in mind that the key desired effects of the MFA may be strongly influenced by contextual circumstances affecting the recipient countries at the time the assistance was provided. MFA was only one of the influences on recipient economies that were continually changing. For example, in the case of Romania the evaluators noted that it was difficult to 'disentangle the role of MFA from that of other processes taking place simultaneously, such as progress in EU accession and the implementation of the IMF and WB programmes'. In the case of Serbia- Montenegro the assistance was provided in the context of a volatile and fragile political situation and at the time, the countries were dealing with the economic consequences of: dismantling of former socialist federation; the collapse of the command economy; wars; and years of sanctions. In the case of Armenia, exceptional MFA assistance was approved in order to promote economic reform and help Armenia clear its outstanding liabilities towards the Community. At the time, Armenia was characterised by widespread poverty and inequality. Income was unevenly distributed geographically with the urban population being poorer than the rural. Furthermore, Armenia was hit hard by the Russian crisis of 1998, its foreign trade position being adversely affected due to a notable decline in Russian demand. The social, political and economic

4.1.3 Practical Challenges

The ex-post evaluation reports highlight additional issues and challenges faced by evaluators, most notably:

- Loss of institutional memory – inability of national interviewees' to fully recall MFA interventions or relevant officials had moved on and were difficult to locate;
- The variable quality and availability of statistical data – particularly, the lack of time series data on BoP;
- Implicit or imprecise objectives of MFA;

- Receiving sufficient and timely feedback on Delphi questionnaire(s);
- Problem of timing for observing some intended effects; and,
- Political sensitivities due to recent volatile history of some recipient countries.

4.1.4 Evaluation Steering Group Composition and Role

The evaluations were overseen by a steering group consisting of officials from the Commission services responsible for managing the MFA operation (which were also the main users of the evaluation). The steering group was coordinated and chaired by Unit R3, responsible for evaluation in DG ECFIN.

The role of the steering group was to facilitate access to appropriate sources of data, check the factual accuracy and focus of the work, monitor progress, participate in the formulation of recommendations with the evaluator and be responsible for the quality assessment of the final report

4.1.5 Evaluation Dissemination and Follow-up

The Commission's evaluation standards require evaluation results to be examined by the services concerned, who must outline the actions they propose to take towards the formulation, planning and/or revision of the relevant interventions. Accordingly, the final reports were shared by DG ECFIN with relevant Commission services and structured feedback was obtained as follows:

- Response to recommendations, i.e. acceptance or rejection of a recommendation, and reasons for rejection if this should be the case
- Follow-up actions planned to implement accepted recommendations (including timescale)

Unit R3 also checks the progress made in implementing the follow-up actions and the results are reported in the Annual Activity Report. Monitoring of the implementation of follow-up actions is integrated in the exercise related to the monitoring of audit recommendations.

All ex-post evaluation reports are published on the Commission website.

4.2 Framework for Quality Assessment

The approach to quality assessment involved a systematic review of the seven evaluations using a standardised set of design and methodological criteria to estimate the relative degree and strength of the internal validity and external validity.

Table 4.3, which builds on the criteria given in the Terms of Reference for the Meta Evaluation, indicates the main criteria that were applied to assess the quality of the reports. The criteria included factors concerning: evaluation scope; technical adequacy; quality of reports; ethics and independence; dissemination and utilisation of results. The criteria were designed to be consistent with the Commission’s current evaluation standards.

Table 4.3 Criteria for assessing the quality of the evaluations

Meta-evaluation Criteria	Definition
Has a well-defined scope	The scope of the evaluation is clearly defined by specifying the MFA operation, approved and actual disbursements and non-MFA inputs. The evaluation questions are clearly set-out and comply with Community evaluation standards.
Provides a description of the policy context	The evaluation report provides a description of the policy context, institutional context, socio-political context relevant to the operation. It sets out the organisational arrangements established for implementation of the operation including the role of donors and national authorities.
Has a defensible design	The evaluation design is appropriate and adequate to ensure that all the findings, along with any methodological limitations, are made accessible when answering the core evaluation questions. Relevant stakeholders were involved in the evaluation process to identify issues and provide input for the evaluation. The report indicates the stakeholders consulted. The methods for assessment of results are specified and the report discusses validity and reliability of results.
Makes use of reliable information	The report describes the sources of information used (distinguishing between primary and secondary) in sufficient detail so that the adequacy of the information can be assessed. The evaluation cross-validates and critically assesses the information sources used and the validity of the data using a variety of methods and sources of information.
Applies sound analysis	The quantitative and qualitative information is appropriately and systematically analysed so that the evaluation questions are answered in a valid way. The analysis is structured with a logical flow. Data and information are presented, analysed and interpreted systematically.
Leads to robust findings	The findings follow logically from, and are they justified by, the data analysis and interpretation based on carefully described assumptions and logic.

Meta-evaluation Criteria	Definition
Provides credible results	The report provide value judgements based on explicit criteria and benchmarks and the conclusions are fair, unbiased by personal or stakeholders' views.
Were conducted in a professional and ethical manner	All actors involved in evaluation activities complied with principles and rules regarding conflict of interest. Evaluators were free to present their results without compromise or interference. Evaluations were implemented within allotted time and budget. Quality control was exercised throughout the evaluation process through a steering group.
Well structured and balanced report	The final report is clear and concise. The report sets out the purpose, context, objectives, questions, information sources, methods used, evidence and conclusions. The evaluation distinguishes between findings (facts), conclusions (interpretation of the facts, drawing on the judgement of the evaluators), and recommendations (reasoned advice based on the evaluation findings and conclusions).
The evaluation results were disseminated and utilised	Evaluation results were communicated effectively to all relevant decision makers and stakeholders. The evaluation results were examined by the services concerned, who outlined the actions taken in response to the evaluation. Pertinent follow-up actions were undertaken.

The meta-evaluation considered each of the evaluation reports and the evaluation process more generally (i.e. the process of commissioning and managing the study by the Commission) against these criteria. Both a qualitative assessment and a form of rating were applied to each evaluation study for each criterion. Table 4.4 indicates the rating system that was agreed with the client during the Inception phase.

Table 4.4 Summary rating system for each assessment criterion

Points	Scoring Criteria
4	The assessment criterion was fully achieved
3	The assessment criterion was partly achieved
2	The assessment criterion was not achieved
1	Not applicable

In broad terms the higher the rating of the individual evaluations on the assessment criteria the greater the likelihood of internal and external validity of the evaluation and its findings. The application of these criteria allowed for the overall assessment of the particular evaluations as per Table 4.5.

Table 4.5 Classification of the overall quality of the evaluations

Overall assessment	Definition
Wholly fit for purpose	All the evaluation criteria were fully achieved.
Largely fit for purpose	Although the design could be improved, the evaluation still provides a valuable indication of impact such that it would not be worth repeating the research and the results could be used albeit with appropriate caveats.
Insufficient	Does not achieve the majority of the evaluation criteria.

The meta-evaluation also entailed a review the overall approach to econometric modelling in each of the countries and provides recommendations for possible further quantitative analysis.

4.3 Quality Assessment of Individual Reports

Tables 4.6 to 4.12 outline the results of the quality assessment of the individual ex-post evaluations. As six out of the seven ex-post evaluation reports (the only exception being Armenia) followed a similar pattern, approach and format, some observations are repeated across the tables.

Table 4.6 Assessment of the Quality of the ex-post evaluation for Armenia

Meta-evaluation Criteria	Scoring	Explanatory Remarks
Has a well-defined scope	3	Assessment criterion partly fulfilled: The scope is adequately set out. The evaluation includes a counterfactual assessment; however the net effect of MFA has not been assessed.
Provides a description of the policy context	3	Assessment criterion partly fulfilled: The report provides a partial overview of the policy and macro-economic context. The report could have provided more contextual / background information on the MFA operation such as the conditions resulting in the accumulation of debt arrears, the size of the original debt etc.
Has a defensible design	3	Assessment criterion partly fulfilled: The report places more emphasis on literature review and interviews

Meta-evaluation Criteria	Scoring	Explanatory Remarks
		(as compared to other reports which include more quantitative analysis). The report lacks a proper description of the method of approach and any resultant limitations.
Makes use of reliable information	2	The assessment criterion was not achieved: The report does not describe in sufficient detail the scope of the data collection exercise. The report does not include a comprehensive list of the secondary data sources, documentation reviewed and interviewees. The majority of the data tables do not indicate the source of information.
Applies sound analysis	3	Assessment criterion partly fulfilled: Finding and analysis are not systematically distinguished.
Leads to robust findings	3	Assessment criterion partially fulfilled: The majority of findings follow logically from the analysis. However, a significant number of the findings are based on qualitative evidence and analysis and the magnitude of the effects of the MFA have not been specified.
Provides credible results	3	Assessment criterion partially fulfilled: Results are credible with no indications of any bias. However, assessment criteria and benchmark are not systematically explicit.
Were conducted in a professional and ethical manner	4	Criterion fully fulfilled The meta-evaluation assumes that the evaluation was conducted in a professional and ethical manner on the basis of the Commission's evaluation standards and evaluation documentation. This issue was not independently verified as part of the meta-evaluation.
Well structured and balanced report	3	Assessment criterion partially fulfilled: The final report is clear and concise and sets out the purpose of the evaluation. However, information sources have not been specified; and finding and analysis are not systematically distinguished.
The evaluation results were disseminated and utilised	4	Criterion fully fulfilled There is every indication that the evaluation reports themselves were made available in a timely manner to all relevant decision-makers and stakeholders. A structured and documented follow-up to the evaluations was undertaken. The present Meta-Evaluation is one aspect of the follow-up and certainly seems pertinent, although its final results can obviously not be judged at present

Table 4.7 Assessment of the Quality of the ex-post evaluation for Romania

Meta-evaluation Criteria	Scoring	Explanatory Remarks
Has a well-defined scope	4	Criterion fully fulfilled: Scope clearly defined and fully consistent with ToR. (Assumptions and data limitations of counterfactual assessment could have been more clearly specified, but this is a minor criticism.)
Provides a description of the policy context	3	Assessment criterion partly fulfilled: The report provides a partial overview of the policy and macroeconomic context. Also the general EU – Romania Relation perspective and interlinks with the accession process could have been treated more in detail.
Has a defensible design	3	Assessment criterion partly fulfilled: The evaluation highlights the problems of interviewees' incomplete recollection of intervention and limitations of quantitative modelling – despite these limitations, the evaluation relies heavily on stakeholder interviews and the assessment of the counterfactual is based on quantitative data only. The report does not indicate how the evaluation deals with the above limitations. The criteria for selection of case study topics could have been briefly explained.
Makes use of reliable information	3	Assessment criterion partly fulfilled: Only few data collection tools have been used (literature and statistical review and interviews). A more explicit cross-validation of information sources would have been beneficial (other reports clearly make a distinction between information sources. This is not the case with this report) Assumptions and limitations of data for econometric counterfactual analysis might have been better specified.
Applies sound analysis	3	Assessment criterion partly fulfilled: Quantitative and qualitative information is systematically analysed and the analysis is structured logically and clearly. However, the presentation and interpretation of facts could have been more systematic. The data is less systematically presented and where

Meta-evaluation Criteria	Scoring	Explanatory Remarks
		the data collection tools have been more limited. This report has more arguments which are based on "we think".
Leads to robust findings	3	Assessment criterion partly fulfilled: The Romanian Report in sections less solid than the other reports – Some findings and conclusions are not fully supported by evidence. E.g.' We conclude that the MFA played a substantial political reinforcing effect on the credibility of the overall reform package' (page 59). That is not to say that the analysis overall is not good – but there is a bit more uncertainly in the report as compared to other evaluations. This could be a result of the above methodological limitations.
Provides credible results	3	Assessment criterion partly fulfilled: As the evaluator's approach to addressing the methodological limitations has not been explained in the report, there are some concerns regarding the overall credibility of the results – however, the evaluators have been given the 'benefit of doubt' given the general comprehensiveness of the evaluations.
Were conducted in a professional and ethical manner	4	Criterion fully fulfilled Evaluation was completed within allotted time and budget. Quality control was exercised through a steering group. Supporting documentation made available by DG ECFIN (e.g. steering group comments on drafts) indicates that the evaluators were free to present their results without compromise or interference. The meta-evaluation found no evidence of conflict of interest.
Well structured and balanced report	3	Assessment criterion partly fulfilled: Overall the report is comprehensive and well structured. However, an insufficient explanation of the method and the evaluators approach to dealing with some fundamental limitations, has affected the rating.
The evaluation results were disseminated and utilised	4	Criterion fully fulfilled: There is every indication that the evaluation reports themselves were made available in a timely manner to all relevant decision-makers and stakeholders. A structured and documented follow-up to the evaluations was undertaken. The present Meta-Evaluation is one aspect of the follow-up and certainly seems pertinent, although its final results can obviously not be judged at present.

Table 4.8 Assessment of the Quality of the ex-post evaluation for fYRoM

Meta-evaluation Criteria	Scoring	Explanatory Remarks
Has a well-defined scope	4	Criterion fully fulfilled: Scope clearly defined and fully consistent with ToR. (Assumptions and data limitations of counterfactual assessment could have been more clearly specified, but this is a minor criticism.)
Provides a description of the policy context	4	Criterion fully fulfilled. The main report and a supporting annex provide a comprehensive contextual overview of the socio-economic situation in fYRoM at the time of MFA approval.
Has a defensible design	3	Assessment criterion partly fulfilled: The evaluation highlights the problems of interviewees' limited memory of intervention and limitations of quantitative modelling – despite these limitations, the evaluation relies heavily of stakeholder interviews and the assessment of the counterfactual is based on quantitative data only. The report does not indicate how the evaluation deals with these limitations or the implications of these limitations. The criteria for selection of case study topics should have been briefly explained. The question related to the MFA contribution to the wider political and social objectives of the EU could have been treated more in depth.
Makes use of reliable information	3	Assessment criterion partly fulfilled: Few of the data collection tools have been used (literature and statistical review and interviews). A more explicit cross-validation of information sources would have been beneficial (other reports clearly make a distinction between information sources. This is not the case with this report) Assumptions and limitations of data for econometric counterfactual analysis might have been better specified.
Applies sound analysis	3	Assessment criterion partly fulfilled: Quantitative and qualitative information is systematically analysed and the analysis is structured logically and clearly.
Leads to robust findings	3	Assessment criterion partly fulfilled: Some of the findings, are not backed by a triangulation of methods and

		information sources . E.g. the finding that the grant component increased willingness to implement IMF reform – this is based solely on the opinion of IMF officials and was not triangulated with the opinions of national stakeholders.
Provides credible results	3	Assessment criterion partly fulfilled: : The methodological limitations outlined above raise concerns regarding the overall credibility of the result – especially as regards the evaluators assessment of the counterfactual situation and reinforcing effect of MFAs
Were conducted in a professional and ethical manner	4	Criterion fully fulfilled Evaluation was completed within allotted time and budget. Quality control was exercised through a steering group. Supporting documentation made available by DG ECFIN (e.g. steering group comments on drafts) indicates that the evaluators were free to present their results without compromise or interference. The meta-evaluation found no evidence of conflict of interest.
Well structured and balanced report	3	Assessment criterion partly fulfilled: Overall the report is comprehensive and well structured. However, an insufficient explanation of the method and the evaluators approach to dealing with some fundamental limitations, partially undermine the credibility of the remaining sections of the report.
The evaluation results were disseminated and utilised	4	Criterion fully fulfilled: There is every indication that the evaluation reports themselves were made available in a timely manner to all relevant decision-makers and stakeholders. A structured and documented follow-up to the evaluations was undertaken. The present Meta-Evaluation is one aspect of the follow-up and certainly seems pertinent, although its final results can obviously not be judged at present.

Table 4.9 Assessment of the Quality of the ex-post evaluation for Tajikistan

Meta-evaluation Criteria	Scoring	Explanatory Remarks
Has a well-defined scope	4	Criterion fully fulfilled: Scope clearly defined and fully consistent with ToR. (Assumptions and data limitations of counterfactual assessment could have been more clearly specified, but this is a minor weakness.)

Meta-evaluation Criteria	Scoring	Explanatory Remarks
Provides a description of the policy context	**3**	Assessment criterion partly fulfilled The report provides a partial overview of the policy and macroeconomic context. The report could have usefully included more information on the conditions resulting in accumulation of debt. Under section 2.1, there is a table on main development indicators for the year 2004; however the narrative describes the situation in the 90's. References are made to 'Genval principles' but they are not properly explained.
Has a defensible design	**3**	Assessment criterion partly fulfilled: The evaluation highlights the problems of non-availability/ poor quality of data and tracking interviewees' with recollection of the first two years of the intervention – yet the evaluators state that they were able to gain a 'good understanding' of facts and events and draw conclusions with 'confidence'. While this is not being contested, the section on methodology could have been enhanced to explain how these practical challenges were addressed by the evaluators.
Makes use of reliable information	3	Assessment criterion partially fulfilled: The sources of information are adequately described. However, a more explicit cross-validation of information sources would have been beneficial (other reports clearly make a distinction between information sources. This is not the case with this report) Assumptions and limitations of data for econometric counterfactual analysis might have been better specified.
Applies sound analysis	4	Criterion fully fulfilled: Quantitative and qualitative information is systematically analysed and the analysis is structured logically and clearly
Leads to robust findings	3	Assessment criterion partially fulfilled: Some statements are not backed by evidence – e.g. evaluators statement on P28 that ' the debt towards the EU was contracted in non-concessional terms in disorderly conditions' is not backed by an explanation of what was 'disorderly'. There are references to the privatisation process lacking transparency but no evidence to back such claims.
Provides credible	3.5	Criterion largely fulfilled:

Meta-evaluation Criteria	Scoring	Explanatory Remarks
results		The majority of conclusions and recommendations follow logically from the analysis and are fully justified. Only one recommendation appears inconsistent with the conclusions – the evaluators recommend that the Commission should maintain the flexibility of MFA to deal with exceptional circumstances. However, this contradicts the preceding section of the report which contains an elaborate explanation of how the MFA doesn't comply with 'Genval principles' but does not explain why and when it is acceptable to deviate from these principles.
Were conducted in a professional and ethical manner	4	Criterion fully fulfilled Evaluation was completed within allotted budget. The contract period was extended from 7.5 months to 9 months. Quality control was exercised through a steering group. Supporting documentation made available by DG ECFIN (e.g. steering group comments on drafts) indicates that the evaluators were free to present their results without compromise or interference. The meta-evaluation found no evidence of conflict of interest.
Well structured and balanced report	4	Criterion fully fulfilled.
The evaluation results were disseminated and utilised	4	Criterion fully fulfilled:

Table 4.10 Assessment of the Quality of the ex-post evaluation for Bosnia and Herzegovina

Meta-evaluation Criteria	Scoring	Explanatory Remarks
Has a well-defined scope	3.5	Assessment criterion largely fulfilled: Scope clearly defined and fully consistent with ToR. Limitations of the counterfactual assessment and implications of the use of the Delphi survey could have been more clearly specified.
Provides a description of the policy context	3	Assessment criterion partly fulfilled: The report provides a partial overview of the policy and macroeconomic context. Also, the report does not provide an adequate overview of the wider

Meta-evaluation Criteria	Scoring	Explanatory Remarks
		'international relations' perspective explaining the role of MFA in relation to the EU-BiH context. The report provides an adequate overview of the relative importance of MFA in relation to other financial assistance.
Has a defensible design	3	Assessment criterion partly fulfilled: The evaluation design was adequate to ensure fulfilment of the ToR and of the evaluation questions specified in the ToR, Two criticisms: i) The assessment of the counterfactual was based on a Delphi survey. Considering the significant difference in viewpoints among participants, and that all responses were not systematically included in the report, the validity of the assessment of the counterfactual may be questioned. ii) The question related to the MFA contribution to the wider political and social objectives of the EU was inadequately treated. The general question of relevance was addressed only in a very narrow way, which reflected the focus of the ToR but meant that potentially important insights were missed
Makes use of reliable information	3.5	Assessment criterion largely fulfilled: The sources of information are well described, there is good cross-validation of information sources and there is a reasonable variety of methods.
Applies sound analysis	4	Criterion fully fulfilled: Quantitative and qualitative information is systematically analysed and the analysis is structured logically and clearly.
Leads to robust findings	4	Criterion fully fulfilled
Provides credible results	4	Criterion fully fulfilled. Results are credible with no indications of any bias and with value judgements based on explicit criteria.
Were conducted in a professional and ethical manner	4	Evaluation was completed within allotted budget. The contract period was extended from 7.5 months to 9 months. Quality control was exercised through a steering group. Supporting documentation made available by DG ECFIN (e.g. steering group comments on drafts) indicates that the evaluators were free to present their results without compromise or interference. The meta-evaluation found no evidence of

Meta-evaluation Criteria	Scoring	Explanatory Remarks
		conflict of interest.
Well structured and balanced report	4	Criterion fully fulfilled.
The evaluation results were disseminated and utilised	4	Criterion fully fulfilled: There is every indication that the evaluation reports themselves were made available in a timely manner to all relevant decision-makers and stakeholders. A structured and documented follow-up to the evaluations was undertaken. The present Meta-Evaluation is one aspect of the follow-up and certainly seems pertinent, although its final results can obviously not be judged at present.

Table 4.11 Assessment of the Quality of the ex-post evaluation for Serbia and Montenegro

Meta-evaluation Criteria	Scoring	Explanatory Remarks
Has a well-defined scope	4	Criterion fully fulfilled: Scope clearly defined and fully consistent with ToR. (Assumptions and data limitations of counterfactual assessment could have been more clearly specified, but this is a minor criticism.)
Provides a description of the policy context	3.5	Assessment criterion largely fulfilled: The description of the policy context is clear and largely complete. The study also briefly described the SAP. However a wider 'EU relations' perspective explaining the role of MFA in relation to EU-Serbia and EU- Montenegro relations and possible links with the SAP process is missing .
Has a defensible design	3.5	Assessment criterion partly fulfilled: The evaluation design was adequate to ensure fulfilment of the ToR and of the evaluation questions specified in the ToR. However, the question related to the MFA contribution to the wider political and social objectives of the EU could have been treated more in depth.
Makes use of reliable information	3.5	Assessment criterion largely fulfilled: The sources of information are well described, there is good cross-validation

Meta-evaluation Criteria	Scoring	Explanatory Remarks
		of information sources and there is a reasonable variety of methods.
Applies sound analysis	4	Criterion fully fulfilled: Quantitative and qualitative information is systematically analysed and the analysis is structured logically and clearly.
Leads to robust findings	4	Criterion fully fulfilled
Provides credible results	4	Criterion fully fulfilled. Results are credible with no indications of any bias and with value judgements based on explicit criteria.
Were conducted in a professional and ethical manner	4	Criterion fully fulfilled Evaluation was completed within allotted budget. The contract period was extended from 7.5 months to 9.5 months. Quality control was exercised through a steering group. Supporting documentation made available by DG ECFIN (e.g. steering group comments on drafts) indicates that the evaluators were free to present their results without compromise or interference. The meta-evaluation found no evidence of conflict of interest.
Well structured and balanced report	4	Criterion fully fulfilled.
The evaluation results were disseminated and utilised	4	Criterion fully fulfilled: There is every indication that the evaluation reports themselves were made available in a timely manner to all relevant decision-makers and stakeholders. A structured and documented follow-up to the evaluations was undertaken. The present Meta-Evaluation is one aspect of the follow-up and certainly seems pertinent, although its final results can obviously not be judged at present.

Table 4.12 Assessment of the Quality of the ex-post evaluation for Albania

Meta-evaluation Criteria	Scoring	Explanatory Remarks
Has a well-defined scope	4	Criterion fully fulfilled: Scope clearly defined and fully consistent with ToR. (Assumptions and data limitations of counterfactual assessment could have been more clearly specified, but this is a minor criticism.)
Provides a description of the policy context	3.5	Assessment criterion largely fulfilled: The description of the policy context and most particularly the BoP circumstances is clear and largely complete. What is missing is a wider 'international relations' perspective explaining the role of MFA in relation to EU-Albania relations and private sector investment & trade flows.
Has a defensible design	3	Assessment criterion partly fulfilled: The evaluation design was adequate to ensure fulfilment of the ToR and of the evaluation questions specified in the ToR, with one exception. The question related to the MFA contribution to the wider political and social objectives of the EU was inadequately treated. In addition, the general question of relevance was addressed only in a very narrow way, which reflected the focus of the ToR but meant that potentially important insights were missed.
Makes use of reliable information	3.5	Assessment criterion largely fulfilled: The sources of information are well described, there is good cross-validation of information sources and there is a reasonable variety of methods. Two minor criticisms: i) a focus group of private sector agents would have been helpful in engaging MFA effects on business confidence; ii) Assumptions and limitations of data for econometric counterfactual analysis might have been better specified.
Applies sound analysis	4	Criterion fully fulfilled: Quantitative and qualitative information is systematically analysed and the analysis is structured logically and clearly.
Leads to robust findings	3.5	Criterion largely fulfilled: The majority of findings follow logically from the analysis and are fully justified. Only one conclusion appears unsubstantiated which is the finding that the fact that the second MFA tranche was predominantly grant financing may have represented an additional incentive for

Meta-evaluation Criteria	Scoring	Explanatory Remarks
		faster fulfilment of the structural conditions. We find this conclusion somewhat fanciful both because of the modest scale of the MFA operation and because the majority of the disbursement conditions related to reform actions to which the Government were already firmly committed.
Provides credible results	4	Criterion fully fulfilled: Results are credible with no indications of any bias and with value judgements based on explicit criteria.
Were conducted in a professional and ethical manner	4	Criterion fully fulfilled. Evaluation was completed within allotted budget. The contract period was extended from 7.5 months to 9.5 months. Quality control was exercised through a steering group. Supporting documentation made available by DG ECFIN (e.g. steering group comments on drafts) indicates that the evaluators were free to present their results without compromise or interference. The meta-evaluation found no evidence of conflict of interest.
Well structured and balanced report	4	Criterion fully fulfilled.
The evaluation results were disseminated and utilised	4	Criterion fully fulfilled: There is every indication that the evaluation reports themselves were made available in a timely manner to all relevant decision-makers and stakeholders. A structured and documented follow-up to the evaluations was undertaken. The present Meta-Evaluation is one aspect of the follow-up and certainly seems pertinent, although its final results can obviously not be judged at present.

4.4 Review of Econometric Modelling

This section provides an overview of Cambridge Econometrics' assessment of the counterfactual modelling. More detailed assessment is presented in Annex III.

4.4.1 Econometric modelling in MFA ex-post evaluations

In the review of the MFA operations, macro-economic modelling played a relatively small role and was used mainly to back up the qualitative analysis. A fairly simplistic model was set up, which was developed further for the later studies. There are several advantages of using a simpler approach:

- Development time is less;
- Data requirements are lower; and,
- The model and, by implication, results are easier to interpret

However, an overly simplistic model may produce bias in results. This review finds that, in general, the structure of the model was adequate for the purpose it was built for. The main structural issues with the model are:

- Changes in imports may be biased upwards as possible links to exported goods are ignored;
- Imports are not affected by changes in the price level or exchange rate;
- Exports are assumed to be exogenous but would be affected by some model variables; and,
- The capital account does not seem to affect the exchange rate, although the current account does.

It is recommended that government expenditure be split into final demands and transfer payments as these have different implications for the banking and real sectors. If possible, some treatment of the labour market should be included, although this is probably a more major development.

Model inputs and outputs

The choice of data for the model is logical and makes the best use of what are available. The modelling team created a set of model parameters using a mixture of estimation techniques and personal judgment (and possible calibration). There is no reason to doubt that they did not make the best use of the information available, for example conducting interviews with policy makers. However, it is more difficult to justify this approach when there is so little documentation of the methods used, or the final value of the parameters (or even the structure of some equations).

The rough-and-ready nature of the model is acknowledged, with results (generally very small changes) being shown at the macro-economic level to a sensible level of precision, and the importance of particular results is not overplayed. The main scenario assumptions are laid out clearly for each of the studies, although reasons are not always given for the choice of inputs. The sensitivity of results to key parameter assumptions has been tested.

The main criticism is not with the model itself, but with the level of documentation that is publicly available. The quality of the information that is available is good and reasonably easy to understand but more information is required. For example, only a single diagram has ever been used to explain how the various components of the model fit together. Some of the key relationships, such as wage formation, are not explained at all and almost none of the parameter values are given. The validation of results with respect to the sensitivity analysis is not discussed in a quantitative manner.

The lack of documentation is possibly due to the small role the modelling played in the studies but a much greater level of transparency is required if results are to be fully understood. Perhaps the best solution would be to produce a separate document outlining the model in more detail; this could be supplemented by tables of main parameters in each of the country studies.

4.4.2 Looking further ahead - using economic and financial modelling to assess the probability of a crisis occurring

Based on the above assessment (and recommendations for improvement), there is no reason why the existing model should not continue to be applied and, as more data become available, improved upon. However, this depends on the role of the modelling remaining fairly limited and generally of secondary importance to the qualitative analysis.

So it seems appropriate to ask how modelling could provide more added value to the evaluations. Given the aim of MFA in providing stability, the most obvious role would be in linking the MFA to the possibility of crises occurring, i.e. did the MFA prevent a crisis from happening? This links into an important area of modelling in assessing uncertainty. If the probability of a crisis occurring could be linked to a set of model outputs then the reduced likelihood of crises happening could be estimated and linked into wider economic uncertainty.

Links between economic and financial modelling

As has been widely documented in the wake of the financial crisis, there is a divide between modelling of the real economy and financial modelling. Economic models do not tend to include financial indicators and financial models tend to have only a cursory treatment of the real economy. However, the crisis has shown that there are close two-way links between financial markets and real economic outcomes, in particular through the activities of banks.

Unsurprisingly, given recent events, the linking of these two areas of research has been identified as a key area of development, for example being included in the latest round of calls in the EC's Seventh Framework Programme for Research and Development (FP7).

Here the focus of the model is on assessing the likelihood of financial crises occurring, although the ultimate concern is economic outcomes. Ideally, a model that incorporated both financial and detailed real-economy indicators would be used. However, the data constraints within the countries studied mean that the focus will inevitably be on financial variables. This means that an important feedback linkage is excluded from the analysis.

Treatment of uncertainty in modelling

In the past, quantitative analysis has focused on single point estimates. This has partly reflected the requirements of policy makers, partly reflected previous limitations in computing power and probably also reflected a belief in the accuracy of the models involved. In terms of forecasting a crisis, the result from the model is essentially a 'yes' or a 'no'.

More recently, however, two factors have changed this position:

- The increasingly accepted definition of the economy as a complex system which can never be fully understood. An example is the suggested replacement of the assumption of perfect rationality, with the less restrictive (and more realistic) assumption of bounded rationality. The result is a range of results rather than a series of point estimates.
- Other modelling disciplines, in particular climatology, have been forced to adopt a treatment of uncertainty (for example due to the inherent difficulty in understanding the earth's climate system).

Economic modelling has therefore begun to embrace a treatment of uncertainty but this is still a relatively new area of research. A range of results can be produced by running the model many times using slightly different inputs.

Cambridge Econometrics, in collaboration with the University of Cambridge, provided an assessment of risks in its July 2009 global GDP forecast (see Figure 4.1). The difference between risk and uncertainty is subtle but important; the normal distribution used to assess risk largely rules out the possibility of a crisis by assumption. In uncertainty analysis, the distribution of possible results is not known.

To assess the likelihood of a crisis occurring using existing, or developed versions of existing, tools, this approach of producing a range of outcomes needs to be combined with a set of probabilities for the likelihood of each outcome leading to a crisis. This could be defined by any model output or set of outputs, such as balance of payments or government balance. Clearly these probabilities would be fairly subjective and would need to be clearly documented (based on historical precedent where possible) but this would give an indication of possible outcomes.

In summary, the process would be:

- Run the models for baseline and scenario many (e.g. 1,000) times with slightly modified inputs
- Assign a probability of crisis to each outcome
- Estimate an average probability for base and for scenario, take the difference to obtain the overall scenario change in probability

Figure 4.1 Illustrative Range of Outcomes for Global GDP Growth

Source: Cambridge Econometrics

Designing such a model

The model used for the MFA analysis also provides a reasonable tool for carrying out the analysis in the context of a financial crisis, given the data constraints. It should be noted that the model cannot be used to asses a crisis as this falls outside its behavioural parameters, but by attaching probabilities, a model could estimate how likely it is that a crisis would occur. A key set of exogenous inputs, representing possible financial shocks (both within and outside the host country) would need to be identified. Some possible examples include:

- A sudden fall in export demand
- Withdrawal of foreign capital
- A shift in commodity prices

As a rule of thumb, six such possible input variables can be set up for 1,000 model iterations, while still achieving a robust set of results. A range of possible values for each variable would need to be determined, with some kind of statistical distribution attached to this range.

A much more difficult task is to assign the probabilities of a crisis occurring to the model outcomes. As discussed above this is partly going to be a matter of judgement and would vary between countries.

Overall, as with any significant model development this is a fairly large research task. For example, it is estimated that a minimum of 15 person-weeks would be required to provide a basic outcome while additional time could be used to improve the estimated probabilities of a crisis occurring for a given set of model results.

4.5 Overall Assessment

The overall quality of the evaluations was high, with most of the Meta-evaluation criteria being largely or fully fulfilled (see Table 4.13); although, there were some noticeable improvements in the method and quality of more recent evaluations (e.g. Albania) as compared with the earlier evaluations (e.g. Romania). For example, the innovative use of Delphi technique added a level of transparency in the more recent evaluations.

Overall, the evaluations were all conducted in a professional and ethical manner, applied sound analysis leading to findings which were for the most part robust and were all presented in reports which were balanced in their judgements and in the main well structured.

Table 4.13 Overall Assessment of MFA Ex-post Evaluations

Meta-evaluation Criteria	Armenia	Romania	fYRoM	Tajikistan	BiH	Serbia & Montenegro	Albania
Has a well-defined scope	3	4	4	4	3.5	4	4
Provides a description of the policy context	3	3	4	3	3	3.5	3.5
Has a defensible design	3	3	3	3	3	3.5	3
Makes use of reliable information	2	3	3	3	3.5	3.5	3.5
Applies sound analysis	3	3	3	4	4	4	4
Leads to robust findings	3	3	3	3	4	4	3.5
Provides credible results	3	3	3	3.5	4	4	4
Were conducted in a professional and ethical manner	4	4	4	4	4	4	4
Well structured and balanced report	3	3	3	4	4	4	4
The evaluation results were disseminated and utilised	4	4	4	4	4	4	4
Overall assessment	Largely fit for purpose						

There are only three significant areas of doubt, where there is a potential for improvement. These are:

- **The overall scope of the evaluations**: Following the emphasis of the respective terms of reference, these focused on assessing the contributions of the MFAs to the short-term macroeconomic stabilisation of the recipient countries and to the implementation of structural reforms. In both cases, they examined the contributions predominantly from the perspective of the effect of the MFA financial flows, or in the case of structural conditions the potential effect of withdrawing those financial flows. Yet, it seems clear from a careful reading of the responses of the recipient country stakeholders that the primary contribution of the EC MFAs was not perceived in financial terms. MFA disbursements were generally too small in scale and too slow in their disbursement to have contributed significantly – in financial terms – to the stabilisation efforts in these countries. Their financial contribution was distinctly secondary to that of the IFIs – a helpful, additional source of funding but by no means essential to the stabilisation effort. In general, recipient stakeholders perceived that the key contribution of the MFAs derived from their value as political statements of the confidence of the EU in the stabilisation and reform programmes. This political support was directly helpful to reformers within Government in gathering support for reform and overcoming opposition and it was also helpful in generating private sector confidence amongst both foreign and domestic investors. These points were also made at the practitioners workshops by IMF and WB officials. Unfortunately, the ToR did not put emphasis on these effects and this influenced the choice of evaluation methods and the selection of interviewees, so that they did not focus on sources of information – such as private sector focus groups - relevant to these effects. If the confidence-boosting effects of the MFAs are in practice more important than their financial effects, then this factor needs to be factored into the future design of such operations, implying perhaps giving a higher political profile to such operations, with more publicity, press conferences, etc and with a more regular high level dialogue to accompany them.

- **Methodological limitations**: The methodology section of the ex-post evaluation reports is weak. The reports highlight a number of challenges or constraints faced during the course of the evaluation (such as institutional loss of memory or issues relating to data availability and quality). However, the reports do not explain how these challenges or issues were addressed by the evaluators; and how these affected the results of the evaluation.

- **Econometric modelling**: There are two issues with the current approach to econometric modelling. The first issue is that the assumptions and limitations of the econometric counterfactual analysis have not been adequately specified in the ex-post evaluation reports. There is little detail about the nature of the model's parameters, both in terms of size and methodological underpinning. The modelling team's own assessment through sensitivity analysis is similarly lacking in documentation. The second issue relates to the role of econometric modelling in ex-post evaluations. Given the relatively small scale of the MFA intervention and the modelling relationship between inputs and outputs (smaller the input; smaller the output and vice versa), the use of econometric modelling for assessing the net impact of MFA adds little value to the evaluations. The role and added value of econometric modelling in MFA evaluations can be enhanced by shifting its focus from 'counterfactual analysis' to 'uncertainty analysis'. However, it would not be feasible to develop such a model for individual ex-post evaluations and therefore, a better approach would be to carry out such an analysis as part of a thematic evaluation or meta-evaluation.

5 CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This section presents the main conclusions and recommendations of the meta-evaluation. It is structured as follows:

- Section 5.2 presents the key findings of the seven evaluations of MFA operations pertinent to the questions specified in the ToR for the meta-evaluation.
- In the light of these findings, Section 5.3 considers the continuing relevance of macro (economic) financial assistance to enlargement and neighbouring countries from the EU and factors that might influence this;
- Section 5.4 considers the key parameters of MFA;
- Section 5.5 provides recommendations for the future of the MFA;
- Section 5.6 presents the key findings of the assessment of the seven evaluations;
- Section 5.7 considers key issues in the evaluation process;
- Section 5.8 summarises their strengths and weaknesses;
- Section 5.9 provides recommendations for future evaluation work; and,
- Section 5.10 provides some suggestions on the potential scope of potential ex ante assessments of MFA.

5.2 Key findings from the synthesis of the seven evaluation reports

5.2.1 Were the current MFA objectives sufficiently clearly formulated?

The standard objectives of the MFA operations were: to help the (recipient) country meet its external financing needs; to support the sustainability of the recipient country's external financial position; to reinforce the country's reserve position; to support the recipient country's budget; to support the policy objectives attached to the authorities' reform efforts; and, to bring the country closer to the Community.

The following specific objective was added for the fYRoM MFA: to contribute to the alleviation of the social consequences of the economic disruption caused by the conflict in Kosovo.

The objectives of the EFA support to Tajikistan and Armenia were modified to reflect their exceptional circumstances:

- Tajikistan: To encourage the Tajik authorities to implement macroeconomic and structural policies fostering external and fiscal sustainability; to help

Tajikistan to improve its financial position by reducing its net debt position towards the Community.

- Armenia: To meet the residual financing needs of the country in the context of international donor assistance; to support the reform efforts of the Armenian government; and, to alleviate social hardship. The final objective was subsequently dropped.

These objectives were rather general and could have been formulated more precisely. They have the following weaknesses: progress towards meeting them is difficult to measure; they could have better reflected the underlying rationales and characteristics of the MFA i.e. MFA was granted as a package of support with International Financial Institutions (IFIs) and with specific conditionalities ; and, there was scope for further elaborating the important political objectives (for example, to 'bring the country closer to the Community') in terms of benchmarks or measurable outcomes. The distinction between MFA and EFA is not articulated in nor clear from the objectives. The objectives could be expressed more clearly.

5.2.2 To what extent were the (seven) assessed MFA operations effective in terms of the short term macroeconomic stabilisation of the recipient country?

The short term macro-economic stabilisation effects that were achieved resulted from the combination of IMF support and MFA. In practice the disbursement of IMF funding took place prior to that of the MFA (on average there is a time lag of 12 to 18 months between the onset of crisis and first MFA disbursement due to various institutional constraints such as the need for unanimous Council approval, negotiations etc) and hence contributed more to short term stabilisation because of both its relative scale and timing. The commitment of the EU via MFA is likely to have contributed to perceptions that economic conditions in the recipient countries would improve. The net impact of the MFA (and EFA) support on macro-economic stabilisation was limited or modest in all cases.

5.2.3 To what extent have the MFA operations been effective in terms of supporting structural reform in the recipient country in the short to medium term?

Generally speaking, the MFA appears to have had a positive but non-uniform impact on implementation of structural reforms in the recipient countries. A political or operational reinforcing effect of MFA was more evident in the case of countries participating in the SAP process as compared to Armenia or Tajikistan (where the MFA was judged to have a limited net impact on the implementation of structural reforms). The most important structural reforms that MFA contributed to were reforms linked to public finance and management (e.g. putting audit procedures in place or tax reform) – as opposed to more controversial reform areas such as privatisation (see Table 5.1). However, most structural reforms take a considerable time to take place and become embedded. MFA as a short term and crisis instrument can however, contribute to accelerating reform processes.

5.2.4 What have been the indirect and / or unexpected effects, if any of the assessed MFA operations?

In the main, the impact of MFA on macro-economic stability has been indirect and arisen through the following channels:

- In most cases, MFA contributed to overall macroeconomic stability by reinforcing the implementation of structural reforms in the recipient country. Indirect benefits have accrued in the form of increased government revenue (due to tax reforms), improved capitalisation of the banking sector (resulting from reforms initiated in the financial sector) and increased business activity (due to for example, the introduction of competition policy).

- In the specific case of Armenia and Tajikistan, the MFA allowed the continuation of IMF/ WB programmes and prevented these countries from cutting back on social expenditure by decreasing the cost of foreign debt servicing.

Some unexpected effects were also noted in the ex-post evaluations of Albania, Romania and fYRoM as follows:

- Albania - an indirect effect resulted from channelling public wages through the banking sector which led to an increase in credit availability.

- Romania - The mention of a deadline for the privatisation in the conditionality documents is thought to have hampered the ability of the privatisation agency to identify the best timing for the best opportunities, hence possibly reducing potential proceeds for the budget, because of the lower quality of investors or lack of competition. The abolishment of the EU visa regime for Romanian citizens in 2003, triggered and almost immediate rise in remittances and mitigated to a small extent the increase of the trade deficit.

- fYRoM- An unexpected impact related to the timing of the disbursement of first tranche which mitigated the financing needs of the Government at the start of the security crisis.

5.2.5 To what extent have the MFA contributed to returning the external financial situation of recipient countries to a sustainable path over the medium to longer term?

According to the ex-post evaluation reports, the impact of MFA on long-term external sustainability of beneficiary countries is expected to be positive, albeit small and indirect. The overall package of structural reform is considered to have improved the growth capacity of beneficiary countries.

However, as with almost any country in the post credit crisis world, growth in these countries has been affected in 2008/2009. Five out of the seven countries covered by this meta-evaluation have recently agreed international support packages: Bosnia and Herzegovina, Romania, Tajikistan, and Serbia.

This raises the question whether the MFA (in conjunction with support from IMF/ WB) has had any actual impact on the long–term external sustainability of recipient countries. It is possible that in absence of previous support, the impact of the financial crisis may have been more severely felt by these economies. However, it is beyond the scope of this meta-evaluation to offer definitive analysis and conclusions in response to this issue. This issue can be more systematically addressed through a thematic evaluation.

5.2.6 *How has the way in which the operations were designed and implemented conditioned their effectiveness and efficiency, more particularly as regards their legal base?*

The legal base for the MFA requires that each MFA operation is approved by the European Council. At the same time the MFA operations have been used to complement the financial support provided by IFI and in particular the IMF. The IFI are however able to approve support more quickly than the time required to get approval from all EU Member States for the MFA component of the intervention. Whilst this is a potential constraint, it is a reflection of the EC not being an IFI and of the political nature of MFA support. In practice the resources from the IMF have been dispersed prior to those of the MFA.

There are other aspects of the design of MFA operations that have impacted on effectiveness and efficiency and these are considered in Section 5.4.

5.3 The continuing need for EU macro (economic) financial assistance

Whilst the focus of the evaluations reviewed in this meta-evaluation was on the effects of the MFA on the recipient countries, the meta-evaluation and in particular the workshops provided an opportunity to also consider the need for MFA from the perspectives of both the EU and IFI and in the context of the global economic crisis.

From the perspective of the recipient countries MFA has in most cases met needs resulting from economic crises. Where the conditionalities of MFA have been in line with reforms that have received domestic political support then MFA has contributed to these reforms. However, there have been instances where the nature of the crisis was unclear (e.g. Albania), where there may have been alternative means available to avert ‘the crisis’ and where the MFA was perceived as de facto budgetary support rather than support to ‘bridge the gap’ in balance of payments.

From the perspective of the EU, the MFA has contributed to the achievement of political objectives. These objectives have been most clear when linked to strategic objectives of enlargement (51 per cent of MFA by value has been for nine countries that acceded to the EU) and issues of stability and security in neighbouring countries as well as development and anti poverty objectives. Conditionalities linked to the reform of public sector finance have been applied in most cases. However, MFA has also been used for more tactical purposes to ensure that debts to the EU are received. The reasoning for this was not clear. There has been some reluctance to make these political objectives explicit. The visibility of MFA is low.

From the perspective of the WB and IMF the main IFI whose financial support has been complemented by the MFA operations, MFA is important because it has contributed to quantitative burden sharing (an issue of increasing importance) and because it has provided an important political signalling function. Both the IMF and WB may be perceived as technocratic whereas the fact that the MFA operations require the political support of the European Council may add legitimacy and leverage to the interventions of the IFI.

The need for MFA operations is affected by the general economic context. The number and scale of operations declined during the current decade, where they focussed on responding to ‘extraordinary’ circumstances. The recent economic crisis has led to a large number of countries facing economic crises arguably greater than those that led to the previous MFA operations. Given that the EU and many EU Member States have been affected, the political will to provide support when crises occur in third countries may have weakened. The nature and causes of the current economic crisis also point to the potential need for an adjustment in conditionalities. IMF has made major changes to its conditionality framework in the wake of the crisis. Since May 2009, structural performance criteria have been discontinued for all IMF loans, including for programmes with low-income countries. Structural reforms will continue to be part of IMF-supported programs, but only when they are seen as critical to a country's recovery. And the monitoring of these policies will be done in a way that reduces stigma, because countries will no longer need formal waivers if they fail to implement an agreed measure by a specific date. The new IMF-supported programmes have been tailored to individual country circumstances and focus on the most immediate issues to resolve the crisis. IMF's use of conditions attached to loans has become more focused on "fixing the crisis, not fixing the world". For example, conditions related to land reform from the IMF package in Ukraine were removed because, though useful, they were not essential for macroeconomic stabilisation[16].

Annex V provides an overview of the IMF and the Bank's approach to conditionality.

5.4 Consideration of the key parameters of MFA

5.4.1 The definition of crisis

The MFA was conceived as an instrument to respond to macro economic crises and, in particular, balance of payments crises in EU enlargement and neighbouring countries. In the majority of the seven cases examined in this meta-evaluation there were evident crises. However, the causes and nature of these varied, in some instances the crises were technically not balance of payment crises.

MFA was in two of the instances examined provided under the rubric of EFA as a form of debt (to the EU) relief. Due to the need for unanimous Council approval the speed with which MFA was disbursed was slow. In effect, by the time the EU resources were disbursed, the crisis may have been over. In these circumstances the main role of MFA will have been to 'add weight' to IFI support. One consequence of the time taken is that the EU resources are perceived as, and in effect used as, budgetary support. Since the advent of MFA the EU has developed other forms of financial assistance geared to budgetary support and more closely aligned to EU policy objectives and development programmes.

As stressed in Section 2 and above, the current economic crisis has a larger scale and reach than the factors that led to the specific crises addressed by previous MFA operations.

5.4.2 Estimating the scale of MFA resources required

The MFA support was a component of the IFI 'model' that identified the need for 'gap filling' and the scale of the 'gaps'. The estimates of MFA support required did not 'double guess' the IMF analysis. In most of the seven cases considered in this meta evaluation the model appears to have been valid (except in the case of Albania and fYRoM). The MFA were perceived as 'burden sharing' from the perspective of the IMF.

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[16] The IMF assessed: A good war. The Economist. 17th September 2009

It is uncertain as to whether the 'model' remains valid in the current circumstances because of the systemic problems that have led to the credit crisis.

5.4.3 The distinction between balance of payment and budgetary support

The distinction between support for filling balance of payments 'gaps' and budget support is not clear cut. Arguably some of the MFA operations provided as budget support were linked to a BoP deficit (where excessive public expenditure led to budget deficits and consequently BoP deficit). Whilst the criteria for granting MFA by the EU stress the focus on balance of payment gaps, and DG ECFIN (that has responsibility for MFA) focuses on crisis support for macro-economic stabilisation whilst other DGs of the EC (ENLARGE and RELEX) have instruments for budgetary support, the IFI do not emphasise these distinctions. Indeed during the Workshop the distinction was referred to as 'arcane' by a representative of one IFI. Certainly the distinction is not clear cut. However, budgetary support is normally granted to the treasury of the recipient country (to finance the recipient country's budget) over a longer period than crisis support and can be linked more easily to longer term structural reforms and economic development.

The key point here is that MFA is an instrument for dealing with crisis; however, the definition of crisis is limited by the condition relating to the existence of a 'commonly identified residual external financing gap' which requires MFA operation to be linked to a BoP deficit. The systemic banking or financial crises of recent years (which ultimately manifests in form a BoP crisis) has demonstrated the case for broadening the definition of crisis situations where MFA instrument can be applied.

5.4.4 The emphasis on loans or grants

There has been a tendency for MFA to be given in the form of grants rather than loans. The EFA was provided in grants to pay off debts. There is no provision for the clawback of grants. The grant element was related to the recipient country's income and debt repayment capacity.

Whilst grants are attractive to recipient countries, particularly during periods of high interest rates, there are associated risks to the achievement of structural reforms and improved management of public finance. The MFA when provided as grants contrasts with IMF support for essentially the same purpose, which is given in the form of loans. It is not clear that were the grant element of MFA was given as loans, the recipient countries would not have been able to repay the loans. Generally and particularly in current circumstances where interest rates are low, the case for grants is weak.

5.4.5 The application of conditionalities

There is some tension between objectives of short-term macro-economic stabilisation and long term structural reform. Whilst MFA is designed to achieve both, this is in practice difficult. Progress towards good governance and institutional reforms normally take a long time and cannot normally be achieved in a short period characteristic of a crisis. However, as the disbursement of MFA is conditional on fulfilment of structural reform such conditionalities have to be carefully selected. The Commission's approach has evolved in the light of experience. The conditionalities associated with recent MFA have focused on public finance management (for example, putting audit procedures in place) or have had a fiscal dimension (for example, tax reform). There has been a move away from including conditionalities associated with more controversial reform areas such as privatisation.

In order to avoid the potential 'dilution effect' of having a large number of conditionalities affecting different agencies in the recipient countries it is preferable if there are a small number of carefully sequenced, timed and coordinated conditionalities and that there are commonalities between those of the IFI and MFA. From the point of view of the country, the conditionalities need to be seen as a package.

As untied and undesignated foreign exchange resources, neither the MFA financing agreement nor the MoU specified an agreed use for the MFA funds. However it would be useful in future for the evolution of BoP financing and of the pattern of public spending (not just the aggregate fiscal balances) were to be formally included as agreed areas for discussion and monitoring in annual reviews.

5.4.6 The distinction between MFA and EFA

In two of the seven cases of MFA considered in the meta evaluation the assistance was termed EFA. MFAs that represent a deviation from (a strict interpretation of) 'Genval principles' are referred to as EFAs. The flexibility to grant MFA without the strict application of Genval principles appears, on the basis of the evidence available from the two evaluation to have been warranted. The term EFA (Exceptional financial assistance) may itself be of little value in so far as all MFA is exceptional is the sense that is addresses 'crisis' situations. However, 'borderline' proposals for MFAs (which represent a deviation from a strict interpretation of the 'Genval Principles') should be subject to a more rigorous (and perhaps independent) ex-ante assessment of their rationale.

5.4.7 Considerations for a Regulation on MFA

Currently decisions on MFA are taken by the EU on an ad hoc basis. This contrasts with the situation pertaining to BoP assistance to EU Member States that can be granted via the application of Regulation (EC) No 332/2002[17]. The adoption of a Regulation for MFA for third countries has been the subject of consideration and was mentioned in the Terms of Reference for this assignment. There are several relevant considerations.

The current arrangements mean that there is some delay before decisions on MFA can be taken (there can be a time lag of up to 18 months between the onset of a crisis and the disbursement of the first MFA tranche). This may hamper negotiations with third countries and limit the speed with which packages of assistance combining resources from IFIs and the EU can be finalised. As a short term crisis instrument speed is clearly relevant and the IFIs are likely to perceive that the involvement of EU in packages of support adds weight and leverage whilst 'burden sharing'. Arguably, MFA would have greater visibility in the beneficiary country, if it were announced in conjunction with the IMF support.

Also, with effect from 2010, the decisional procedure for MFA to third countries will be based on co-decision. A practical implication of this change is that it may take longer to obtain a decision on MFA operations in future, as the Council will have to address any comments or issues raised by the European Parliament.

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[17] Council Regulation (EC) No 332/2002 of 18 February 2002 establishing a facility providing medium-term financial assistance for Member States' balances of payments and as amended by Council Regulation (EC) No 431/2009 of 18 May 2009.

A possible risk of an MFA Regulation is that it may constrain the scope of MFA should the wording be restrictive.

At the same time, the evident importance of political considerations and EU political objectives in granting MFA, coupled with a political reluctance on behalf of the EU to act as an IFI, provides a case for maintaining the status quo. Furthermore, as the EU typically provides a small proportion of the overall package, should disbursements from the MFA arrive later than those from the IFI, the effectiveness of the overall package of support would not be reduced[18]. However, a much delayed MFA decision, could undermine the ability of the instrument to achieve its objectives of macroeconomic stabilisation and promoting structural reform. In such circumstances, the role of MFA could be reduced to a co-financing instrument and as such, the instrument would have limited or no political visibility.

On the basis that a Regulation for MFA to third countries would speed-up MFA approval and implementation under a co-decision procedure, there is a case for introducing such as Regulation.

5.5 Recommendations on the future of MFA

5.5.1 The continuing need for MFA

There is likely to be a continuing need for MFA as an EU short term crisis financial instrument distinct from longer term budgetary support. The MFA should continue to complement the crisis interventions of the IFIs. In a crisis there is merit in agreements being made with the IFIs and recipient countries as quickly as possible. EU financial dispersals do not necessarily need to be made immediately.

Assuming that the scale of MFA remains small relative to the contributions of the IFIs the main added value of MFA is through the political involvement of the EU. Normally there would be merit in more clearly expressing the political objectives and the associated steps planned to realise them.

5.5.2 The specification of objectives of MFA operations

The objectives of MFA in the seven examples reviewed were not clearly articulated. It would be preferable if, in addition to the current (or revised) general objectives (which are by nature vague) there were a set of specific objectives against which progress could be measured relating to stabilisation and the structural changes envisaged. The conditionalities applied should also be expressed in terms of operational objectives. The political reasoning for the MFA should be more clearly articulated.

5.5.3 The preferred characteristics of MFA

MFA should normally be granted in the form of loan.

The definition of the crisis for which MFA is available should not be overly restrictive. The distinction between support to fill a balance of payments gap and budgetary support is not clear cut nor critical to the effects and impacts that can be realised.

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[18] According to IMF officials, they have the flexibility to 'front-load' their programmes; so MFA can contribute to burden sharing through disbursements of funds in later stages

5.5.4 MFA conditionalities

Effective conditionalities linked to MFA crisis funding are likely to have the following characteristics: close links with improvements in public finance and financial sector reform; a strong measure of ownership from the government of the recipient country; strong commonalities with IMF conditionalities; support from technical assistance and advice including transnational peer learning; and, strong complementarity with other EU programmes and measures. In addition there is merit in the MFA having distinct political conditionalities linked to the EU political commitment to the financial support.

The achievement of the conditionalities should be externally and independently assessed. This could be done jointly on behalf of both the IFIs and EU.

5.6 The assessment of the seven evaluation studies

The seven evaluation reports have been assessed against the following criteria: scope; assessment of policy context; defensible design; use of reliable information; application of sound analysis; the robustness of findings; whether credible results emerged; the manner in which they were conducted; and whether the reports were well structured and balanced. The main findings of this assessment are given below

5.6.1 Did the evaluations have a well-defined scope?

The evaluation reports followed the scope defined in the individual ToR for each study which were themselves well defined and similar in each case. With the benefit of hindsight it would have been preferable if the individual ToR had requested analyses of the relevance of each MFA operation as well as a consideration of the contribution of MFA to political objectives of the EU.

5.6.2 Did the evaluations provide descriptions of the policy context?

Whilst some reference was made to the policy context, given the importance of political considerations in the granting of MFA it would have been preferable if this context had been considered in more detail.

5.6.3 Did the evaluations have a defensible design?

The key parameters of the design of the evaluations: timing; overall methodology; methods and organisation were appropriate and defensible. Incremental improvements were made to the design in the light of experience. There was a degree of continuity in the teams undertaking the evaluations.

5.6.4 Did the evaluations make use of reliable information?

The evaluations made use of the best available information. However, there was a strong reliance on the views of and feedback from a variety of stakeholders and there are limits to the reliability of such information. Also the quality of economic information available was variable and considerably less than ideal.

5.6.5 Did the evaluations apply sound analysis?

The analysis and reasoning of the evaluations was sound.

5.6.6 Did the evaluations lead to robust findings?

The majority of findings in the ex-post evaluations follow logically from the analysis and are fully justified. The two earlier reports (namely, Romania and fYRoM) are slightly weaker than the rest in this regard as some statements are not backed by evidence triangulated from different sources.

5.6.7 Did the evaluations provide credible results?

The evaluations have generally provided credible results backed by sound analysis and robust findings. Again the quality of reports for Romania and fYRoM are slightly weaker than others and this reflects the reliance on stakeholder consultations for these evaluations.

5.6.8 Were the evaluations conducted in a professional and ethical manner?

The evaluations were, as far as it is possible to tell conducted in a professional and ethical manner. There is no evidence to suggest otherwise. However, the meta-evaluation did not independently verify that all actors involved in evaluation activities complied with principles and rules regarding conflict of interest.

5.6.9 Were the evaluation reports well structured and balanced

The evaluation reports were well structured and balanced. The formats for the reports were very similar.

5.6.10 Overall assessment

The overall quality of the evaluations was high, with most of the meta-evaluation criteria being largely or fully fulfilled. In particular, the evaluations were applied sound analysis leading to findings which were for the most part robust and were all presented in reports which were balanced in their judgements and well structured.

5.7 Other issues in the approach to evaluation

5.7.1 Coverage of evaluations

Under its new Financial Regulation introduced in 2002[19], the EC is legally obliged to evaluate its main programmes. However, prior to 2002 this requirement did not exist and consequently, MFA operations completed before 2002 were not subject to ex-post evaluations. Only a minority of the MFA operations and resources have been subject to an ex-post evaluation.

5.7.2 Procurement procedure

Six out of seven of the individual evaluations were undertaken by the same consortium of companies within the aegis of a single tender framework contract. One evaluation, the first of a series of evaluations, was completed in house by the European Commission. The measure of independence created through the external contracting of evaluations of this type is beneficial for the credibility of the findings and useful in that it provides access to the skills required including econometric modelling expertise. The single tender framework contract reduces overall transaction costs enables a high measure of continuity and 'learning' from assignment to assignment. However, a limited tender framework contract (with several retained contractors) may have allowed more MFA evaluations to be undertaken in parallel and may have stimulated innovations in the methods of approach (although the options here are limited). Such

[19] Article 27.4 of Council Regulation No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities.

an arrangement may have generated some costs savings to the Commission but it could also have led to less consistency in the quality of the evaluations.

5.7.3 Attribution or contribution

There are considerable challenges in assessing the counterfactual in any evaluation and these challenges are especially great in the case of the evaluation of MFA. This is because: the scope for comparisons between countries and their economies is limited; a large number of factors, including exogenous factors, impact of the macro economic conditions of recipient countries; structural and other institutional reforms are subject to a variety of influences; and the MFA were one component of the support given. In these circumstances evaluation work is unlikely to be able to go further than identifying the contribution that MFA has made. To facilitate this greater attention needs to be given to defining the policy objectives of MFA interventions and expressing them in terms of expected outcomes.

5.7.4 Results frameworks and ex ante assessment

One important constraint of the evaluations reviewed was the absence of estimates of the outcomes or results anticipated from the MFA operations. In the Workshop the WB stressed that its current approach to evaluation involved expressing at the outset of interventions estimates of the expected results. This is similar in principle to aspects of the Commission's approach to the Impact Assessment of all new policy proposals. There would certainly be benefit in undertaking 'mini Impact Assessment's' for each proposed MFA that specified the expected consequences of the intervention on key macro-economic indices and structural reforms[20]. Subsequent evaluation work could then assess both the impact and merit of the MFA relative to costs and the validity of the model used to anticipate its likely consequences on macro-economic variable, structural change and political developments. Section 5.10 provides some suggestions that could be applicable in the ex ante assessment of MFA.

5.8 The strengths and weakness of seven evaluation studies

The following strengths and weaknesses have been identified taking account of the overall evaluation process, including the ToR for individual evaluations, procurement procedure, evaluation management and guidelines.

5.8.1 Key strengths

The key strengths of the evaluations were:

- The timing of the individual evaluations was appropriate.
- The Guidelines for ex post evaluation were clear.
- The evaluations followed the ToR and guidelines.
- The evaluation designs including the economic modelling approach were appropriate and commensurate with the time and resources available.

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[20] The timescale for full EC Impact Assessments is normally 6-9 months and full Impact Assessments include elements that would not be required for each prospective MFA.

- Some developments of the method took place taking advantage of continuities within the evaluation teams.

- The succession of evaluations has allowed for this meta evaluation.

5.8.2 Key weaknesses

The key weaknesses of the evaluation process and individual evaluation are as follows:

- Whilst there have been a total of 49 MFA approvals only 7 of these have been subject to evaluation so far (although several evaluations are currently underway). This has limited the learning that was possible and the generalisations and comparisons that can be drawn through this meta-evaluation. However, this is a reflection of the development of evaluation practice and capacity occurring some time after the advent of MFA. The current approach to evaluation is more comprehensive.

- The anticipated results of the individual MFA were not clearly articulated in ex-ante assessments (objectives and indicators are vaguely formulated in ex-ante assessments). This has constrained the subsequent ex post evaluation work in so far as it has been difficult to judge the success of the intervention against expectations.

- The Terms of Reference for the individual ex post evaluations did not require a review of how and why the MFA had come about. These circumstances were in practice both economic and political. A consideration of the latter was largely absent in the evaluations.

- The evaluations highlight significant constraints (such as institutional loss of memory, data availability etc); however, it is not clear from the reports how these issues were addressed in order to provide credible results.

- The assumptions and limitations of the econometric counterfactual analysis have not be specified and documented in a transparent manner.

- The evaluations have not considered in detail the donor coordination role of the EU. This is a potentially important contribution and added value of the MFA.

- Six of the seven evaluations were commissioned through a single tender framework contract. Thus the same contractor undertook all six evaluations. Whilst this probably generated efficiencies, consistencies and learning that could be applied to subsequent evaluation it also led to a fairly standardised approach to the work. Given the intrinsic challenges of the work a limited competition framework contract may have generated some pressure for innovative methods of approach.

- The impact of the MFA in promoting international confidence in the beneficiary countries was not explicitly assessed in the evaluations; nor was the impact of MFA on domestic public and political opinion regarding association with the EU.

5.9 Key recommendations on the evaluation of MFA

In the light of the discussion above the following recommendations are made:

- All MFAs should be the subject of ex post evaluation.
- The granting of each MFA should be supported by an ex ante assessments that provides an explicit 'results framework' indicating explicitly the expectations for key macro economic variables and structural reforms. The ex-ante evaluation statements produced by Commission services could be further developed into more detailed assessments. Suggestions for the scope of such assessment are provided in section 5.10.
- The ex post evaluations should include qualitative analysis of the factors and critical incidents leading up to the decisions on each MFA. This is because the decisions appear to be at least as much political as technical/economic. For example, increasing the likelihood of Romania entering the EU and ensuring Western European influence were probably important motivating factors in granting Romania MFA. If so, the evaluations might usefully trace the subsequent political changes. This could be done at different levels (for example, through reviews of explicit statements by governments, positions taken on key reforms and changes (including security issues), and the attitudes of the population towards the EU). However, such analysis would need the application of qualitative and political science approaches to evaluation more than economic analysis. (Some unofficial indicators that are available might be useful for the evaluation work, for example, the Transparency Index).
- The ex-post evaluations should consider the donor coordination role of the EU through MFA. The presence of the EU is expected to add value and leverage in pulling together and accelerating a multi-donor package.
- The ex-post evaluations should systematically consider the effects of the MFA interventions on 'private sector' confidence as confidence is crucial to the effectiveness of the MFA intervention. This could be done through creating panels of potential foreign investors and panels of domestic private sector leaders. (There are examples of the former that could be built on). The panels could be asked periodically, (ideally before as well as after the MFA) to indicate their level of confidence in the economy in question.
- DG ECFIN should consider procuring the external evaluation expertise required through a limited competition framework contract that covered both ex ante and ex post evaluation services.

5.10 Suggestions for future approaches to the ex ante assessment of MFA

In the light of the considerable uncertainties associated with the provision of MFA, evidenced by the evaluation findings reviewed in the meta evaluation, the subsequent developments in the recipient countries, the political as well as economic significance of MFA and the changes in the global economy the approach to ex ante assessment could also usefully take account of the following:

- Risk analyses such as the Standardized risk scenarios provided by the Economist Intelligence Unit. The dashboards provide indicators of ‘intensity’, taking account of probability and impact ratings on a large number of economic and policy factors.

- Credit Default Swaps (CDS) that are closely related with the credit ratings announcements and are reliable indicators of default probabilities of a firm or a Sovereign debt issuer, on its underlying debts. When the market starts getting nervous about a company or a State and thinks it is more likely to default on its debt, insurance starts getting more expensive. This captures the essence of the investor sentiments/confidence.

- The findings of Eurobarometer Surveys. The Candidate Countries Eurobarometer (CCEB) surveys that were carried out between 2001 and 2004 in all the 13 countries applying for EU membership could be used as a model.

- Transparency International indicators including: Corruption perceptions index (CPI); global corruption barometer (GCB); bribe payers index (BPI); Promoting Revenue Transparency; and, Transparency in Reporting on Anti-Corruption

The following methods could also, to a greater or lesser extent be useful depending upon the precise circumstances:

- Bespoke Surveys of the opinion and confidence of selected professional groups (e.g. local entrepreneurs, bankers and business lawyers, but also external investors in the country) towards the EU.

- Institutional mapping including: ‘Independence’ and/or ‘veto-power’ assessments of the civil service: capacity assessments of levels of professionalism, recruitment procedures, educational background and motivation in key branches of government; assessment of the “negotiation style” of the beneficiary government including: comprehensiveness and attention to detail; transparency and integrity; and, the degree of ownership/ agreement to reform among the key decision makers. In this regard, the style of the arguments that a government uses when communicating with citizens about reform (through publication of policy statements or in the press) may be a useful indicator of ownership.

- Analyses of trends with respect to reforms.

- Scenario building including the application of the Delphi method. Some of evaluations have used this method retrospectively. At the ex ante assessment stage of each MFA experts from think tanks, advisory bodies, the media, universities and local EU representations etc. could be consulted in order to assess: the prospects for the reforms implementation in the light of present political trends; the political impact of the reforms and how MFA may affect the likelihood of sustained reform; the probability of various mid-term scenarios and the chances for sustaining reform under these scenarios.