# Evaluation of EFSF and ESM financial assistance: Technical Appendices

15 June 2017

# Contents

# Summary

**These technical appendices were compiled to provide further background to the first ESM evaluation. Their purpose is to enhance transparency on the technical aspects of the organisation of the evaluation exercise, and the various strands of research.** The evaluation was designed to ensure maximum impartiality, within the available organisational set-up, and methodological rigour. By describing the process and the various strands of analysis the appendices support the credibility of the evaluation.

The terms of reference have been made public in their original form in Appendix A, which was approved by the ESM Board of Governors on 24 October 2016. Appendix B describes the topology and process of the evaluation. The design and conduct of the assessment was guided by a theoretical framework that resulted from a facilitated brainstorming process, summarised in Appendix C. Appendix D provides technical background to the assessment of the evolution of vulnerabilities in the relevant economies, which the 'relevance' part of the evaluation largely drew on.

Appendices E and F contain background material for the analysis of the timing of programme requests in section 3.1 of the evaluation report and the choice of instrument in section 3.2. In Appendix G, the key crisis-related events from the perspective of the EFSF/ESM are summarised in a timeline.

These appendices were compiled by the ESM evaluation team and are available online only. The Independent Evaluator's report is available online and in print.

# A. Terms of Reference

The European Stability Mechanism will perform an evaluation of the key activities as is customary practice in international institutions. These Terms of Reference are a statement of the background, objectives, and purpose of the first ESM evaluation exercise; the individual duties and responsibilities of the actors in the project; and timelines for the main deliverables.

**The purpose of the evaluation is to assess the relevance, effectiveness, and efficiency[1] of EFSF and ESM financial assistance in safeguarding financial stability of the euro area and its Member States.**

## Background

### Context

The European Financial Stability Facility (EFSF) and European Stability Mechanism (ESM) were established to provide financial assistance programmes for euro area Member States in response to the global financial crisis and the European sovereign debt crisis. The two institutions provided financial assistance to five countries in six separate programmes, either alone or as part of a broader international effort. They have disbursed in total more than €260 billion since 2011.

More specifically, the financial assistance programmes are:[2]

| Institution | Country | Formal request | Financial assistance facility agreement entered into | Completion | Partners |
|---|---|---|---|---|---|
| EFSF | Ireland | 21 Nov 2010 | 22 Dec 2010 | 8 Dec 2013 | EFSM, IMF and the UK, Sweden and Denmark as lenders; EC and ECB |
| EFSF | Portugal | 7 Apr 2011 | 27 May 2011 | 18 May 2014 | EFSM, IMF as lenders; EC and ECB |
| EFSF | Greece | 8 Feb 2012 | 15 Mar 2012 | Expired 30 Jun 2015 | EC, ECB, IMF |
| ESM | Spain | 25 Jun 2012 | 24 Jul 2012 | 31 Dec 2013 | EC, ECB, and IMF (not financing) |
| ESM | Cyprus | 25 Jun 2012 | 8 May 2013 | 31 Mar 2016 | EC, ECB, IMF |
| ESM | Greece | 8 Jul 2015 | 19 Aug 2015 | Ongoing | EC, ECB, IMF |

Source: ESM

1 See definitions in the Annex 1.
2 The Facility agreements can be found at www.esm.europa.eu/financial-assistance. (Updated 8 June 2017)

Four countries completed their programmes with a 'clean exit' and no follow-up arrangement. The second Greek programme ended after some prolongation, and a subsequent ESM Greek programme is on-going. Neither EFSF nor ESM activities were evaluated during the first years of operation. Hereafter references in this document to the ESM also apply to the EFSF, where relevant, even when not specified.

The organisational setup in which the programmes are run involves various institutions, which will have to be taken into account in the design and scoping of the EFSF and ESM related evaluation:

- relevant substantive policy discussions take place in the Eurogroup and Eurogroup Working Group matching closely the EFSF and ESM governing bodies;
- programme conditionality is negotiated by the European Commission in liaison with the European Central Bank;
- the programmes have been conducted as joint programmes with the IMF whenever possible; and
- post-programme monitoring is done by the European Commission and in parallel the Early Warning System is conducted by the ESM.

These programmes have been political and economic cornerstones of European crisis management and have, therefore, rightly been subjected to substantive public scrutiny and debate. This justifies a thorough evaluation to collect lessons for the future.

The Chairman of the Board of Governors asked the ESM in early 2016 to develop a mandate for programme evaluations. To prepare the ESM performed a desk study on the relevant evaluations and policy reviews conducted by ESM peer institutions to gain a better understanding of how an ESM evaluation could add value.

A proposal for the potential scope of the exercise was discussed twice with the ESM Board of Directors. The Board of Governors approved the exercise on 16 June 2016.

## Purpose and scope

### Mandate

The mandate covers both EFSF and ESM financial assistance programmes. The mandate is primarily to look into past programme activities to draw lessons for future activities. These lessons should help to promote the relevance, effectiveness, and efficiency of the programmes and further improve decision-making processes.[3]

The evaluation therefore strengthens institutional learning and memory. The primary audience for the report consists of the EFSF/ESM members represented in the governing bodies and ESM management. As a secondary objective, the evaluation aims to provide comfort to external stakeholders, including the general public, by providing transparency and validated information on the organisations' activities.

3 Given the focus on concluded programmes, the current, ongoing third Greek programme will not be part of the scope.

### Scope and limitations

The Board of Directors and the Board of Governors have discussed and provided guidance on the scope of the ESM evaluation exercise. The evaluation period covers the negotiations for each programme and runs through the post-programme period up to end-June 2016. The main focus will be on the relevance, effectiveness and efficiency of EFSF/ESM programme activities, concentrating on design, financing and cooperation issues.

The exercise will cover activities relevant to EFSF and ESM programmes for Ireland, Spain, Cyprus, and Portugal. The second Greek programme will be addressed where specific events offer relevant insight, but that programme will not be evaluated overall.[4]

This initial exercise is an outcome evaluation[5] taking into account ESM procedural aspects in the overall institutional framework.[6] It can also be characterised as a formative evaluation[7] given its focus on learning.

The report will deliver cross-cutting analysis of the programmes rather than country-by-country conclusions. This should ensure greater clarity in the resulting policy lessons. The scope of the evaluation is limited in that it will not evaluate the political aspects of the Eurogroup negotiations or certain aspects of programme design – e.g. conditionality – that are the specific responsibility of other institutions. Such issues outside of the evaluation's formal scope may nevertheless be addressed if they serve as explanatory factors.

### Evaluation questions

The discussions with the governing bodies yielded the following set of more specific evaluation questions, which can be broadly assigned to three programme phases (negotiation, programme execution, and post-programme monitoring) and to standard evaluation criteria.

4 After discussion, the Board of Governors advised the ESM to cover all programme countries as appropriate. To avoid compromising current activities under the third Greek programme, the intention is to evaluate relevant aspects of the second Greek programme related to financing effectiveness and efficiency, for example in bank recapitalisation, contingency and disbursement planning, and programme governance, until end-December 2014, the initial expiry date of the programme. The entire second Greek programme and the third programme could be evaluated after completion in August 2018.

5 See definition in Annex 1.

6 In this exercise, because of the relatively recent completion of the programmes, the ESM is not expected to prepare an impact evaluation (see definition in Annex 1).

7 See definition in Annex 1.

| Period of: | Negotiation | Programme execution | Post-programme monitoring |
|---|---|---|---|
| Relevance | Did the EFSF/ESM comply with its mandate to safeguard the financial stability of the euro area and its Member States by deploying its programmes? How did their roles evolve over time? | | |
| | How were financing needs defined?<br>Was the need for buffers considered appropriately in the financing envelope? | Were the EFSF/ESM financial assistance activities consistent with the prime objective?<br>Was the granted assistance instrument appropriate and the programme period adequate? | Did ESM instruments and agreed policies work, and under what type of country-specific circumstances to ensure lasting effects? |
| Effectiveness | How can the ESM best support effective programme implementation, including in the post-programme period?<br>Were members treated even-handedly in light of the size of assistance relative to each country's financing needs, lending terms, or disbursement practices? | | |
| | | What were the major factors affecting successful implementation?<br>Did programmes target effectively the financing needs of a country and account for the specific requirements of bank recapitalisation?<br>Was the financing planning and disbursement strategy conducive to effective programme implementation?<br>Were the financing terms sufficiently flexible in view of uncertainty?<br>Were programme contingencies assessed appropriately?<br>If the original implementation strategy was modified, were the compensating measures effective? | Does the lending framework set out an appropriate creditor position, including on proportionality and the ability to monitor and assert rights?<br>How has the need for possible follow-up arrangements been assessed?<br>How did borrowing costs and maturity structure support programme achievement and programme sustainability?<br>Did benefits prove sustainable?<br>Were there unintended effects? |
| Efficiency | Did requests for financial assistance programmes and the assessment by institutions comply with the requirements of the ESM Treaty and Guidelines?<br>Did the information provided ensure the efficient conduct of assistance? | What measures were taken to ensure that resources were used efficiently?<br>Were resources adequate?<br>Have activities (e.g. fund raising and disbursements) taken place in a timely manner? | |
| Collaboration | What was the nature of the relationships with the relevant local, European, or international authorities and bodies, and what could be improved? | | |
| | | How effective was the programme governance structure? | |

## Roles and responsibilities

### Key actors

The project actors are the high level evaluator (evaluator), ESM project sponsor, ESM evaluation team and evaluation manager. The team will be supported by external advisors.

The ESM Board of Governors' Chairperson has nominated Gertrude Tumpel-Gugerell, an Austrian economist who is a former vice-governor of the Austrian National Bank and a former member of the Executive Board of the European Central Bank, as the evaluator.

The main tasks of **the evaluator** consist of:

- agreeing on the Terms of Reference,
- reviewing the draft report,
- participating in the consultation with the Board of Directors on the draft report,
- ensuring balanced final evaluation judgements,
- reporting to the ESM Board of Governors, and
- promoting outreach.

The evaluator would address her conclusions or assessments to the ESM Board of Governors' Chairperson.

The report will be published under the evaluator's auspices on the ESM website.

Based on the findings, the evaluator is expected to submit a set of recommendations to the ESM Board of Governors to improve the functioning of the ESM and the programme activities.

The **ESM project sponsor** will ensure that the evaluator receives full support, meaning that the evaluator's instructions and guidance are implemented, the evaluation exercise has sufficient resources to execute its tasks in a timely manner, the evaluation team receives unhindered access to information,[8] and cooperative relations with the relevant institutions, such as the ESM partner institutions for the programmes, are maintained. Both the ESM project sponsor and the evaluation manager are responsible for keeping the project timetable on track.

The **evaluation manager** will organise and coordinate the daily work of the ESM evaluation team, striving to ensure the relevance and credibility of the process. He will promote a common understanding of the basic objectives, values, and assumptions underlying the analysis among the evaluation team and ensure that evaluators protect the anonymity and confidentiality of the information and data gathered, where not publicly available. Moreover, the evaluation manager may liaise with the evaluator and key stakeholders within the remit of the evaluation plan. External advisors will be consulted to ensure effective use of the best available expertise during the process.

8 In line with the documents outlining the scope of the exercise, which were submitted to the governing bodies in May and June 2016, the evaluation team will have access to relevant EFSF/ESM filing systems, documents and data within the confines of confidentiality arrangements. ESM Members are expected to facilitate access as appropriate.

The **evaluation team** working under the coordination of the evaluation manager will:

- design and execute background studies and interviews,
- collect the necessary secondary data,
- draft a report for review by the evaluator,
- organise a consultation of the Board of Directors on the draft report,
- incorporate feedback into the final report in cooperation with the evaluator, and
- support the evaluator in reporting to the Board of Governors.

When designing the methodology, the team will pay due attention to avoid burdening the ESM beneficiary members excessively with requests while ensuring their appropriate participation.

ESM internal services will support in particular with the editing of the final documents, and with administrative tasks, such as contracting and procurement, and travel and meeting arrangements. Where necessary, the ESM may enlist external assistance to help, for example, with initial training, preparation of interview transcripts, and logistics for fieldwork or further analytical support. ESM Communications team will handle relations with the public and specific external stakeholders.

The evaluation team, drawn from ESM staff members with differing areas of expertise and experience, will deploy a qualitative data analysis software package to support the reliability and validity of the mixed methods approach[9] on which the evaluation is based.

### Governance of evaluation

ESM Members as represented in its governing bodies and ESM management are the addressees of the evaluation report. The evaluator will present her report to the ESM Board of Governors' Chairperson who will submit it to the ESM Board of Governors. The report will be published following the discussion of the Board of Governors.

These Terms of Reference are approved by the ESM Board of Governors in written procedure following guidance from the evaluator and discussion by the ESM Board of Directors.

The **ESM Management Board** will ensure appropriate follow-up to the evaluation report and the recommendations with the governing bodies.

### Management of potential conflicts of interest

The appointment of an external evaluator reflects the ESM's intention to avoid any potential conflict of interest with ESM staff or management with respect to the evaluation exercise.

Together with the **evaluator**, the **project sponsor,** in facilitating the implementation of the evaluator's task, will support an independent and impartial evaluation process free from undue

9 See definition in Annex 1.

management influence. Advice from external advisors who have relevant experience of evaluation at international institutions will further be deployed to support independence.

ESM staff members who participated directly in the design and implementation of EFSF/ESM programmes should be excluded from the **evaluation team**, although their input will be gathered and integrated into the analysis.

### Quality assurance

These Terms of Reference have been prepared in cooperation with the evaluator. The evaluator will review the draft report for consultation and ensure balanced judgements for the final report.

As a further quality assurance method, a former deputy director of the IMF Independent Evaluation Office and the evaluation service of the European Investment Bank will support the evaluation team in the design and analysis phases.

In addition, in accordance with the standard practice for such evaluations, the evaluation team may simulate an **evaluation reference group**[10] by involving in specific occasions further experienced evaluators mainly from selected inter-governmental institutions. While they would provide expert guidance to the evaluation process and intermediate products, their engagement would be purely advisory.

Consideration will be given to geographical representation within the evaluation team.

## Deliverables and schedule

The main external deliverables are:

- A draft evaluation report for a stakeholder consultation facilitated by the evaluation team to discuss preliminary evaluation findings and conclusions; and
- A final evaluation report, which will be made public.

These will be preceded by desk studies that will provide the basis for a series of interviews structured around the key evaluation questions outlined earlier in these Terms of Reference.

The broad timeline for the evaluation team's work will be from September 2016 to April 2017. The main steps foreseen in the high-level work plan are detailed in the following table.

10 See definition in Annex 1.

Some of the tasks will nevertheless take place in part in parallel with others. An indicative timeline is as follows:

| Phase | Timing |
|---|---|
| Pre-planning | June-August 2016 |
| Nomination of the evaluator and terms of reference | July-August 2016 |
| Practical work procedures, team on-boarding | End-August – mid-September 2016 |
| Desk study phase | Mid-September – October 2016 |
| Interviews | November 2016 |
| Preparing draft report | December 2016 – mid-February 2017 |
| Review by the evaluator | End-February 2017 |
| Key stakeholder consultations | March 2017 |
| Preparing final report and review by the evaluator | End-April 2017 |
| Submission to the Board of Governors | May 2017 |
| Presentation to the ESM Annual Meeting | June 2017 |

Source: ESM

The complexity of the subject (with multiple programmes, multiple programme objectives, partner institutions, and financial systems), together with the challenges related to accessibility and availability of information, are the most likely risks to compliance with the projected schedule.

## Approach and methodology

This section specifies in broad terms the methodological building blocks of the evaluation. Data will be collected from a variety of sources (internal and external documents, surveys, interviews, and focus group discussions). In line with best practice, this information will be analysed with various methods aiming at an in-depth review that considers context and relationships appropriately. Under this approach, the objective is to use various analytical methods to obtain robust results.

While the mandate excludes in particular policy conditionality from the direct scope of this evaluation, the evaluation team may want to mention them if they represent potential explanatory factors. The team will consider good practice standards and evaluation guidelines (e.g. by the IMF, OECD and networks such as the Evaluation Cooperation Group of the IFIs and United Nations Evaluation Group) where applicable and available.

### Desk studies

As part of the work plan preparation, the evaluation team will develop an intervention logic leading from inputs and activities to outcomes.[11] This will provide a foundation for the information collection and further analysis, together with the key evaluation questions identified in section 2. This will involve document research, and analysing inputs, activities and outcomes as well as developing indicators on efficiency and effectiveness.

In addition, the team will prepare a web survey on ESM country team coordinators' experiences with potential follow-up interviews, and interview ESM management. The survey will support the development of the external interviews and guidance for interviewers.

11 See definition in Annex 1.

This phase will also help further familiarise the team with the programmes.

### Interviews

The evaluation team will make a field visit to each programme country to supplement the findings of background studies and to conduct interviews with both open and closed questions and potential focus group discussions on the key evaluation questions. Small teams will be drawn from the overall evaluation team to conduct the interviews to ensure a sufficiently broad experience base. The interviewing team and at least one additional team member will analyse the interview transcripts. Mission reports and transcripts will be drawn from the key parts of the interviews to facilitate a profound cross-sectional analysis. The interviews may be refined based on a parallel analysis of the first interview experiences.

Interviewees will be selected based on their knowledge and roles in the relevant country programme and availability (purposive sampling[12]). Interviewees will have the opportunity to suggest further interviews with people relevant for specific evaluation questions.

In addition to the programme countries, the intention is to schedule interviews with the institutional partners as far as they are disposed and able to contribute to the analysis within the relevant timeframe.

All information will be stored or, if not otherwise possible, cross-referenced in a secure database to which access is restricted to the evaluation team to ensure accuracy, protect the confidentiality of participants, and generate conditions for an open exchange of views. This will also enable the archiving of the project as a single file at completion.

## References

EFSF and ESM financial assistance programmes are joint programmes conducted with the IMF whenever possible. The ESM Treaty assigns certain tasks to the European Commission and the European Central Bank. The institutions – previously called the Troika – operate jointly in the execution and monitoring of the programmes.

Other institutions have published different types of programme evaluations on the basis of their own mandates and rules. Key reports listed in Annex 2. provide further contextual material for this evaluation. Some evaluations, e.g. by the European Central Bank, have not been disclosed.

To draw upon rather than duplicate the work of the other evaluations, where appropriate, the reports will be (i) examined for evidence for evaluation questions, in particular, on the role of the ESM, and (ii) to identify additional specific questions of relevance to this evaluation.

12 See definition in Annex 1.

## Annex 1. Definitions for the purposes of these Terms of Reference

The following definitions provide broad guidance on the general evaluation terminology used in these Terms of Reference.

| Term | Definition |
|---|---|
| EC | European Commission |
| Effectiveness* | The extent to which the financial assistance programme's objectives were achieved, or are expected to be achieved, taking into account their relative importance. |
| Efficiency | A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted into results. (OECD-DAC definition (2002)) |
| EFSM | The European Financial Stabilisation Mechanism is a lending arrangement guaranteed by the budget of the European Union. |
| ESM BoD | ESM Board of Directors |
| ESM BoG | ESM Board of Governors |
| ESM partner institutions | Institutions directly involved in programme design and financing, as referenced in EFSF/ESM governing documents. |
| Evaluation reference group | An informal group of experienced evaluators, selected by the evaluation team in cooperation with the sponsor and the external advisors, representing primarily inter-governmental organisations. Their roles are advisory. |
| External advisers | Advisers contracted to contribute to quality assurance of the evaluation process and assist the evaluation team in the design and analysis phases. Their responsibilities are advisory. |
| External stakeholders | Institutions other than the key stakeholders that are affected, including academia and the general public |
| Finding | A finding uses evidence from one or more sources to allow for a factual statement. |
| Formative evaluation | An evaluation intended to improve performance by drawing lessons for the future. |
| IMF | International Monetary Fund |
| Impact* | Positive and negative, primary and secondary long-term effects produced by a financial assistance programme, directly or indirectly, intended or unintended. |
| Impact evaluation* | An impact evaluation quantifies the net change in outcomes that can be attributed to a specific project or programme, usually by the construction of a plausible counterfactual. |
| Intervention logic | Such logic explains how a programme or a policy is understood to contribute to a chain of results that produce the intended or actual outcomes or impacts. There are various ways, such as a flow chart or a results chain, to illustrate it. Also known as programme theory or causal model. |
| Key stakeholders | ESM Members and partner institutions |
| Lessons learned* | Generalisations based on evaluation experiences with financial assistance programmes and related policies that abstract from specific circumstances to broader situations. Frequently, lessons highlight strengths or weaknesses in preparation, design, and implementation that affect performance, outcome, and impact. |
| Mixed methods approach | Research approach using quantitative, qualitative, and blended approaches to information collection and analysis, widely accepted as a good-practice strategy for the evaluation of complex programmes. |
| Outcome evaluation* | Evaluation of the likely or achieved short-term and medium-term effects of a financial assistance programme's outputs. |
| Output* | The support and services which result from a financial assistance programme; this may also include resulting changes which are relevant to the achievement of outcomes. |
| Primary audience | The addressees of the evaluation report who include ESM Members, as represented in its governing bodies, and management of the ESM. |

| Term | Definition |
|---|---|
| Process evaluation* | An evaluation of the internal dynamics of implementing organisations, their policy instruments, their service delivery mechanisms, their management practices, and the linkages among these. It may further expand to cooperation with partner institutions and member states. |
| Purposive sampling | Non-probability sampling typically associated with qualitative research in which a relatively small number of persons, cases or other units of analysis are selected because they can provide particularly valuable information related to the research questions. Also known as judgemental, selective, or subjective sampling. |
| Relevance* | The extent to which the objectives of a development intervention are consistent with country needs, the institutional mandates, and partners' policies or, where relevant, global priorities. |
| Stakeholders | Key stakeholders and external stakeholders |

Sources: ESM, *Derived from OECD-DAC definition (2002)

## Annex 2. References

### Reference evaluations

IMF IEO (2016) The IMF and the Crises in Greece, Ireland, and Portugal—An Evaluation by the Independent Evaluation Office, EB/EVC/16/13, July 2016 (www.ieo-imf.org/ieo/pages/CompletedEvaluation267.aspx)

EC (2016) Evaluation of the Financial Sector Assistance Programme. Spain, 2012-2014, Institutional paper 019, European Commission, January 2016. (ec.europa.eu/economy_finance/publications/eeip/pdf/ip019_en.pdf)

EC (2015) Ex post evaluation of the economic adjustment programme, Ireland, 2010-2013, Institutional paper 004, European Commission, July 2015 (ec.europa.eu/dgs/economy_finance/evaluation/pdf/ex-post_ireland_en.pdf)

ECA (2015) Financial assistance provided to countries in difficulties, Special report no 18/2015, European Court of Auditors, January 2016 (www.eca.europa.eu/en/Pages/DocItem.aspx?did=35016)

IMF IEO (2014a) IMF leadership and coordination in the response to the Global Financial and Economic Crisis, IEO Background paper, BP/14/06, 8 October 2014 (www.ieo-imf.org/ieo/files/completedevaluations/BP1406%20-%20Bernes.pdf)

IMF IEO (2014b) IMF Macroeconomic policy advice in the financial crisis aftermath, IEO Background paper, BP/14/07, 8 October 2014 (www.ieo-imf.org/ieo/files/completedevaluations/BP1407%20-%20Dhar.pdf)

IMF IEO (2014c) Aspects of IMF financial sector surveillance during the crisis, IEO Background paper, BP/14/08, 8 October 2014 (www.ieo-imf.org/ieo/files/completedevaluations/BP1408%20-%20Levine2.pdf)

IMF IEO (2014d) Review of crisis management programs supported by IMF Stand-By Agreements, 2008-11, IEO Background paper, BP/14/12, 8 October 2014 (www.ieo-imf.org/ieo/files/completedevaluations/BP1412%20-%20Takagi%20and%20Others_crisis2.pdf)

IMF IEO (2013) The Role of the IMF as Trusted Advisor, Evaluation report, February 2013 (www.ieo-imf.org/ieo/files/completedevaluations/RITA_-_Main_Report.pdf)

IMF (2015) Crisis program review, 9 November 2015, (www.imf.org/external/np/pp/eng/2015/110915.pdf)

IMF - Ex post evaluations on exceptional access for programme countries (Greece, June 2013;[13] Latvia, January 2013;[14] Ireland, January 2015[15]), IMF country reports

13 www.imf.org/external/pubs/ft/scr/2013/cr13156.pdf.
14 www.imf.org/external/pubs/ft/scr/2013/cr1330.pdf.
15 www.imf.org/external/pubs/ft/scr/2015/cr1520.pdf.

### Other references

Independent Evaluation Group (2011) Writing Terms of Reference for an Evaluation: A how-to guide, World Bank, (siteresources.worldbank.org/EXTEVACAPDEV/Resources/ecd_writing_TORs.pdf)

OECD–DAC (2002) Glossary of Key Terms in Evaluation and Results Based Management, OECD Development Assistance Committee, Paris. (www.oecd.org/dac/evaluation/2754804.pdf)

UNEG (2010), Quality Checklist for Evaluation Terms of Reference and Inception Reports, United Nations Evaluation Group, (www.iom.int/jahia/webdav/site/myjahiasite/shared/shared/mainsite/about_iom/eva_techref/UNEG_TOR.pdf)

UNEG (2016) Norms and Standards for Evaluation, United Nations Evaluation Group, June 2016 (www.uneval.org/document/detail/1914)

# B. Methodology

## Introduction

This note summarises the ESM evaluation from the perspective of process and methodology.

It is a general practice among international institutions that policy interventions should be evaluable and evaluated. The ESM evaluation exercise aimed at improving future financial assistance activities by actively seeking feedback on lessons learned and by making the information public. The purpose of this methodology note is to conceptualise the evaluation exercise conducted by the ESM evaluation team. It contextualises the exercise, explains the types of data used to establish findings, and answers the evaluation questions. Moreover, it addresses the composition of the evaluation team and substantiates the credibility, transparency and impartiality of this evaluation exercise. Arrangements were made to ensure the exercise was as impartial and transparent as possible, as guided by the Terms of Reference.

This methodology note should be read in conjunction with the Terms of Reference and the note on the Intervention logic. The Terms of Reference lay out the mandate and the main objectives of the exercise. Conducting an evaluation in a reliable and credible fashion implies the use of a robust evaluation design that reduces the risk of irrelevant or invalid findings. The exercise encountered several data and document availability limits. Some relevant respondents could not be reached within the designated mission dates. As a matter of transparency, these limits will be addressed in the following.

The evaluation process was built on six phases, starting from planning, data collection and analysis, going through various iterations to inference and drafting the report. The draft was submitted for consultation at the ESM Board of Directors and to peer institutions. Following the feedback, the Independent Evaluator formulated final recommendations.

Chapter 1 of this Appendix covers the planning phase. Chapter 2 explains the overall strategy and Chapter 3 explains how the team proceeded to define the evaluation questions and conduct the analytical work. Chapter 4 concludes.

## 1. Organising the evaluation

### Roles and responsibilities

The evaluation project was conducted by a multitude of actors with different roles and responsibilities. These actors include the Independent Evaluator (Gertrude Tumpel-Gugerell), the ESM project sponsor, the ESM evaluation manager, the ESM evaluation team as well as external advisers (a former deputy director of the IMF Independent Evaluation Office and the director of the evaluation service of the European Investment Bank). The two external advisers were appointed to advise the team, ensure quality control and raise potential concerns about conflicts of interest. Moreover, the former IMF evaluator actively advised on the design of the background studies as well as transition from the background studies to the draft report. The EIB evaluator played a deeper role in the planning phase of the evaluation exercise. Additionally, two external consultants were integrated into the evaluation team to further support credibility and independence of the evaluation project. Finally, when editing the report, an external editor was made available for the production process.

The Independent Evaluator Ms Tumpel-Gugerell provided direction and performed specific tasks, such as reviewing the draft texts and leading work on the recommendations. The main tasks were defined in the Terms of Reference. Based on the findings, Ms Tumpel-Gugerell formulated a set of recommendations to the ESM Board of Governors to advance future ESM financial assistance. The report was published under her auspices on the ESM website.

The members of the multi-disciplinary team were selected on the basis of their expertise in a particular sector (ALM, banking, back office, legal, corporate governance, etc.). In order to minimise external concerns over potential conflicts of interests, each member of the evaluation team (including the external consultants) was asked to identify any conflict of interest regarding their participation. As a consequence, when an ESM member had been directly involved in a country programme (design or implementation), they did not participate in the interviews in that country. A certain flexibility was, however, allowed with regard to post-programme monitoring. This meant the composition of the ESM interview teams varied from one country to another.

## Planning phase

The Chairperson of the Board of Governors' Jeroen Dijsselbloem initiated the preparations for assessing the relevance, effectiveness and efficiency of EFSF and ESM financial assistance in safeguarding financial stability of the euro area and its Member States. In the pre-planning phase, ESM staff conducted preliminary examinations on evaluations and policy studies made by other institutions in order to propose a scope that would limit overlaps with the relevant existing evaluations and ensure value-added to the primary audience.

The Board of Directors twice discussed the scope of the exercise, and the Board of Governors approved its mandate at its Annual Meeting on 16 June 2016. The Independent Evaluator was formally appointed on 22 September 2016.

Following consultation with the Independent Evaluator, the Board of Governors approved the Terms of Reference (Appendix A) in a written procedure on 24 October 2016. The Terms of Reference is a key document in the EFSF/ESM Evaluation process as it advised how the evaluation should be conducted. It presented the objectives of the evaluation, the role and responsibilities of the actors involved, the timeline and the resources available. The Quality Checklist for Evaluation Terms of Reference and Inception Reports by United Nations Evaluation Group was used as a reference when developing the Terms of Reference for this exercise.

## The evaluation questions

Assessing the relevance, efficiency, effectiveness and collaboration relevant for EFSF/ESM financial assistance was the core objective of the report. The Terms of Reference assigned evaluation questions to four criteria (See Table 1) and the appropriate evaluation period (negotiation, execution, post-programme monitoring). Some evaluation questions concerned the entire programme period, others were directly linked to a particular period of the programme process.

## Table 1: Definition of the evaluation criteria

| Criterion | Definition |
|---|---|
| **Relevance** | The extent to which the objectives of a development intervention are consistent with country needs, the institutional mandates, and partners' policies or, where relevant, global priorities. |
| **Effectiveness** | The extent to which the financial assistance programme's objectives were achieved, or are expected to be achieved, taking into account their relative importance. |
| **Efficiency** | A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted into results. |
| **Collaboration** | The extent to which the objectives and process of collaboration, the methods of transparency for the membership base and the larger community functioned. |

Each evaluation question falls under an evaluation criterion. Three questions were not addressed. More information is given in section 1.1 of the evaluation report.

A theoretical intervention logic (Appendix C) for the EFSF/ESM was developed by the evaluation team to frame the analysis and guide the final definition of the interview strategy. This helped develop the topics and background questions for the semi-structured interviews that were conducted between October 2016 and January 2017.

The scope of the evaluation was limited by the instruction not to evaluate the following:

- The **political aspects of the Eurogroup negotiations** or certain aspects of programme design that are the specific responsibility of other institutions, such as **conditionality**, even if the ESM Treaty establishes a fundamental link between financial assistance and the compliance with conditionality.
- Individual **supervisory decisions;**
- The **Greek programme in its entirety**. To avoid compromising current activities under the third Greek programme, the evaluation team was asked to evaluate relevant aspects of the second Greek programme until end-December 2014, the initial expiry date of the programme. The entire second Greek programme could be evaluated together with third after completion of the latter in August 2018, as mentioned in the Terms of Reference.
- The role of the **partner institutions** was not evaluated per se, but they were taken into account when designing and scoping the evaluation as they feed into the organisational setup of the programmes. In particular the following were considered:
  - relevant policy discussions take place in the Eurogroup and Eurogroup Working Group closely matching the EFSF and ESM governing bodies;
  - programme conditionality is negotiated by the European Commission in liaison with the European Central Bank;
  - programmes were conducted as joint programmes with the IMF whenever possible; and
  - post-programme monitoring is done by the European Commission and the Early Warning System is conducted by the ESM in parallel.

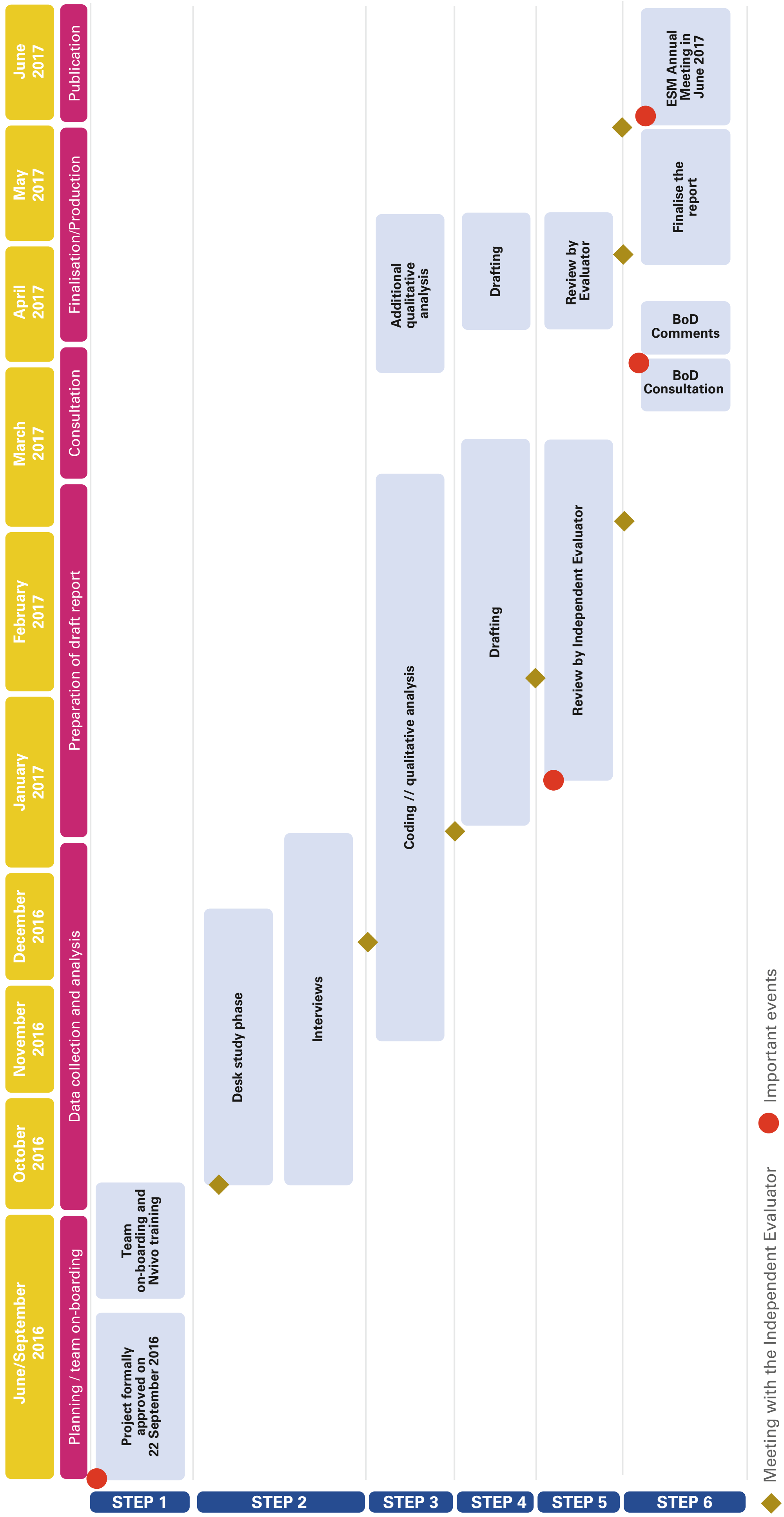
These issues, which lie outside the evaluation's formal scope, were addressed when they served as potential explanatory factors. As an example, the EFSF/ESM disbursement processes were analysed as a function of the conditionality setting process.

Both the Board of Directors and Board of Governors discussed the evaluation period. The agreed period covered the negotiations for each programme and ran through the post-programme period up to 30 June 2016. During the exercise, the Independent Evaluator decided to widen the evaluation to encompass the pre-negotiation period. Greece was nevertheless subject to the above limitation.

Because of the relatively recent completion of the programmes under evaluation, the exercise was not expected to prepare an impact evaluation quantifying the net change in outcome attributed to a specific project or programme, usually by the construction of a plausible counterfactual. For the same reason, certain evaluation questions such as the sustainability of programme benefits were not assessed.

Figure 1 illustrates the main steps of the evaluation.

Figure 1
Evaluation process




Source: ESM

## 2. Evaluation strategy

The Terms of Reference guided the team to adopt a mixed methods approach for this evaluation entailing the use of both qualitative (QUAL) and quantitative (QUANT) methods in various combinations. The purpose was to profit from the advantages of both quantitative and qualitative approaches and to overcome their drawbacks by mixing them. The objective of using mixed methods was to strengthen the reliability of the data and the validity of the observations and recommendations as well as to broaden and deepen the understanding of the processes leading to the programmes' results, including how the context surrounding the programmes' implementation affects these results. Another value of the strategy arises from its potential to strengthen the ability to explain when mixing happens at multiple stages of the evaluation process. (Woolcock, 2003; Creswell, 2006)

Cross-country analysis, instead of country-by-country analysis, was chosen because it was felt this would yield greater clarity in the resulting policy lessons. The secondary objective was to support transparency.

Given the broad scope of the Terms of Reference, the strategy built on several analytical strands and used triangulation to ensure reliability. Triangulation was used to obtain complementary data on the topics under study and strengthen the inference process. This took place at several levels of the exercise:

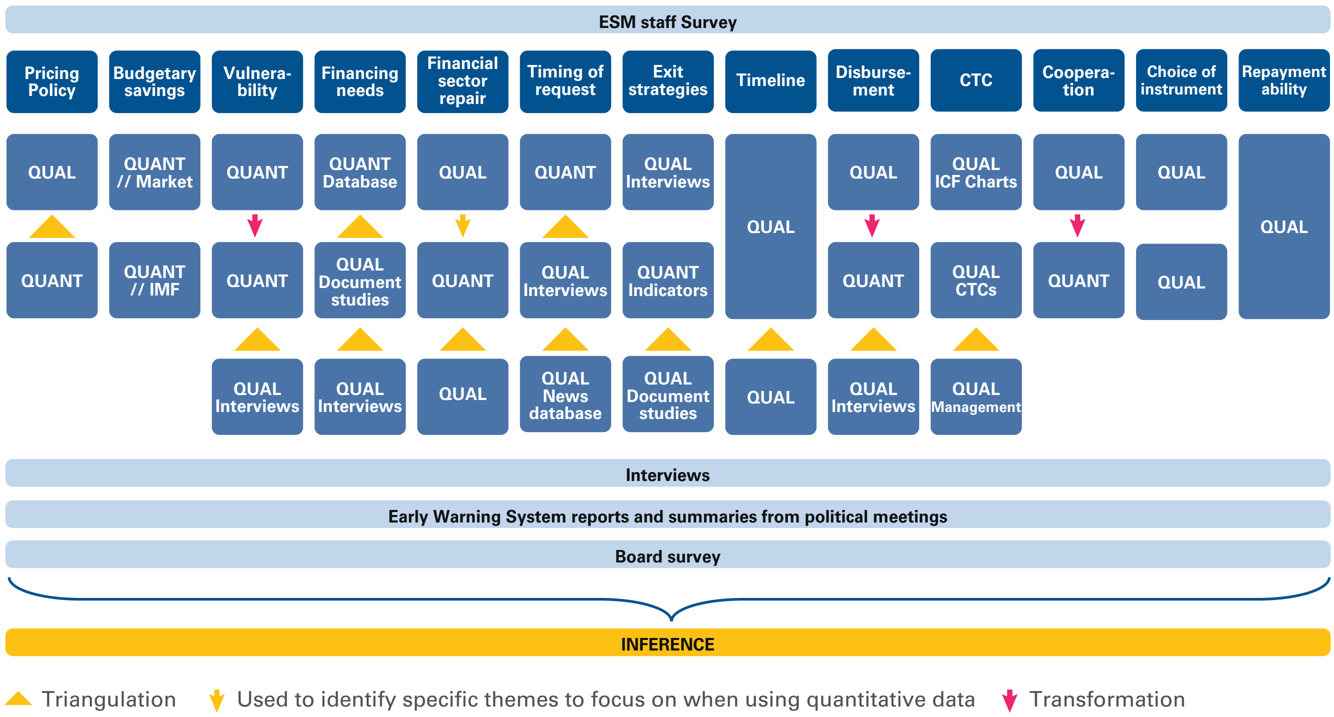
- **Data triangulation:** involving the collection and use of a variety of data sources (for example, macroeconomic forecasts and statistics, financial market data, ratings data, surveys, interviews, news databases, and programme and policy documents).
- **Methodological triangulation:** engaging in multiple methods to study a single problem (for example, interview responses verified against survey responses and document analysis; financing needs data and vulnerability analysis interpreted on the basis of interview findings);
- **Investigator triangulation** with several team members in a single study (for example in analysis of key events, pricing policy and terms of lending, timing of request and exit strategies). (Morse, 1991; Teddlie, Rashakkori, 2009)

In addition, data was in many cases collected, compiled and analysed by small teams separate from the team making inferences and drafting the report. Interview summaries or transcripts were always verified by a minimum of two persons from the relevant interview team. At least one of the two team leaders coded each interview.

The topology (Figure 2) varied between the analytical strands, which were largely run in parallel. In some cases, the qualitative phase preceded a quantitative study used to confirm findings. In other cases, quantitative analysis was enriched by qualitative information or by transforming quantitative data to qualitative (convergence model). The use of the convergence model, which represents the traditional model of a mixed methods triangulation design, consists of the separate collection and analysis of quantitative and qualitative data on the same phenomenon. Transforming one data type into another is accomplished by either quantifying qualitative findings or qualifying quantitative results (Cresswell, 1999; Tashakkori & Teddlie, 1998). This transformation allowed the data to be mixed during the analysis stage and facilitated the comparison, interrelation, and further analysis of the data sets. The results converged during the interpretation. This method is often used to validate, confirm or corroborate quantitative results with qualitative findings.

In a few cases the study involved two qualitative phases (e.g., interview results combined with document analysis).

Figure 2
## Topology of evaluation studies




Source: ESM

The exercise features both as an outcome and formative evaluation. As it aimed to take into account ESM procedural aspects in the overall institutional framework, it was characterised as an outcome evaluation. As such, the purpose was to evaluate the likely, or achieved, short-term and medium-term effects of a financial assistance programme's output. As a formative evaluation, it intended to support performance improvement by drawing lessons for the future.

Conclusions were drawn both at the level of individual desk studies and subsequently as part of the iterative drafting process between the evaluation team and the Independent Evaluator. Inference should be understood both as a process of drawing conclusions and the conclusions themselves. The complexity of the financial assistance activities and the study questions required a broad approach involving consideration of contextual factors, process and underlying meanings as part of the inference process.

Report drafting was structured around iterative reviews by the Independent Evaluator to ensure her full ownership. This helped eliminate alternative interpretations together with the consultations and team member checking.

The inference process culminated in the formulation of recommendations as called for by the Terms of Reference. The value of the recommendations can be assessed in relation to their relevance and usefulness to the policymakers over time. In this context, the Independent Evaluator and the team felt guided to discuss broad future avenues, for example, on the basis of the evaluation questions dealing with collaboration and on conditions necessary for most effective support to potential future programmes countries or in periods of heightened stress. Indeed a large majority of the interviewees spontaneously raised the topic of future role of the ESM.

## 3. Components of the evaluation

### 3.1 Collection of evaluation data

To answer the evaluation questions, the evaluation team needed to determine diverse types of evidence (quantitative and qualitative data) that were collected for each criterion. A plan was set-up to collect such evidence, coherent with a mixed methods approach.

#### Numerical studies and document studies

The findings of the evaluation report were based on diverse qualitative sources of data: an exploratory staff survey (containing 32 responses from members of senior management, country team coordinators and experts), a Board survey (to which 24 Board members responded) and 79 semi-structured expert interviews conducted between October 2016 and January 2017 (a total of 130 respondents from programme countries, partner institutions and ESM governing bodies). Various kinds of written documents were used as sources, keeping in mind that they may contain errors or omissions, like other forms of evidence.

Numerical studies focused mainly on the relevance of financial assistance, the efficiency of the disbursement process, the effectiveness of financial sector repair and planning for exit from the programmes. During the evaluability assessment, the evaluation team realised that the governance framework for European financial assistance was missing a public database, in line with IMF practice, which would disseminate harmonised data on the country programmes. The creation of such a database for the purposes of the evaluation team has been an important step for the analysis and collection of the findings. Also collection of the relevant disbursement data had to be organised from the ESM administrative systems. For financial market data, commercial data sources were used.

#### Sampling of interviewees and survey respondents

The driving sampling strategy was purposive, also known as selective sampling. It's a type of non-probability sampling, when cases are selected on a judgement basis. The phase can also be characterised as reputational sampling whose purpose is to extract information from individuals who have particular expertise.

The exploratory staff and management surveys were targeted at the members of internal country programme mailing lists and supplemented by some previously involved staff. The Board survey was addressed to all current ESM Directors with a request to invite also previous directors and governors to respond.

Box 1 describes the steps for the selection of the cases for interviews.

**Box 1: Selection of interviewees**

**Step 1:** ESM management and staff survey in September 2016 – request to highlight the most relevant persons for interviews in each programme country and partner institution;

**Step 2:** Verify against country teams in programme documents;

**Step 3:** Contact the target institution or finance ministry with a 'wish list' of interview requests that they were able to complement;

**Step 4:** The evaluation team arranged additional ad hoc interviews of reputable experts who were no longer working in the targeted institutions. The Independent Evaluator conducted separately several background discussions which informed her guidance and review.

All persons proposed by the authorities were interviewed. A small number of persons on the wish list were not available during the limited interview missions (2-3 days per country) despite efforts to keep daily schedules flexible and accommodative. In some cases, it was not possible to reach experts who had moved to the private sector or abroad. Given time limitations, it was decided to concentrate on public sector interlocutors.

Figure 3 and Figure 4 characterise the distribution of interviewees for this evaluation.

Figure 3
Number of interviews, by relevant programme

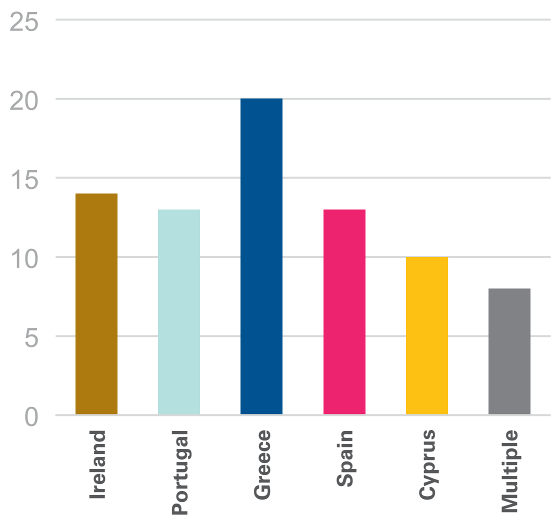
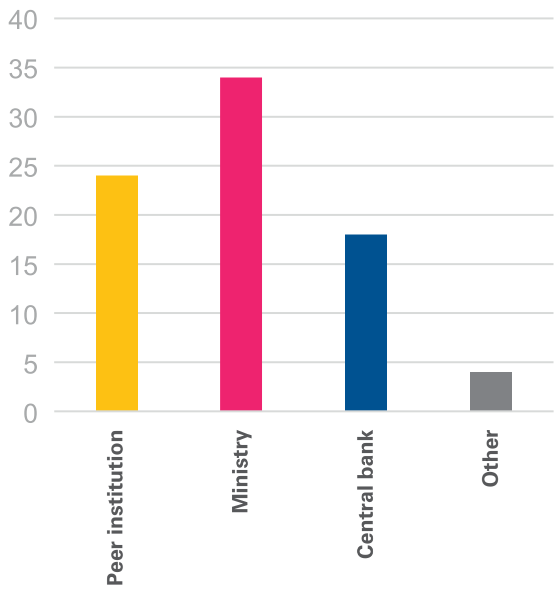



Figure 4
Number of interviews, by type of institution




Source: ESM

As a rule, the respondents received the Terms of Reference and a list of focal topics in order to prepare for the interview. Respondents were free to address the topics they thought were most relevant. This allowed them to reflect on their own priorities in the context of the assistance programmes.

The interviewers were briefed on pre-mission discussions and through a guidance note containing instructions on how to conduct the interviews. The evaluation team was guided by a set of more detailed questions that were not shared with the respondents. Effort was made to adapt these questions to each interviewee's profile. ESM Interview teams included 3-4 persons who took turns in leading the discussion and taking notes. They operated under two team leaders, which allowed for some overlap in the missions to save time.

Interview teams prepared summaries of each interview applying the four-eye principle (meaning approval was required by two people who were present). Where the team was allowed to record discussions, a verbatim transcript was produced with a similar verification principle. About 55% of all the interviews were recorded and transcribed, ranging from 10-100% depending on the country (and averaging 65% among national authorities).

Initially, the evaluation team planned to conduct focus groups after the interviews in order to scope the respondents' attitudes or reactions in a way which would not be feasible during the one-to-one interviews or questionnaire surveys. However, this was not possible in the timeframe. In most cases, the respondents chose to be accompanied by one or more colleagues, which may have led some of them to put emphasis on institutionally accepted views. Although the interviewee sometimes asked colleagues to complement his or her message, it was always clear who was the main respondent.

## 3.2 Desk studies

In the early stages, multiple desk studies were conducted by the ESM evaluation team with the support of other internal ESM employees. The desk studies had two key objectives: ensuring the reliability of evidence by triangulation, and helping team members familiarise themselves with key topics, which finally fed into the report.

These desk studies reflect the mixed methods approach of the evaluation exercise by their qualitative or quantitative aspects. The following tables describe the main features of the desk studies. Some of them encountered hurdles, including unhelpful processes, data collection issues, as well as factors or events not under the evaluation team's control. These hurdles were taken into account during the analysis and inference phases.

### Vulnerability analysis

A study on evolution of the sovereign vulnerabilities was chosen as the backbone of the background studies, in particular in relation to the relevance criteria. Appendix D presents technical background for the study.

## Timeline of the programmes and crisis resolution

| | |
|---|---|
| **Purpose**<br>To establish a collection of events relevant to the evaluation, together with their exact date, document reference, category, source type and key words, to allow fact checking for the draft report and to support other desk studies. | **Scope**<br>EFSF and ESM programme activities; and key external events. |
| **Type of data**<br>Quantitative: amounts disbursed, ratings<br>Qualitative: websites, newspapers, press releases, official documents | **Method(s) used**<br>QUAL-QUAL strategy. Drawn up from internal and external databases and sources. |
| **Sources**<br>Quantitative: ESM data, Rating agencies<br>Qualitative: national, European and international (IMF) websites programme documents, evaluation reports, press releases | **Problem/bias**<br>Some dates turned out to be incorrect but given that various sources were used, cross-comparison was possible. |
| **Additional comment**<br>The timeline partly relies on internal, non-published sources, in particular Board decisions and lending documentation. For a summary presentation see Appendix G. | |

## Timing of request

| | |
|---|---|
| **Purpose**<br>To study the pre-negotiation period to determine timeliness of country requests for financial assistance and review indicators that could signal increase in financing needs over a relevant period. | **Scope**<br>Programmes for Ireland, Portugal, Greece, Spain and Cyprus. |
| **Type of data**<br>Qualitative: Interviews, web search<br>Quantitative: Market and financial data; Issuance data | **Method(s) used**<br>QUANT-QUAL-QUAL strategy. For the quantitative phase we determined indicators that could have impact on the size of financing needs. The second step reviewed the evolution of the indicators over 12 months (matching normal surveillance period of economies) prior to the official request.<br>In the first qualitative phase, we drew on expert interview questions to identify potential alternative dates for commencement of programmes. In the second qualitative phase, we cross-checked the expert views with press reports. Relevant dates were superposed to charts and the evolution of the indicator compared with the actual date for request. |
| **Sources**<br>Quantitative: Bankscope, Bloomberg, Dealogic, ECB, European Commission, Haver, SNL. Issuance data in common with the study on exit strategies.<br>Qualitative: Interviews, FACTIVA new database, Google. | **Problem/bias**<br>Part of the data was of annual frequency while interviewees indicated months of relevance.<br>No control group was used to eliminate general trends.<br>This simplified analysis simulated no change in the trajectory of the indicators when assuming earlier request.<br>Informality of the request process. |
| **Evaluation question(s)**<br>Did the information provided in the negotiation phase ensure the efficient conduct of assistance? | |
| **Indicators**<br>Evolution of bond spread, capital, portfolio inflows and NPLs compared to time of request and expert views on earlier timing for potential need for assistance. Appendix E charts the relevant indicators by country. | |
| **Additional comment**<br>Analysis involved inputs from three investigators, each phase executed largely separately. | |

## Assessment of the choice of instrument

| **Purpose** | **Scope** |
|---|---|
| To support the analysis of effectiveness. Clarify pertinence of the financial assistance instrument requested and granted for the five programme countries. Scoping the roles played by various stakeholders in initiating negotiations. | EFSF/ESM programmes for Ireland, Portugal, Greece (second programme), Spain and Cyprus. |
| **Type of data** | **Method(s) used** |
| Qualitative and quantitative | QUAL-QUAL strategy. Following interviews, we studied available documents and the board survey to corroborate findings; and clarified the instrument criteria in Appendix F. |
| **Sources** | **Problem/bias** |
| Quantitative: Financing needs analysis<br>Qualitative: Official requests, interviews, EFSF/ESM legal texts; vulnerability analysis; evaluations and programme reviews by other institutions; Board survey. | All five evaluated programmes were requested under the EFSF, which does not have precise criteria for instrument selection other than contagion risk. This impacted the relevance of the question in the Terms of Reference "Did requests for financial assistance programmes and the assessment by institutions comply with the requirements of the ESM Treaty and Guidelines," and therefore it was not prioritised. |
| **Evaluation question(s)** | |
| Was the granted assistance instrument appropriate and the programme period adequate? | |
| **Indicators** | |
| Instrument indicated in the request for assistance<br>Arguments and circumstances surrounding the choice of instrument<br>Correspondence between the choice and the requirements for the particular financial assistance instrument | |
| **Additional comment** | |
| The study is linked to the study on timing of request. Appendix F summarises EFSF/ESM instruments. | |

## Sizing of the financial assistance (financing needs)

| **Purpose** | **Scope** |
|---|---|
| To examine how financing needs were derived and how they evolved over time. Examination whether programme contingencies, and the need for buffers, were adequately taken into account. | Financial assistance granted to Ireland, Portugal, Greece (second programme), Spain and Cyprus by the EFSF/ESM and other programme partners. |
| **Type of data** | **Method(s) used** |
| Quantitative data complemented by qualitative information from reports and interviews. | QUANT-QUAL-QUAL strategy. Comparative analysis: Comparison across programme countries and comparison between initial programme planning and programme outcome. |
| **Sources** | **Problem/bias** |
| Programme reviews and evaluation reports, mostly from the European Commission, complemented by sources from national authorities, central banks, and other institutions. Interviews with authorities in member countries and international partner institutions. | Country comparisons were hampered because data reporting was not fully harmonised data (e.g. reporting of financing needs including or excluding amortisation of short-term debt). In some cases lack of concluding programme reviews and publicly available end-programme data (e.g. data on "programme outcome" for Greece is based on the fourth review which contains estimations, particularly for the final programme year. |
| **Evaluation question(s)** | |
| How has the size of financial assistance been defined?<br>To what extent have contingency buffers been taken into account and communicated?<br>Has the assessment of the required size of financial assistance changed over time (evolution of financing needs, planned vs. actually disbursed amounts)?<br>Identification of common patterns across programme countries. | |
| **Indicators** | |
| Gross financing needs and its subcomponents.<br>Financing sources and its subcomponents.<br>Size of financial assistance granted by all creditors. | |

### Efficiency of the disbursement process

| **Purpose** | **Scope** |
|---|---|
| To assess the efficiency of the EFSF and ESM disbursement process. | Disbursements made under EFSF/ESM programmes for Ireland, Portugal, Greece (second programme), Spain and Cyprus. |
| **Type of data** | **Method(s) used** |
| Quantitative and qualitative data: qualitative data was transformed into quantitative data for analysis then cross-checked with qualitative data (interviews). | QUAL-QUANT-QUAL strategy. Comparison and manipulation of various dates extracted from the timeline database.<br><br>We measured the average number of days between the date a disbursement was requested (the so-called Request for Funds) and the date the payment was made. This measure proved to be flawed, since in some cases, one request for funds covered several tranches (EFSF) or instalments (ESM). In these cases, only the first of the series was taken into account, as the subsequent ones were dependent on the completion of additional action on the part of the programme country and therefore did not measure the efficiency of the EFSF/ESM.<br><br>This still left us with several outliers which we were able to explain with help from experts. These related to other dependencies such as state aid approval, and to the fact that Requests for Funds were sometimes sent long before Board approvals were obtained (pointing again to the fact that the measure was flawed; however, a more accurate measure could not be found). |
| **Sources** | **Problem/bias** |
| Quantitative: EFSF and ESM Board approvals; ALM & Lending database.<br><br>Qualitative: interviews | The disbursement process changed over time to increase flexibility; this complicated comparison over time. |

**Evaluation question(s)**

Were members treated even-handedly in light of the size of assistance relative to each country's financing needs, lending terms, or disbursement practices?

Was the financing planning and disbursement strategy conducive to effective programme implementation?

Have activities (e.g. fund raising and disbursements) taken place in a timely manner?

What measures were taken to ensure that resources were used efficiently?

Were the financing terms sufficiently flexible in view of uncertainty?

Did programmes target effectively the financing needs of a country and account for the specific requirements of bank recapitalisation?

**Indicators**

Frequency of disbursements

Number of days between the date on which a programme country sends a Request for Funds and the date the disbursement is made

Average ratings of programme countries

Cumulative share of total disbursed amount in %

## Evolution of EFSF/ESM's pricing policy

| **Purpose** | **Scope** |
|---|---|
| To assess appropriateness and even-handedness of the EFSF/ESM's pricing policy | EFSF/ESM programmes for Ireland, Portugal, Greece (second programme), Spain and Cyprus. |
| **Type of data** | **Method(s) used** |
| Quantitative, qualitative | QUAL-QUANT strategy. Comparative analysis |
| **Sources** | |
| Quantitative: Lending rates<br>Qualitative: Pricing policy, funding strategy, Board decisions | |
| **Evaluation question(s)** | |
| Were members treated even-handedly in light of the size of assistance relative to each country's financing needs, lending terms, or disbursement practices?<br>Were the financing terms sufficiently flexible in view of uncertainty?<br>How did borrowing costs and maturity structure support programme achievement and programme sustainability? | |
| **Indicators** | |
| Evolution of EFSF/ESM lending rates | |

## Budgetary savings from the EFSF/ESM's lending terms

| **Purpose** | **Scope** |
|---|---|
| To estimate the budgetary savings from EFSF/ESM's financial assistance. | EFSF/ESM programmes for Ireland, Portugal, Greece (second programme), Spain and Cyprus. |
| **Type of data** | **Method(s) used** |
| Quantitative | QUANT-QUANT strategy. Counterfactual and comparative analysis.<br>As far as EFSF/ESM financial assistance is concerned, the simplest way to estimate the savings achieved over the past years is to compare the effective interest rate payments on EFSF/ESM loans with the interest rate that these countries would have paid had they been able to cover their financing needs in the market in the absence of disruption. The proposed approach values every single disbursement in the past at the average market 10-year bond yield in a year. |
| **Sources** | **Problem/bias** |
| Quantitative: ESM lending rates, IMF lending rates, market rates<br>Qualitative: ESM and IMF pricing policies | Calculation of budgetary savings from EFSF/ESM's lending terms is only a rough approximation to illustrate order of magnitude as alternative financing scenarios (market or IMF financing) are only hypothetical. |
| **Evaluation question(s)** | |
| Were members treated even-handedly in light of the size of assistance relative to each country's financing needs, lending terms, or disbursement practices?<br>How did borrowing costs and maturity structure support programme achievement and programme sustainability? | |
| **Indicators** | |
| Comparison between the budgetary savings from EFSF/ESM financing and the hypothetical alternatives in which the additional gross financing needs would be met by market borrowing or from the IMF | |

## Financial sector repair

| Purpose | Scope |
|---|---|
| To summarise and analyse the EFSF/ESM participation in the financial sector parts of the concluded economic adjustment programmes. The study recalls the different ways of designing the financial sector programmes throughout the crisis. It also looks at the success of the programs in light of the objectives of financial sector stabilisation and efficiency. The purpose of the desk study is to form a background for the Independent Evaluator and the interviews with stakeholders. | The study focuses on repair of the financial sector in all programme countries, irrespective of the type of instrument used (i.e. loan to the sovereign or indirect recapitalisation). It discusses the vulnerabilities built up in the pre-crisis period, the way they were addressed during the programme and the remaining issues that still have to be addressed. The assessment has been performed from the perspective of the ESM's primary goal, i.e. to maintain financial stability in the euro area. |
| **Type of data** | **Method(s) used** |
| Both quantitative and qualitative. The time horizon covers the period of 2007 Q4 – 2016 Q3. | QUAL-QUANT-QUAL strategy. The approach comprises a comparative analysis of specific themes across programme countries based on qualitative and quantitative information. Themes included bank solvency, liquidity, asset quality and governance. Quantitative data are used in a standardised format in order to filter out the differences in levels. Qualitative information was used to highlight specific themes for focus. |
| **Sources** | **Problem/bias** |
| Quantitative data were used for the comparative analysis. The main sources of data collected are financial databases such as SNL and BankScope as well as documentation such as programme reports. Qualitative data includes ESM staff level discussions with programme participants via the internal survey and review of internal and external documents and studies. | Conclusions have been drawn from the sole perspective of whether financial stability was restored or maintained. As such, they do not take into account other considerations, such as maximizing the value of public investments etc. Furthermore, the quantitative databases cover only the systemically important banks, therefore it provides a comprehensive, but not full picture of the entire banking sectors. Difficulties were identified during cross programme comparison due to timing and crisis driver differences. |

**Evaluation question(s)**

Have activities (e.g. fund raising and disbursements) taken place in a timely manner?

Were resources adequate?

Were the EFSF/ESM financial assistance activities consistent with the prime objective?

Did programmes target effectively the financing needs of a country and account for the specific requirements of bank recapitalisation?

**Indicators**

Level/intensity of drivers that led to the need for financial sector repair

Evolution of private sector deposits, change in CET1 capital, change in net NPLs, change in the leverage ratios,change in banks' gross non-performing loans and change in banks' operating profitability before and after the initiation of the programme

Comparison between the initial planned envelopes vs. actual funding needs in the financial sector

Percentage of public and private sector involvement in bank recapitalisation

Time lag between the disbursement of financial assistance and the approval of state aid restructuring plans

## Exit strategies

| Purpose | Scope |
|---|---|
| To study the circumstances surrounding the exit from programmes and how programme countries prepared for them; what strategies, including possible follow-up arrangements, were discussed with the institutions? Which criteria affected the choices made? Finally, to review the role of technical assistance for the exit preparations. | Clarifying the process for defining exit strategies for the five programme countries. Searching evidence on the timing and key contents of the strategies as well as the roles played by various stakeholders in initiating the process of definition. |
| **Type of data** | **Method(s) used** |
| Qualitative and quantitative | QUAL-QUANT-QUAL strategy. Following interviews, indicators for the quality of market access were identified (issuance activity and secondary market conditions). Finally, document analysis and the Board survey was used to corroborate views collected from the interviews. |
| **Sources** | **Problem/bias** |
| Quantitative: Market data for indicators of market access (Bloomberg, Dealogic), Debt management offices.<br><br>Qualitative: Interviews, programme reviews and evaluations, annual reports of DMOs, Board survey. | Issuance patterns of non-programme countries were not compared with those of the five programme countries. Diverse definitions of cash buffers in documents complicated the analysis.<br><br>It was not possible to assess the role of the programme reviews for exit as was initially hoped. |
| **Evaluation question(s)** | |
| What were the major factors affecting successful implementation?<br><br>Does the lending framework set out an appropriate creditor position, including on proportionality and the ability to monitor and assert rights?<br><br>How has the need for possible follow-up arrangements been assessed? | |
| **Indicators** | |
| Date of discussions on exit strategies, follow-up arrangements<br><br>Maturity structure prior to and following extensions<br><br>Volume and maturity of new issuances and bid-ask spreads | |
| **Additional comment** | |
| The analysis approached issuance activity around programme start and exit simultaneously, contributing also to the timing of request analysis. Analysis involved inputs from three investigators working largely separately. | |

## Monitoring and enforcement of repayment ability

| Purpose | Scope |
|---|---|
| To assess the adequacy of the ESM's capacity to monitor and enforce repayment by programme countries. | ESM legal framework. |
| **Type of data** | **Method(s) used** |
| Qualitative | An assessment of the legal instruments available under the ESM Treaty, guidelines and loan documentation as well as of the Early Warning System; relevant EU law; Board surveys, staff surveys and interviews with programme country representatives and partner institutions. |
| **Sources** | |
| Qualitative: legal and official documents. | |
| **Evaluation question(s)** | |
| Does the lending framework set out an appropriate creditor position, including on proportionality and the ability to monitor and assert rights? | |
| **Indicators** | |
| Confidence in capacity to monitor<br><br>Confidence in capacity to control | |

## Internal processes and role of country team coordinators (CTCs)

| **Purpose** | **Scope** |
|---|---|
| To describe and assess the internal process for ESM programme-related policy input, review and coordination of country teams' work, as a measure of ESM efficiency. | The desk study summarises key findings regarding the internal process for programme-related policy input and review based on a review of the existing written guidelines, an internal survey, and interviews with Country Team Coordinators and ESM Management Board Members. |
| **Type of data** | **Method(s) used** |
| Qualitative – Interviews, internal surveys and document review | QUAL-QUAL strategy. Mainly empirical analysis: Examination of written guidance and semi-structured interviews with current Country Team Coordinators and select Members of the Management Board. Review of the internal survey and the intervention logic. |
| **Sources** | **Problem/bias** |
| Qualitative: Interviews with Country Team Coordinators and ESM Management Board Members | Only the current ESM staff and management members were interviewed. |
| **Evaluation question(s)** | |
| What measures were taken to ensure that resources were used efficiently? | |
| **Indicators** | |
| Adequacy of existing guidance for policy work by country team coordinators | |
| **Additional comment** | |
| The existing internal process for policy input and review with regard to the work of CTCs was found broadly appropriate and in line with the ESM size and current mandate. | |

## Cooperation

| **Purpose** | **Scope** |
|---|---|
| To assess the evolution of the EFSF/ESM's involvement in programme work and engagement of with the national authorities. | EFSF/ESM programmes for Ireland, Portugal, Greece (second programme), Spain and Cyprus. |
| **Type of data** | **Methods used** |
| Qualitative – interview summaries and transcripts | QUAL-QUANT transformation strategy.<br>Nvivo experimental analysis tool extracted respondents' sentiment based on a standard linguistic examination of text (interview summaries and verbatim transcripts of the interviews) specifically coded for a number programme related cooperation themes. Then automatic filters were applied, looking at the sentiment of words in isolation regardless of context. The filters categorised text by "very negative", "moderately negative", "moderately positive" and "very positive". The percentages were calculated based on the number of words without assigning specific weights and aggregated by programme country. |
| **Sources** | **Problem/bias** |
| Qualitative - ESM evaluation interviews | The analysis does not differentiate between quality and intensity of engagement. A specific analysis on EFSF/ESM cooperation with national authorities was retained for the report as it supported a broader perception from the interviews with the national authorities.<br>The sentiment autocoding tool of the Nvivo software package is an experimental tool. For more information, please see: http://help-nv11.qsrinternational.com/desktop/concepts/How_auto_coding_sentiment_works.htm |
| **Evaluation questions** | |
| What was the nature of relationships with the relevant local, European and international authorities and bodies, and what could be improved? | |

## 3.3 Analysis strategy for interviews and surveys

### Coding and analysis of interviews

The Terms of Reference prescribed full interlocutor confidentiality, which was closely preserved in reporting. Summaries and transcripts of the interviews were uploaded to a common secure database accessible only to team members and coded for specific themes. Coding corresponds to cataloguing or indexing of data in a hierarchical thematic structure.

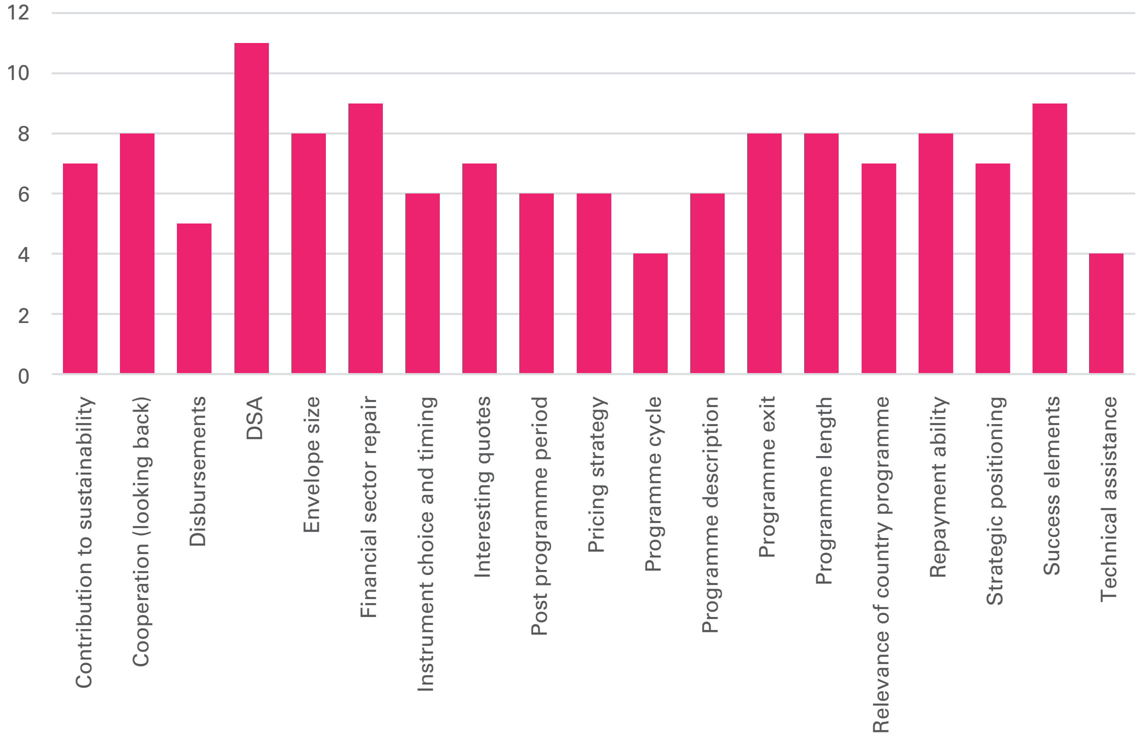
In order to analyse the interviews and surveys, the evaluation team used a recognised qualitative data analysis software (Nvivo 11 Plus for teams) that "allows researchers to organize and analyse a wide variety of data, including but not limited to documents, images, audio, video, questionnaires and web/social media content"[1]. The software enabled simultaneous access to sources and tools by team members.

Coding was advised by two training sessions. Initially coding was experimental with some coordination for the themes relevant for the evaluation questions. A structured scheme (parent and child nodes) was developed gradually, while allowing investigators to create personal nodes when the existing structure was not adequate to express some key messages from the interviews.

Coding took place as a team exercise, to enable efficient use of limited time and limit personal bias in interpretation. Figure 5 shows how many investigators coded for each top level node.

1 Edhlund, B., Mcdougall, A. (2016).

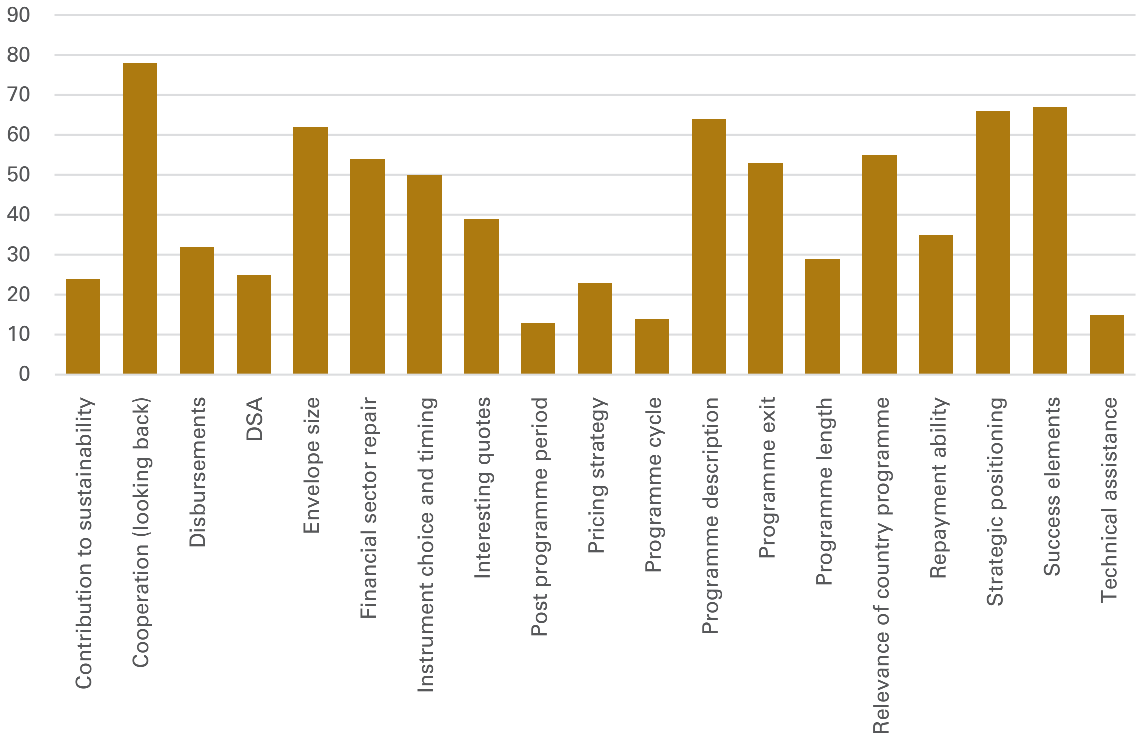
Figure 5
## Number of users coding




Note: DSA stands for Debt Sustainability Analysis.
Source: ESM

Following an initial set of interviews, the coding scheme was enriched but the coders were also allowed to create additional nodes in personal folders as they found relevant topics. One of the two interview team leaders coded each interview.

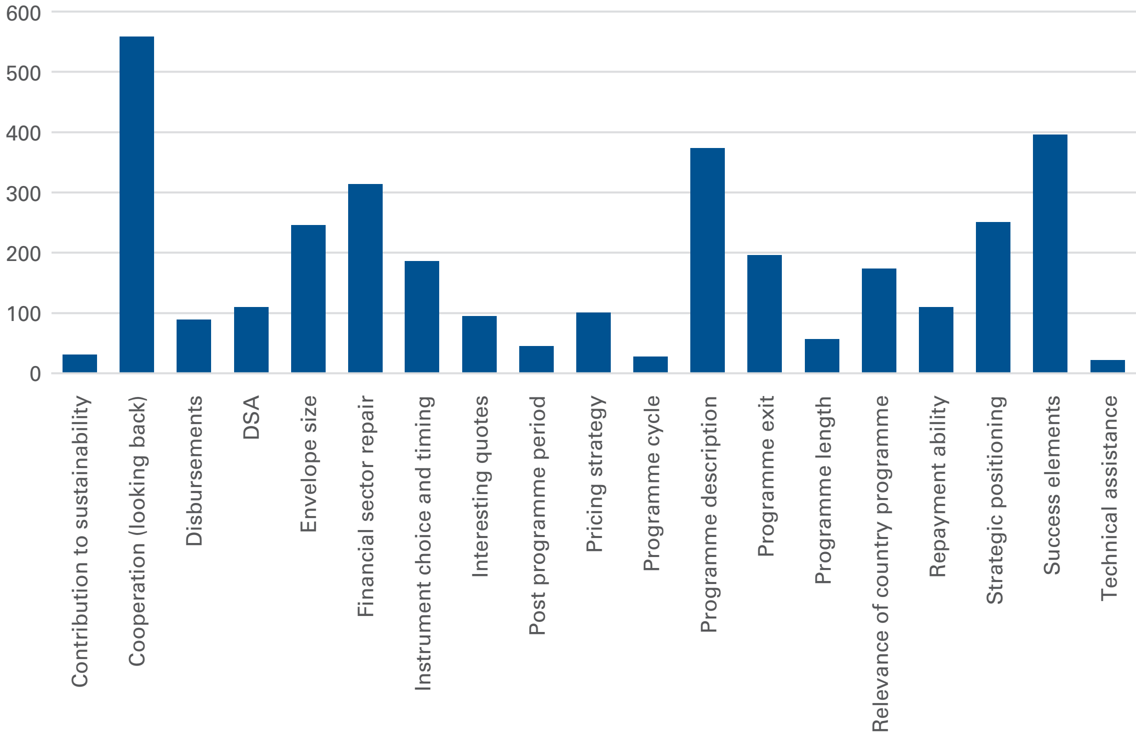
Figure 6
## Number of sources coded




Source: ESM

Once all but a small number of interviews were analysed, the core team assessed the personal nodes and consolidated the number of nodes as appropriate. The remaining personal nodes were kept in a separate folder. This coding exercise can be characterised as vertical: each source was entirely coded. Figure 6 shows the number of sources coded for each top level node.

Figure 7
Number of coding references




Source: ESM

Additionally, horizontal coding took place: all the sources were coded at a time for one node which was considered as one of the main themes. A number of investigators received a task to code all the sources for his/her theme. Figure 7 shows the number of coding references for each top level node.

The analytical software incorporates an audit trail. It also provided two experimental features: autocoding and sentiment analysis. These were used as support tools, while taking into account their mechanistic nature. Autocoding helped identify key words and concepts from the material. Autocoding for sentiment was used to analyse cooperation-related views based on interviews. These results were discussed against the interviewers' perceptions in the drafting process. One chart was used in the report.

The report drafting was conducted by a smaller core team to reduce coordination challenges. When drafting the report, the team used topic-specific nodes to access interview material, board survey results, and a variety of programme documentation. This allowed for a documented cross-sectional view on the material. Evaluators queried the database to a varying degree for further cross-evidence. Some academic literature was used to corroborate findings.

**Treatment of surveys**

As it has been underlined above, the evaluation team conducted a Board survey based on open-ended questions which was an add-on to the initial design to ensure relevance. This survey introduced non-programme country directors' views and was analysed in a similar manner to the interviews. The responses were uploaded to the database, coded and analysed as part of the thematic inquiry of the interview material. In addition, the responses were summarised question by question in a specific note.

An exploratory ESM management and staff survey was conducted prior to the installation of the analytical tool. It comprised both closed and open ended questions. It was summarised by two team members and the results were used as guidance to refine the general approach and definition of operational evaluation questions.

## 4. Conclusion

The Terms of Reference set the mandate and the main objectives of the evaluation exercise. This note summarised the evaluation process and methodology, with the aim of showing that the Terms of Reference have been adhered to.

The Independent Evaluator took position on each of the evaluation questions addressed. She furthermore led the work on recommendations. An external advisor and consultants oversaw the technical process with comments and guidance. The distinctiveness of the EFSF/ESM activities required a team composed of various experts from the ESM. A mixed method approach using quantitative and qualitative data analyses was necessary to address the evaluation questions. Many findings are also broadly aligned with findings of other relevant evaluations.

The team faced some time and evaluability challenges, but overall the mixed methods approach and a large sample of respondents provided a sufficiently broad pool of evidence to conclude the exercise with confidence about its relevance and credibility. The conclusions and recommendations are transferable to similar situations. The findings are directly relevant considerations for potential future euro area programmes. Although most other regional financing arrangements beyond the euro area do not operate in a fixed exchange rate environment, they would likely face similar challenges due to multiple stakeholders and cooperation requirements.

Finally, this exercise identified the need for future evaluations, namely of the Early Warning System and the EFSF/ESM programmes for Greece. In the ESM Board consultation future work was also advised to take account of the social impacts of EFSF/ESM type of adjustment programmes.

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# C. Intervention logic

The framework described in this note shows how EFSF/ESM resources and activities are understood by the evaluation team to be combined to deliver the results (outputs and outcomes) in the ESM institutional setting, and how this process may be affected by various external factors.

## Purpose of intervention logic

Intervention logic is a tool used in the conceptual phase of the evaluations, which in this case took place in the autumn of 2016. The tool helps specify how and why the activities evaluated produce results. Evaluation needs a contextual framework that enables critical thinking while clarifying the process reviewed, its objectives and the underlying assumptions. While it simplifies the operation and the key relationships, it should reflect the complexity of the real world object of evaluation in a useful way.

The process of developing the intervention logic helped maintain a consistent evaluation process, particularly as a relatively large team was involved. It facilitated building a shared understanding of the scope and objectives and supported onboarding of the team established for the exercise.

The purpose of developing the intervention logic was also to show how EFSF/ESM activities contributed to the overall European and global crisis resolution and economic governance activities. Attribution is not straight forward, given the joint-nature of the country programmes and the complexity of the economic and financial policy framework in the euro area.

The core concepts introduced are explained in Box 1.

**Box 1: Core concepts**

*Inputs*: all the resources that contribute to the production and delivery of outputs. These resources are "what we use to do the work". They include financing, personnel, equipment, etc.

*Activities*: the processes or actions that use a range of inputs to produce the desired outputs and ultimately outcomes. Basically, activities describe "what we do".

*Outputs*: the final products, or goods and services produced for delivery. Outputs may be defined as "what we produce or deliver".

*Outcomes*: results in the medium-term for specific beneficiaries that are the consequence of achieving specific outputs. Intended outcomes are "what we want to achieve", but there may also be unintended outcomes. Medium-term could be understood as three-to-five or more years.

*Impacts*: the results of achieving specific outcomes, such as maintaining the financial stability or the integrity of the euro area, which emerge over a lengthy period of time – generally considered to extend over a decade – after the conclusion of a financial assistance programme.

The main tool adopted by the team was the Kellogg model for intervention logic.[1] In addition, the evaluation office of the European Investment Bank supported the team by challenging the initial versions. The team also consulted ESM management.

It is recognised that there is a number of schools of thought on the use of the conceptual frameworks such as the intervention logic and results chains, and that these can be developed to varying extents. The ESM team considered that the visual presentations developed in brainstorming and group discussions help communicate key elements of the object.

### High-level dimensioning

**As European crisis resolution mechanisms, the EFSF/ESM are deeply embedded in the institutional framework of European and national decision-making processes for financial assistance.** Programmes are discussed at the political level in the Eurogroup and the Eurogroup Working Group. For the EFSF, these two bodies also represent the same countries that formally adopt financial assistance programmes and decide upon disbursements. For the ESM, the relevant decisions are formally taken by the ESM Board of Governors and Board of Directors. Decisions in the EFSF/ESM governing bodies require appropriate authorisation at the national level, which often involve national parliaments. Figure 1 illustrates the high level framework.

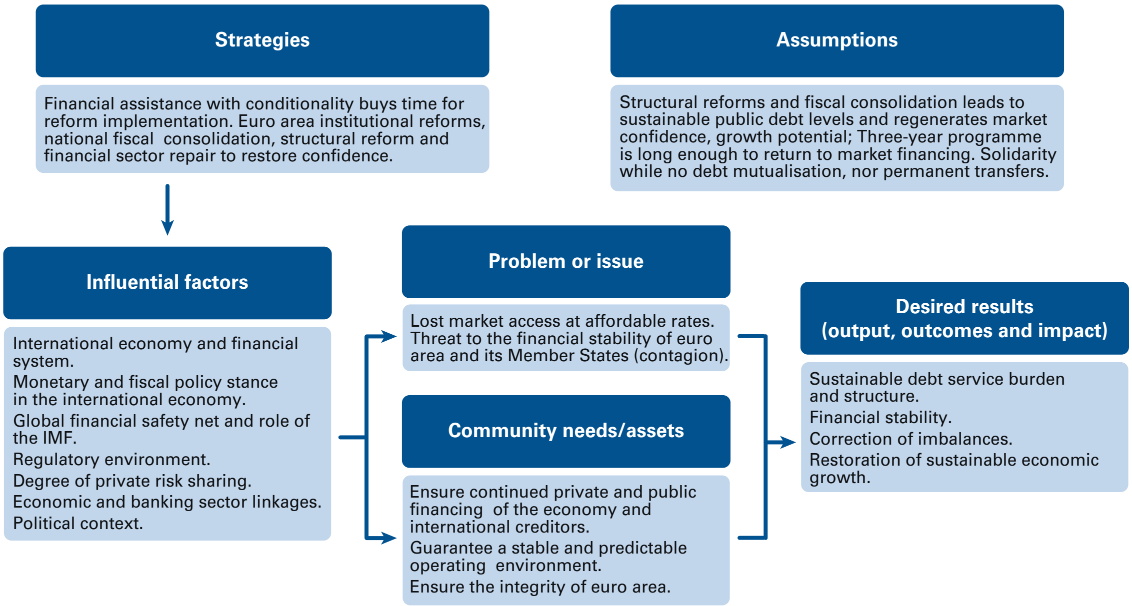
**The role of the EFSF/ESM in designing and implementing programmes has evolved over time.** The initial role of the EFSF as a pure provider of financing has been significantly broadened. With the creation of the ESM, responsibilities for different programme elements were allocated as follows: The ESM is in charge of the overall programme governance and the design of financial assistance. The negotiation of policy conditionality is attributed in the ESM Treaty to the European Commission in liaison with the ECB. In addition, the IMF is involved in programme conditionality and financing whenever possible. There is nevertheless no obligation for the decision-making bodies to follow the IMF's policies. The EFSF and ESM cooperate closely with authorities in beneficiary Member States or other relevant European institutions, such as the Single Supervisory Mechanism, during the programme design, implementation and post-programme phases.

**The EFSF/ESM strategy to provide financial assistance is guided by their mandates and takes into account international and national factors.** These mandates are to provide financial assistance to Member States to safeguard the financial stability of the euro area and its Member States. The EFSF and ESM provide liquidity support to a country while it is undergoing reforms to address the weaknesses that led to the loss of market access at affordable rates.

**The EFSF/ESM strategy in addressing a country's weaknesses and safeguarding financial stability operates against the backdrop of either an adverse or supportive international economy.** It complements other initiatives taking place at European and national level to address a crisis situation, in particular the role of monetary policy in stabilising the euro area. The support is geared towards the domestic factors that caused a programme country's economic and financial vulnerability. In the European crises, problems often emerged in the banking system.

1 W.K. Kellogg Foundation: Logic Model Development Guide, January 2004.

Figure 1
## High level intervention logic of EFSF/ESM programmes




Source: ESM staff application of Kellogg model

It is important to understand the role of the underlying assumptions (Figure 1) shaping the evaluation. These are aspects of the operating environment that are taken for granted.

In this model, the existence of influential factors which are out of EFSF/ESM control implies that there can be unintended consequences.

Having agreed on a high-level intervention logic, the team considered more specifically the processes delivering outcomes with different timeframes.

### Operational logic

**The EFSF/ESM strategy in providing financial assistance follows an intervention logic comprising three key elements**:

- First, a number of inputs (some of which are external) allow the ESM to constitute a firewall for the euro area to safeguard financial stability;
- Second, each individual financial programme involves various activities that the ESM develops in line with its mandate;
- Finally, the combination of these inputs and activities leads the ESM to deliver outputs, to achieve outcomes, and to contribute to a (positive) impact on the sustainability and economic integrity of supported member states and the euro area as a whole.

This chain of elements can be called the intervention logic of the ESM in providing financial assistance. Articulating the different elements of the intervention logic allows us to conceptualise or capture the ESM financial assistance strategy and further develop a results chain.

As is shown in Figure 2, the strategy consists of planned inputs and activities that are expected to lead to expected outputs. The strategy is geared towards achieving the desired policy outcomes in the short (one-to-three years) and medium term, which in turn are expected to achieve the desired long-term impact(s) of the programme.

Inputs that the ESM can use in its strategy consist of:

1. financial resources (paid-in and callable capital; sovereign guarantees for the EFSF),
2. human resources (expertise) and management systems,
3. governance framework,
4. collaboration with partner institutions, and
5. political context.

ESM activities include:

1. designing and negotiating financial assistance,
2. mobilising funding and managing liquidity,
3. executing lending transactions,
4. monitoring repayment capacity, and
5. providing technical assistance to programme countries.

Concrete outputs of the ESM strategy can include:

1. financing proposals, MoUs, financial assistance agreements,
2. ESM market financing (bonds, bills, credit lines),
3. disbursements (bonds and cash) under lending programmes,
4. EWS reporting, and
5. advice and reports to Members to support repayment capacity.

In addition, the European Commission's activity of reviewing compliance with policy conditionality (resulting in compliance reports) forms a framework that supports EFSF and ESM programmes and the desired outcomes.

As for the outcomes, we can consider in the short term:

1. using programme financing to close financing gaps,
2. correcting fiscal and structural policies,
3. stabilising the banking sector,
4. stabilising depositors' confidence, and
5. reducing contagion to the euro area member states.

And, in the medium term:

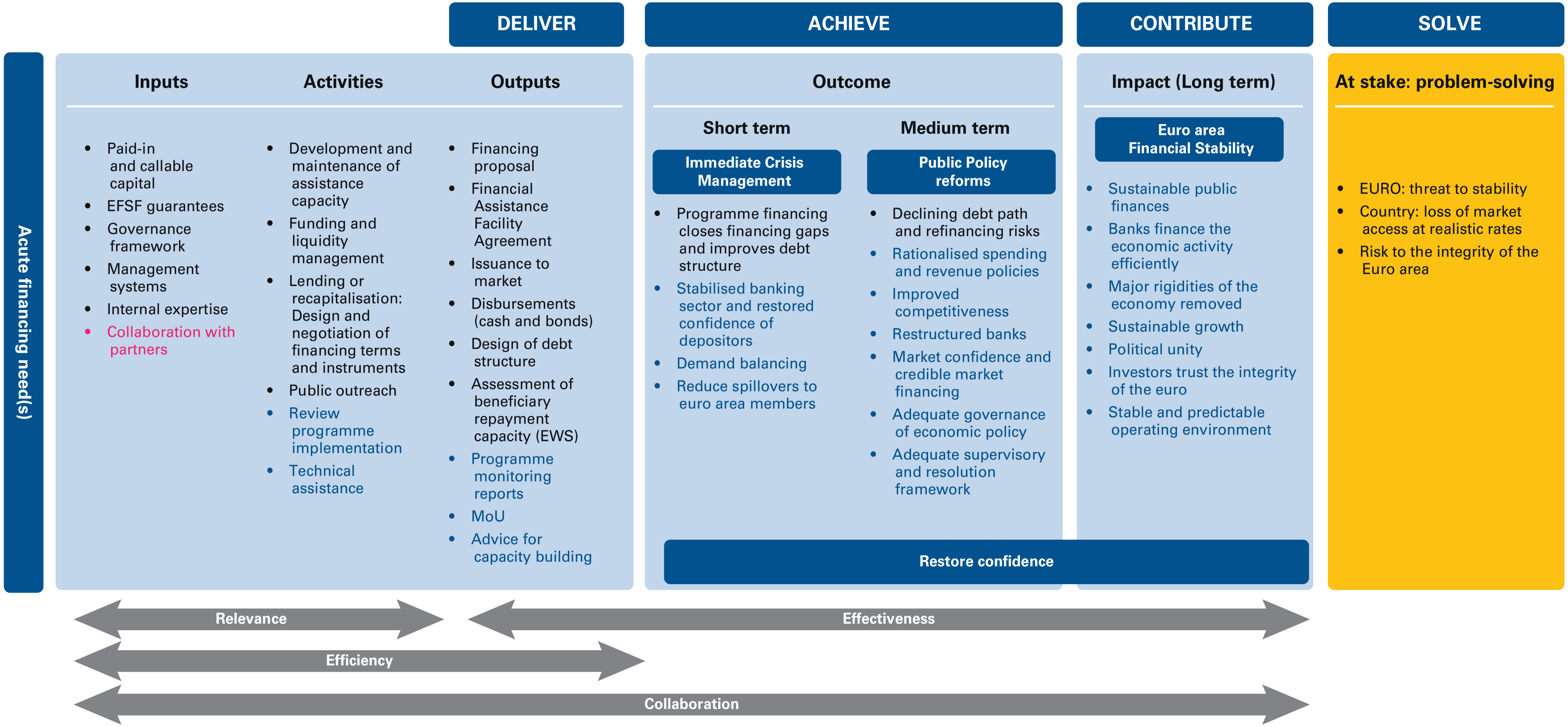
1. economic rebalancing (fiscal, external),
2. public and private deleveraging,
3. improved competitiveness,
4. restored confidence, regained market access,
5. adequate governance of economic policy, and a
6. sound banking system, adequate supervisory and resolution frameworks.[2]

Regarding the potential impacts, considered in the long term, they relate to:

1. sustainable growth and job market,
2. financial stability,
3. sustainable public finances,[3] and the
4. integrity of the euro area.

2 Including recapitalisation, asset quality, and business plans.
3 Including robust expenditure controls, sound revenue policies, and contained contingent liabilities.

Figure 2
Operational intervention logic in the financial assistance programme context




* Shared responsibility / participation
*External input

Source: ESM staff application of Kellogg model

**The ESM strategy in providing financial assistance is designed to lead to defined outcomes. The final programme impact is a result of this combined with the activity of other partner institutions and programme implementation by member state authorities.** This presupposes that the underlying programme assumptions were correct, that the impact of influential factors was assessed correctly, and that these factors did not change. If any of the external factors changes, this will affect the expected impact and the ESM will need to revise its strategy to mitigate and adjust for this so that expected outcomes are still achieved. In the broader programme context, this should happen in coordination with other institutions, the authorities, and in line with the political decision-making process.

**The desired outcomes and impact of EFSF/ESM programmes derive directly from its mandate of safeguarding financial stability.** The outputs from operational activities include:

- Safe investment of the paid-in capital and a robust procedure to call additional capital, if needed, from the member states. This financial backing supports a high credit rating and therefore a capacity to raise funds from the capital market. A robust guarantee structure similarly supports the EFSF's capacity to mobilise funding at affordable rates.

- Expertise enables the EFSF/ESM to design financial assistance based on operational instruments and a lending framework endowed by the governance framework. These are formalised in a financing proposal and financing terms embodied in a financial assistance agreement. A Memorandum of Understanding on policy conditionality, negotiated by the European Commission, sets a path for agreed reforms that materialise as outcomes of the programme.

- The two institutions' lending framework and liquidity management enable timely disbursements to address the immediate financing needs and smoothening of a beneficiary Member's debt structure.

The combination of the above outputs allows the programme country to close its financing gap, as well as design and execute strategies that increase confidence in banks. In essence, the financial assistance buys time for the programme country to implement necessary reforms and therefore smoothens the adjustment need.

**In the short term**, desirable outcomes centre on crisis management issues, for example filling the financing gap and starting the gradual correction of fiscal and structural policies. In many cases, the financing strategy also aims to stabilise the banking sector by allowing the programme country to ensure that viable banks can receive the required capital support and thus stem potential deposit outflows.

**The medium-term outcomes** focus on putting different elements of public policy in the concerned programme country back on a sustainable track. This can reflect, for example, reforming the fiscal framework to generate surpluses and increase competitiveness, which help put debt on a downward trajectory, and containing contingent liabilities from the financial sector. To achieve the latter, market confidence needs to improve, for example, by shoring up supervision and resolution frameworks, which gradually reduces the contingent liabilities of the government.

Monitoring a programme country’s repayment capacity takes place in congruence with the European Commission’s post-programme surveillance. The ESM’s Early Warning System monitors the reduction in the programme country’s refinancing risks and is maintained when a programme country has outstanding liabilities towards either the EFSF or ESM. In addition, technical assistance by the ESM or the partner institutions may include advice that supports administrative capacity and reforms that ultimately improve the programme country’s repayment capacity.

**In the longer term**, the main impact of EFSF/ESM programmes and the programme partners' activities will be to put the economy as a whole back on a sustainable path, building up buffers and securing long-term stability. This includes removing rigidities that could hinder the economy from adapting to change and could thus lead to a renewed build-up of imbalances.

# D. Vulnerability analysis

The vulnerability analysis employs the comprehensive scorecard for assessing sovereign vulnerabilities developed by Lennkh et al. (2017). It is based on (i) a wide set of indicators categorised along six dimensions, (ii) a scoring system based on thresholds provided by the literature where available or determined by the percentiles from the historical distribution of a pool of OECD and non-OECD EU countries, (iii) an aggregation scheme, underpinned by correlation and principal component analysis (PCA) and (iv) a system of traffic lights.

Sovereign vulnerability is assessed across the following **six dimensions**: (i) government borrowing needs, conditions and debt structure; (ii) economic strength; (iii) fiscal position; (iv) financial sector and other contingent liabilities; (v) institutional parameters, and (vi) private leverage, credit and real estate. Each dimension includes a set of indicators. The selection of the indicators is based on the related literature, while taking into account results of the correlation and principal component analysis.

For each indicator, we define three time-invariant **thresholds** that allow per country and point in time to assign a 1 to 4 score. Where available, the thresholds for the scoring of the indicators were taken from the existing literature. When this was not possible, the thresholds were set in line with quartiles of the historical distribution of OECD and EU countries in 2002-2016. The quartiles can be interpreted as follows: If a country is among the 25% of best-performers, it is assigned the score 4 (most resilient); countries in the second quartile are assigned the score 3; third quartile 2; and bottom quartile 1 (most vulnerable).

The **aggregate scores** are calculated as a weighted average of the scores of individual indicators (Table 1). The weights are based on correlation analysis, PCA, literature, and expert judgement. First, based on correlation analysis, we assign higher weight to indicators which are more strongly correlated to proxies of financial or economic stress, such as future GDP growth rates, rating actions or changes in government bond spreads. Second, based on the PCA, we identify groups of indicators which follow similar trends and are thus deemed to explain the same underlying vulnerability. We then lower the weights of individual indicators in these groups to avoid overrepresentation of vulnerabilities captured by more individual indicators.

To improve visualisation, the quantitative assessment is complemented with a system of **traffic lights**. Given the uncertainty surrounding the calculations as well as limitations of any one-size-fits-all approach, the analysis should not be interpreted as an exact numerical exercise. Therefore, a country can be classified into one of four broad vulnerability categories: low vulnerability (green, overall score ≥3), moderate vulnerability (yellow, 2.5-3.0), elevated vulnerability (orange, 2.0-2.5) and high vulnerability (red <2). The three cut-off values are set in a way that they broadly correspond to the following average ratings of the sovereigns assigned by Fitch, Moody's and S&P over the 2007-16 time period: the ESM's General Eligible Asset List (AA-), the ECB's Credit Quality Steps 1&2 (A-), and the agencies' investment-grade status (BBB-). We assume that the ratings were on average accurate, albeit sometimes with a delay. The cut-off values of the traffic lights are nevertheless somewhat more conservative. One can argue that a country has to outperform the average score in the respective rating range to qualify for the corresponding vulnerability category.

## Table 1: Overview of the approach and the aggregation scheme

| Dimension | Weight | Indicator | Weight |
|---|---|---|---|
| **Borrowing needs, conditions and debt structure** | 25% | Gross financing needs (% of GDP) | 20.0% |
| | | Change in gross financing needs (p.p.) | 10.0% |
| | | 10-year bond yield spreads to Germany (p.p.) | 15.0% |
| | | 10-year bond yield volatility (std) | 15.0% |
| | | Credit rating and outlook (avg Moody's, S&P and Fitch) | 0.0% |
| | | Share of short-term debt (%) | 15.0% |
| | | Change in share of short-term debt (p.p.) | 10.0% |
| | | Share of debt held by non-residents | 0.0% |
| | | Share of foreign currency-denominated debt (%) | 15.0% |
| **Economic strength** | 20% | Potential GDP growth (%) | 15.0% |
| | | Real GDP growth (%) | 10.0% |
| | | Volatility of real GDP growth (std) | 10.0% |
| | | GDP per capita (PPS thousands) | 15.0% |
| | | WEF Competitiveness Index | 10.0% |
| | | Inflation volatility (std) | 5.0% |
| | | Current + capital account balance (% of GDP) | 15.0% |
| | | Unit labour cost (%) | 15.0% |
| | | Unemployment rate (%) | 5.0% |
| **Fiscal position** | 15% | Government debt-to-GDP ratio (%) | 10.0% |
| | | Government debt-to-government revenue ratio (%) | 10.0% |
| | | Change in government debt-to-GDP ratio (p.p.) | 10.0% |
| | | Net debt (% of GDP) | 10.0% |
| | | Interest-growth differential (p.p.) | 10.0% |
| | | Primary balance (% of GDP) | 15.0% |
| | | Structural balance (% of pot. GDP) | 15.0% |
| | | Longest period of positive primary balance (years) | 10.0% |
| | | Highest average structural balance over 8 years (% of GDP) | 10.0% |
| **Financial sector and other contingent liabilities** | 10% | ESM's Bank Viability Index | 33.3% |
| | | Increase in ageing costs (% of GDP) | 16.7% |
| | | Stock of government guarantees (% of GDP) | 16.7% |
| | | Net international investment position (% of GDP) | 33.3% |
| **Institutional parameters** | 15% | WB Governance Effectiveness | 15.0% |
| | | WB Regulatory Quality | 15.0% |
| | | WB Rule of Law | 15.0% |
| | | WB Doing Business Rank | 25.0% |
| | | Commission's fiscal rule index | 15.0% |
| | | OECD EPL | 0.0% |
| | | OECD PMR | 0.0% |
| | | TI Corruption perception index | 15.0% |
| **Private leverage, credit and real estate** | 15% | Non-financial corporations' debt (% of GDP) | 20.0% |
| | | Household debt (% of GDP) | 20.0% |
| | | Credit growth (%) | 15.0% |
| | | Credit flow to non-financial sector (% of GDP) | 15.0% |
| | | House price growth - nominal compensation growth (p.p.) | 30.0% |

Note: The ESM's Bank Viability Index assesses the fundamental strength of euro area banks and thus captures the potential risk posed by its banking sector for the respective sovereign.

## Case study: Vulnerabilities prior to and after the EFSF/ESM programme intervention

This study shows the development of sovereign vulnerabilities for the five programme countries for the period before and since the inception of the programme. Due to annual data, and in the case of Cyprus the delay in negotiations, the first year of the intervention differs in some cases from the year of the request (Table 2).

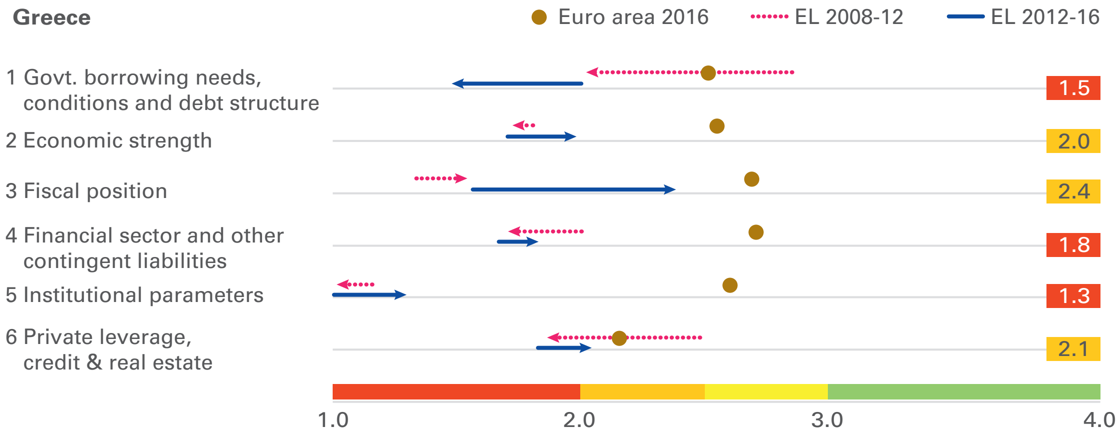
Table 2: Dates of request for EFSF/ESM financial assistance

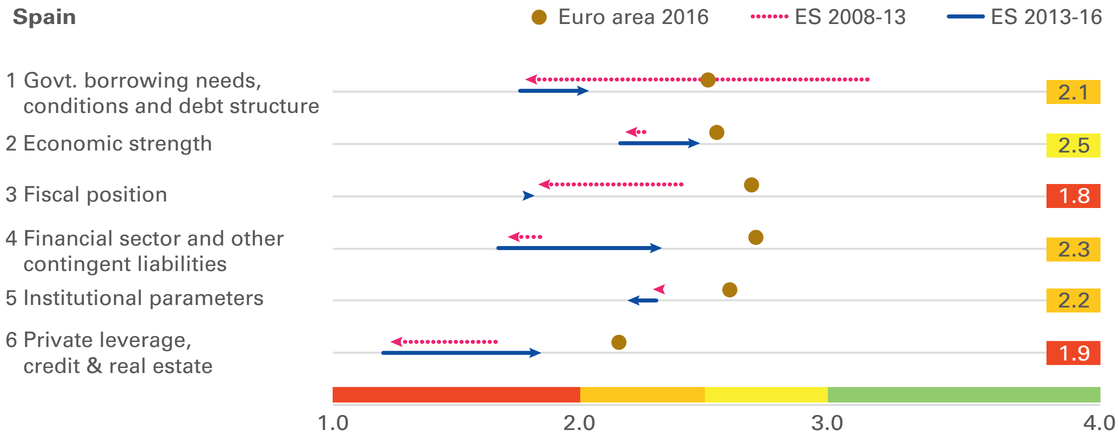
| Country | Programme request | Year of intervention (analytical purposes) |
|---|---|---|
| Ireland | December 2010 | 2011 |
| Portugal | May 2011 | 2011 |
| Greece (2nd program) | February 2012 | 2012 |
| Cyprus | June 2012 | 2013 |
| Spain | June 2012 | 2013 |

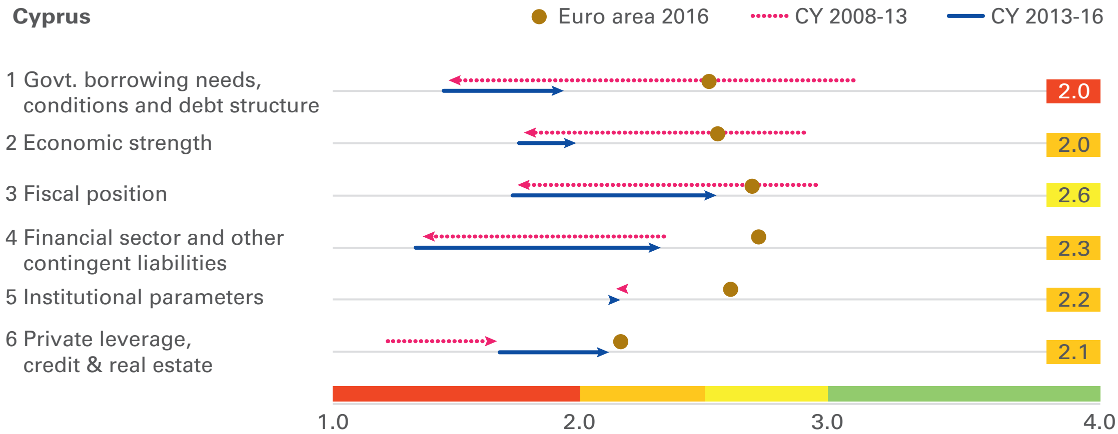
As can be observed in the charts below, the developments in terms of vulnerability before the EFSF/ESM intervention were unfavourable in all the five countries according to most vulnerability dimensions, and improved following the programme intervention. The two exceptions in the post-intervention period are the borrowing conditions for Greece, driven mostly by the increasing share of short-term debt, which were not offset by a decline in government bond yields, and Spain's slightly weakened institutional parameters as measured by the World Bank.

Figure 1
Evolution of Vulnerabilities

Figure 1 (continued)
## Evolution of Vulnerabilities



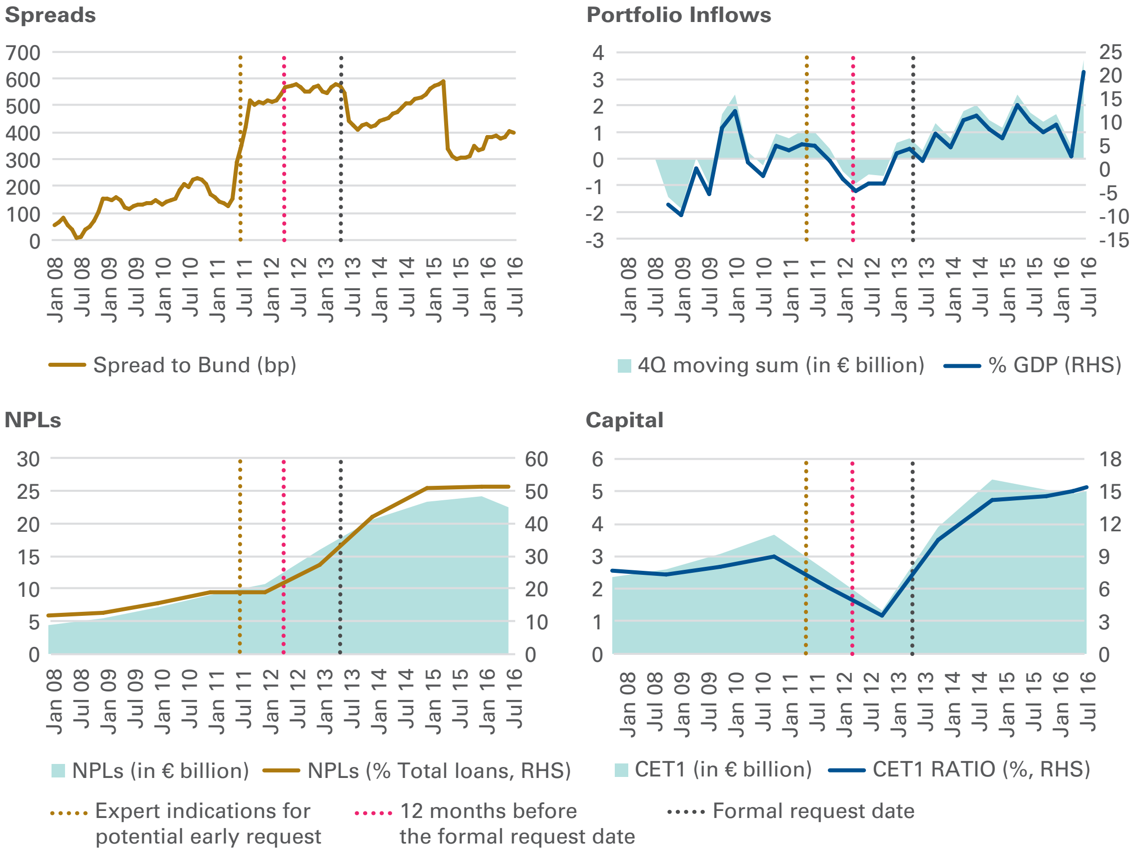



# E. Timing of request

Figure 1

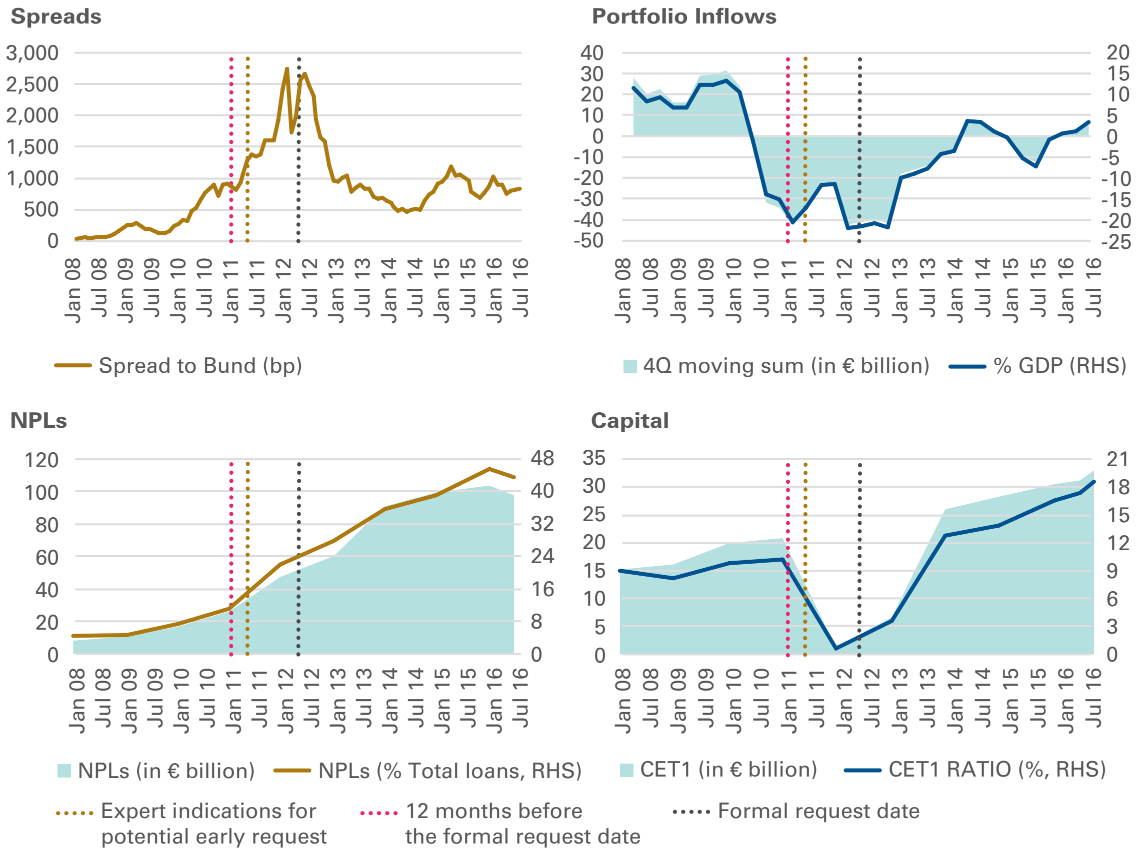
CY: Programme approved 8 May 2013




Sources: Haver, ECB, European Commission, SNL, Bankscope

Figure 2

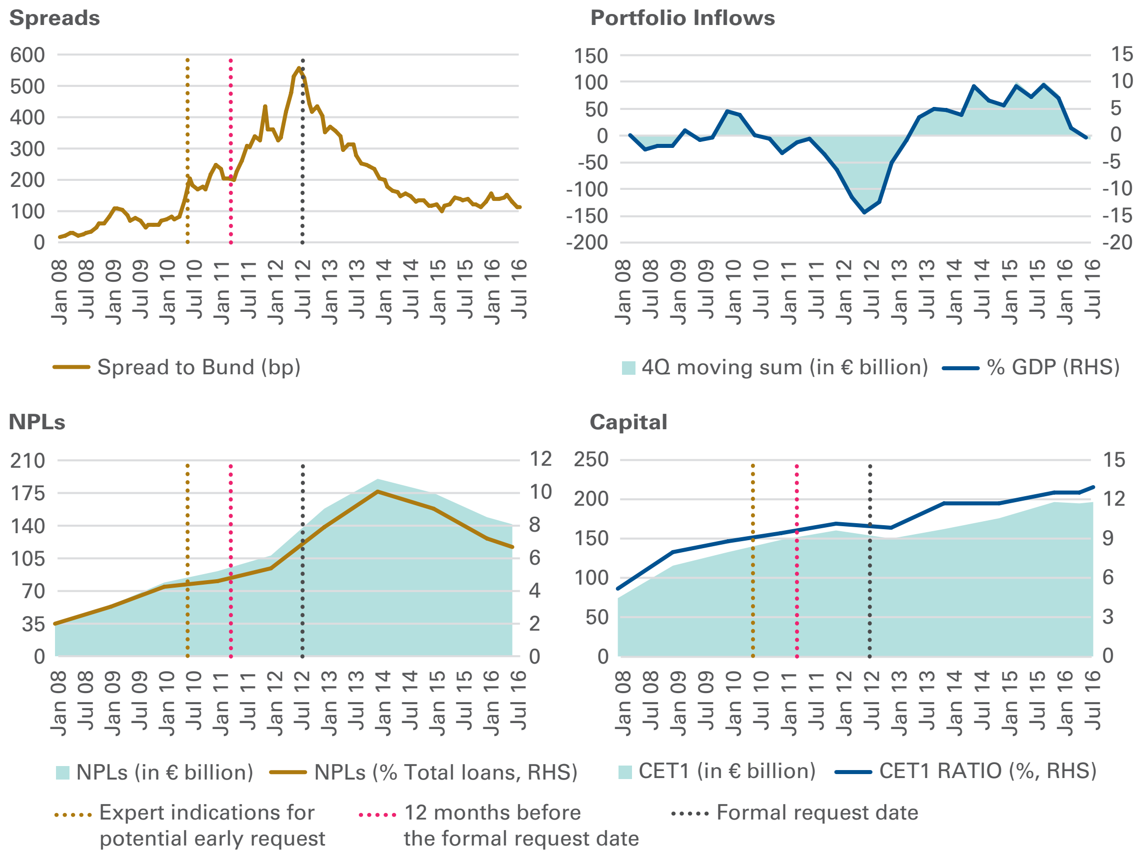
## EL: Programme approved 15 March 2012




Sources: Haver, ECB, European Commission, SNL, Bankscope

Figure 3

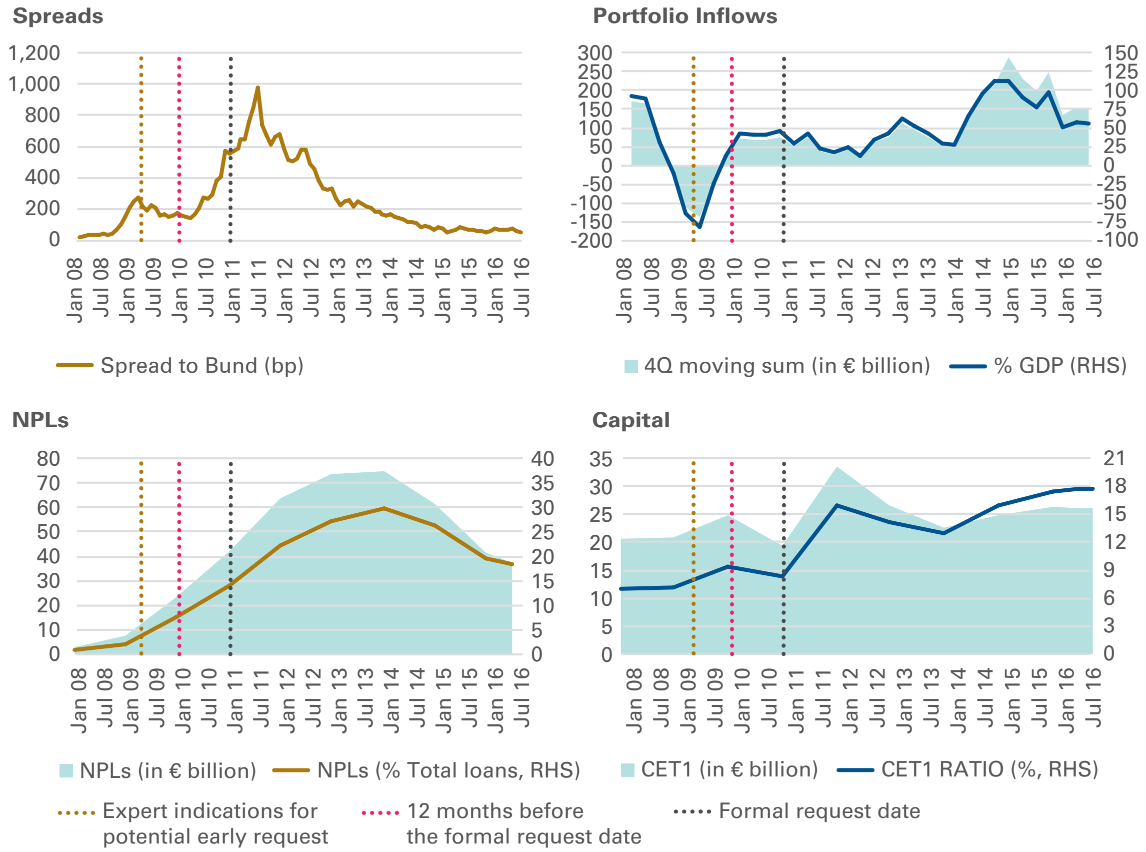
## ES: Programme approved 24 July 2012




Sources: Haver, ECB, European Commission, SNL, Bankscope

## Figure 4

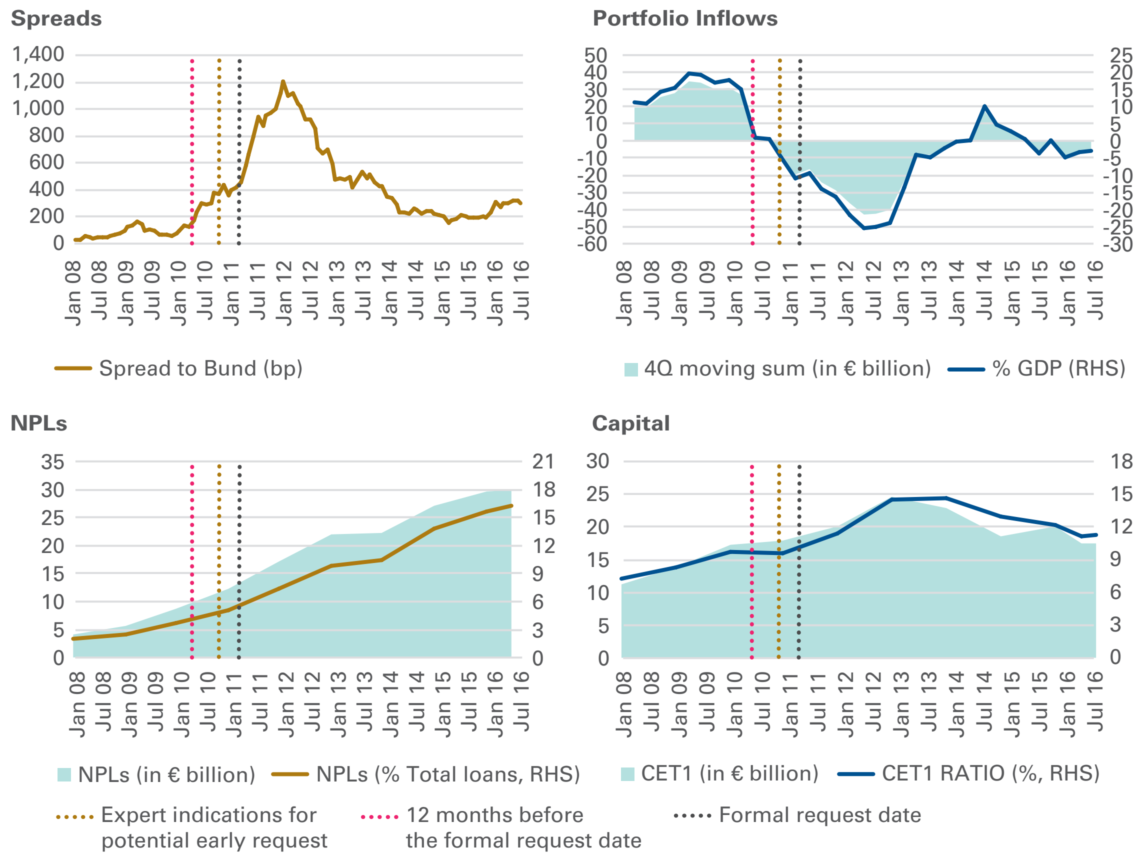
### IE: Programme approved 22 December 2010




Sources: Haver, ECB, European Commission, SNL, Bankscope

## Figure 5

### PT: Programme approved 27 May 2011




Sources: Haver, ECB, European Commission, SNL, Bankscope

# F. Choice of instrument

| Instrument | Objective | EFSF main eligibility criteria | ESM main eligibility criteria | Used by |
|---|---|---|---|---|
| Loan facility | Assist a member that has significant financing needs and has largely lost market access or has access to financing at rates that would endanger the sustainability of public finances. | Difficulties caused by exceptional circumstances risking the financial stability of the euro area as a whole and of its member states. Macroeconomic adjustment programme under appropriate conditionality. | Macroeconomic adjustment programme carrying conditionality that reflects the severity of weaknesses. Assessment of financing needs, debt sustainability and existence of risks to financial stability of the euro area as a whole or its member states. | Ireland (2010), Portugal (2011), Greece (2012), Cyprus (2013) |
| Recapitalisation of financial institutions (loan) | Help resolving financial distress originating primarily in the financial sector, and not directly in fiscal or structural policies. Participate in the public recapitalisation of systemically relevant financial institutions to ensure long-term viability and resilience, having demonstrated the unavailability of privately financed solutions. | Restructuring or resolution of financial institutions with institution specific conditions including respect for state aid requirements, and horizontal conditionality including reforms in supervisory, corporate governance and domestic laws. | The ESM member should demonstrate an inability to meet capital shortfalls via private sector solutions and recapitalise the institutions without adverse effects for its own financial stability and fiscal sustainability. Ability to reimburse the loan. | Spain (2012) |
| Precautionary programme | A crisis prevention tool to support members by guaranteeing future access to financial assistance to prevent difficulties in raising funds in the capital markets when this appears a likely scenario. It comes in two versions depending on the soundness of the member's policies and fundamentals. | Respect of commitments under the Stability and Growth Pact and Excessive Imbalances Procedure;<br><br>Sustainable public debt and external position; Absence of major critical bank solvency problems; track record of market access.<br><br>Country subject to enhanced surveillance. | Same as under the EFSF but specifying sustainable general government debt<br><br>Country subject to enhanced surveillance. | Not used |
| Market support instruments | EFSF could use these instruments as a complement to a regular facility, maximising the efficient use of funds: (1) To purchase bonds in primary market auctions to support market access and reduce the risk of a failed auction. (2) To intervene in the secondary market to support its functioning and price formation in exceptional circumstances or to create some liquidity. Available under exceptional financial market disturbance and risks to financial stability, e.g. when unusually volatile or unidirectional movements, as judged by the ECB. | Respect of commitments under Stability and Growth Pact and Excessive Imbalances Procedure;<br><br>Sustainable public debt and external position; Absence of major critical bank solvency problems; track record of market access. | For primary market support: compliance with policy conditionality under a loan facility or precautionary facility.<br><br>For secondary market support: same conditionality as under the EFSF. | Not used |
| Direct recapitalisation of financial institutions<br><br>(For ESM since December 2014) | The aim of this last resort instrument is to preserve financial stability in the euro area as a whole or its member states by assisting in specific cases of acute bank failure endangering fiscal sustainability due to contagion.<br><br>Assistance can be provided to the credit institution for the benefit of the ESM member within or outside a macroeconomic programme. | N/A | A systemically relevant institution supervised by the ECB or is likely to be in breach of capital requirements and the relevant ESM member is unable to provide assistance without very adverse effects on its financing.<br><br>Regulatory burden-sharing arrangements are insufficient to address the capital shortfall. Institution- or sector-specific or macroeconomic conditionality and respect of state aid provisions required. | Not used |

# G. Crisis timeline

## EFSF/ESM focused crisis timeline

| | SELECTED GENERAL AND PROGRAMME EVENTS |
|---|---|
| Sep 2008 | Lehman Brothers declared bankrupt.<br>Ireland unveils a two-year blanket guarantee to safeguard the deposits and debts at six financial institutions. |
| Jan 2009 | Standard & Poor's (S&P) downgrades Greek, Portuguese, Spanish sovereign debt. |
| Mar 2009 | Anglo-Irish bank is nationalised, public capital injection to two Irish banks.<br>Ireland loses AAA sovereign credit rating. |
| Apr 2009 | Irish emergency budget. |
| Oct 2009 | Greek government announces fiscal deficit estimate at 12.5% of GDP. |
| Dec 2009 | Moody's downgrades Greece to A1. Fitch downgrades Greece to BBB+. |
| Jan 2010 | Greek government approves Stability and Growth Plan. |
| Feb 2010 | Spain announces annual GDP reduction of 3.6% for 2009. |
| Mar 2010 | First EU leaders' emergency summit on Greece.<br>Irish NAMA acquires assets from banks at 47% average discount, increasing banks' losses. |
| Apr 2010 | Eurostat announces Greek fiscal deficit for 2009 as 13.6% of GDP.<br>US President Barack Obama expresses concerns about Greece.<br>Moody's downgrades Greece to A3. Fitch downgrades Greece to BBB-.<br>S&P downgrades Greece to BB+ and Portugal to A-.<br>Greece requests financial support. |
| May 2010 | ECB announces Securities Market Programme.<br>Ministers agree on bilateral loans to Greece (GLF).<br>S&P downgrades Greece from BB+ to B+.<br>Fitch downgrades Spain from AAA to AA+. |
| Jun 2010 | Ministers establish EFSF and agree on the Articles of Association and the Framework Agreement.<br>EFSF BoD approves Framework Agreement.<br>Moody's downgrades Greece from A3 to Ba1. |
| Jul 2010 | The results of the first pan-European stress tests of the banking system are published. |
| Aug 2010 | Ireland nationalises Irish Nationwide Building Society (INBS) and merges it with Anglo-Irish Bank.<br>S&P downgrades Ireland to AA-. |
| Sep 2010 | Moody's downgrades Spain from AAA to AA.<br>European Commission presents a package of six legislative proposals aimed at reforming economic governance and strengthening the framework for preventing excessive imbalances and excessive deficits.<br>EFSF receives top rating by Moody's and S&P.<br>Irish government announces an extension of the state blanket guarantee for short-term bank liabilities to end-December 2010. |
| Oct 2010 | German Chancellor Angela Merkel and French President Nicolas Sarkozy agree in Deauville to create a permanent crisis resolution mechanism and to require private sector involvement in future sovereign debt restructuring.<br>Irish government announces Anglo Irish capital needs (€29-34 billion).<br>Moody's changes Irish outlook to OW DG; Aa2. Fitch downgrades Ireland by to A+/ NEG.<br>Fitch downgrades Ireland by to A+/ NEG. |

| | SELECTED GENERAL AND PROGRAMME EVENTS |
|---|---|
| Nov 2010 | Eurogroup takes note of Eurostat validation of ELSTAT data for 2009. |
| | Ireland's borrowing costs rise to 7.7% as the government announces record budget cuts. |
| | Eurogroup publishes statement on the contours of a permanent crisis mechanism. |
| | Irish formal request for financial support (€90 billion). |
| | Eurogroup and ECOFIN ministers unanimously agree to grant financial assistance to Ireland. |
| | S&P downgrades Ireland by 2-notches to A/ CW NEG. |
| Dec 2010 | Irish Parliament votes to approve the EU-IMF financial assistance program for Ireland. |
| | Moody's downgrades Ireland by 5-notches to Baa1/ NEG. Fitch downgrades Ireland by 3-notches to BBB+/ STA. |
| | Fitch downgrades Portugal to A+. |
| Jan 2011 | Fitch publishes EFSF First time rating at AAA Stable. |
| | Fitch downgrades Greece from BBB- to BB+. |
| Feb 2011 | S&P downgrades Ireland to A-/ CW NEG. |
| | Ireland holds general elections. |
| | EFSF disburses €1.7 billion to Ireland. |
| | EFSF disburses €1.9 billion to Ireland. |
| Mar 2011 | Leaders agree to make the EFSF's €440 billion lending capacity fully effective, and to allow EFSF and ESM primary market interventions. |
| | Portuguese Prime Minister Jose Socrates resigns. Three rating agencies downgrade Portugal and maintain negative outlook. |
| | Moody's downgrades Greece from Ba1 to B1. |
| | Agreement on extended repayment period and lower interest rate under Greek Loan Facility (GLF) loan. |
| Apr 2011 | Fitch changes Irish outlook to NEG; BBB+. |
| | Moody's downgrades Ireland by 2-notches to Baa3/ NEG. S&P downgrades Ireland to BBB+/ STA. |
| | Fitch downgrades Portugal by 3-notches to BBB-/ RW NEG; Moody's downgrades Portugal to Baa1/ OW DG. |
| | ESM Programme partners conclude first review mission to Ireland. |
| | Portugal lodges formal request for financial support. |
| May 2011 | Fitch downgrades Greece from BB+ to B. |
| | IMF Managing Director Dominique Strauss-Kahn resigns. |
| | Eurogroup and ECOFIN concur with the European Commission and the ECB that providing a loan to Portugal is warranted to safeguard financial stability in the euro area and the EU as a whole. |
| Jun 2011 | Moody's downgrades Greece to Caa1. S&P downgrades Greece to CCC. |
| | Contagion fears dominate euro area sovereign bond market. |
| | Portuguese general elections. |
| | Eurogroup takes note of Greek Debt Sustainability Analysis (DSA) prepared by the European Commission and the IMF and agrees that the required additional funding will be financed through both official and private sources. |
| | European Commission publishes Portuguese Economic Adjustment Programme. |
| | EFSF disburses €2.2 billion to Portugal. |

| | SELECTED GENERAL AND PROGRAMME EVENTS |
|---|---|
| Jul 2011 | The European Banking Authority (EBA) publishes results of the second round of pan-European stress tests.<br>Moody's downgrades Ireland to Ba1/ NEG and Greece to Ca. Moody's downgrades Portugal by 4-notches to Ba2/ NEG.<br>Fitch downgrades Greece from B to CCC.<br>Irish authorities establish Irish Bank Resolution Corporation Limited (IBRC) by merging Anglo Irish and INBS.<br>Programme partners conclude second review mission to Ireland.<br>Euro area leaders and EU institutions decide on a new package of measures to end the crisis and prevent contagion, including a new program for Greece and voluntary private sector involvement. |
| Aug 2011 | ECB reactivates secondary market purchases and starts purchasing sovereign bonds.<br>Bilateral agreement of Greece and Finland over guarantees for the latter's participation in the Greek EFSF programme.<br>Programme partners conclude first review mission to Portugal. |
| Sep 2011 | EU leaders announce plans to leverage the EFSF.<br>Programme partners interrupt fifth review mission to Greece. |
| Oct 2011 | Amendments to the EFSF Framework Agreement come into force.<br>IMF Global Financial Stability Report estimates that losses due to exposures to sovereign bonds of "high-spread" euro area countries could reach €200 billion for EU banks. US President Barack Obama warns about the spill over effects of Europe's financial crisis.<br>Euro area leaders hold emergency meeting in Frankfurt.<br>Spain downgraded by three main rating agencies.<br>Council agrees on improvements to European economic governance.<br>Greek Parliament approves pension reforms, new remuneration scales for public sector and other measures related to the Mid-Term Strategic Fiscal Programme. |
| Nov 2011 | EFSF approves Funding strategy.<br>Mario Draghi replaces Jean-Claude Trichet as ECB president.<br>G20 summit discusses euro crisis.<br>S&P warns of mass euro area downgrade over debt crisis.<br>Euro leaders discuss the option of Greece exiting the euro area at the G20 summit in Cannes.<br>George Papandreou steps down as Greece's prime minister.<br>Six central banks announce coordinated actions to enhance liquidity support to the global financial system.<br>Fitch downgrades Portugal to BB+/ NEG.<br>EFSF disburses €3.0 billion to Ireland in two tranches. |
| Dec 2011 | First 36-month Long-Term Refinancing Operation (LTRO) by the ECB.<br>Leaders bring forward the entry into force of the ESM Treaty to July 2012; increase the IMF's resources by up to €200 billion; and reaffirm the "unique and exceptional" nature of the decisions concerning Private Sector Involvement (PSI) in Greece.<br>Leaders adopt the Treaty on Stability, Convergence, and Governance in the Economic and Monetary Union (the "fiscal compact").<br>EFSF approves Guidelines for new instruments, with indirect bank recapitalisation and precautionary instruments.<br>S&P revises EFSF outlook to Credit Watch Negative on AAA rating.<br>Fitch and S&P change Irish outlook to NEG; BBB+.<br>S&P changes Portuguese outlook to CW/ NEG on BBB- rating.<br>Ireland announces the personal insolvency reform.<br>EFSF disburses €1 billion to Ireland.<br>EFSF disburses €1 billion to Portugal. |

| | SELECTED GENERAL AND PROGRAMME EVENTS |
|---|---|
| Jan 2012 | S&P downgrades 9 Euro area countries.<br>S&P downgrades EFSF to AA+ and revises outlook to Developing.<br>S&P changes Irish outlook to NEG; BBB+ and downgrades Portugal to BB/ NEG.<br>EFSF disburses €1.2 billion to Ireland.<br>EFSF disburses €1.7 billion to Portugal.<br>EFSF disburses €0.5 billion to Ireland.<br>EFSF disburses €1 billion to Portugal. |
| Feb 2012 | Moody's downgrades Portugal to Ba3/ NEG.<br>S&P revises EFSF outlook to Negative on AA+.<br>The European debt crisis and the need for the EU to increase the size of its stabilisation fund dominate the G20 agenda.<br>China and EU leaders meet to discuss the European debt crisis.<br>Greek ministers quit over a vote on austerity measures. One coalition partner withdraws support for the government.<br>Formal request for the second Greek bailout. A Eurogroup meeting to discuss the second bailout is postponed and replaced by a conference call. Pressure on Greece mounts. |
| Mar 2012 | Most EU member states sign the fiscal compact.<br>Euro area finance ministers expand the financial firewall to €700 billion (resources of the EFSF and ESM).<br>Fitch upgrades Greece to B-/ STA.<br>Moody's downgrades Cyprus to Ba1/ NEG.<br>Greek Finance Ministry announces an 85.8% participation rate in the PSI operation, cutting the debt by approximately €105 billion.<br>Eurogroup approves second adjustment programme for Greece.<br>EFSF disburses €34.6 billion in securities to Greece.<br>EFSF disburses €5.9 billion to Greece. |
| Apr 2012 | IMF Financial Sector Assessment Program (FSAP) mission to Spain announces that stress tests covering more than 90% of the domestic banking sector identify ten banks as vulnerable.<br>S&P upgrades Greece to CCC/ STA and downgrades Spain by 2-notch to BBB+/ NEG.<br>EFSF disburses €2.7 billion to Ireland.<br>EFSF disburses €3.3 billion to Greece.<br>EFSF disburses securities for €78 billion and €25 billion to Greece. |
| May 2012 | In Greek legislative elections, the two dominant parties fail to secure enough votes for a majority in Parliament. A second snap election is called.<br>Fitch downgrades Greece by 2-notches to CCC.<br>EFSF disburses €5.2 billion to Portugal.<br>EFSF disburses €4.2 billion to Greece. |
| Jun 2012 | Leaders endorse the concept of banking union and open the door to possible direct bank recapitalisations by the ESM once an effective single supervisory mechanism is established.<br>Moody's downgrades Cyprus by 2-notches to Ba3/ OW NEG and Spain by 3-notches to Baa3/ OW NEG.<br>Fitch downgrades Cyprus to BB+/ NEG and Spain by 3-notches to BBB/ NEG.<br>Cyprus and Spain formally request ESM stability support. IMF sends a team to Cyprus to prepare for discussions on programme.<br>EFSF disburses €1 billion to Greece. |

| | SELECTED GENERAL AND PROGRAMME EVENTS |
|---|---|
| Jul 2012 | ECB President Mario Draghi announces the ECB's willingness to do 'whatever it takes' to save the euro.<br>EFSF disburses €2.6 billion to Portugal.<br>EFSF disburses €1 billion Portugal.<br>EFSF disburses €480 million to Ireland.<br>Ireland returns to international bond markets with the sale of a five-year bond.<br>Eurogroup unanimously agrees on the details of the financial assistance to Spain.<br>EFSF approves Spanish Master Facility Agreement. |
| Aug 2012 | ESM approves Pricing Guideline and maximum lending volume.<br>S&P changes Greek outlook to NEG; CCC, and Cyprus to BB/ CW NEG.<br>EFSF disburses €1 billion to Ireland and €1.02 billion to Portugal. |
| Sep 2012 | ECB announces an Outright Monetary Transactions (OMT) framework for intervention in sovereign bond markets of countries accepting EFSF and ESM support.<br>ESM approves Guidelines on financial assistance instruments and borrowing.<br>Following a street protest, the Portuguese government abandons proposed fiscal measures.<br>EFSF disburses €4.9 billion to Greece. |
| Oct 2012 | The ESM is formally inaugurated in Luxembourg.<br>Moody's changes Spanish outlook to NEG from OW NEG and downgrades Cyprus to B3/ NEG.<br>S&P downgrades Spain to BBB-/ NEG and Cyprus to B/ CW NEG.<br>Fitch publishes ESM rating at AAA Stable. |
| Nov 2012 | Fitch downgrades Cyprus by 2-notches to BB-/ NEG.<br>Moody's downgrades EFSF to Aa1 Negative.<br>S&P downgrades EFSF to AA Stable.<br>ESM approves ESM lending documentation and Diversified Funding Strategy.<br>Greece and programme partners reach full staff-level agreement on updated programme conditionality. |
| Dec 2012 | IMF announces EU financial system stability assessment, recommending further steps towards banking union.<br>S&P downgrades Greece to SD, then upgrades Greece to B-/ STA following the debt buy back.<br>EFSF disburses €0.8 billion to Portugal.<br>ESM disburses in 5 portions for overall €39.468 billion to Spain and separately €1.865 billion.<br>Greek government launches a debt buyback scheme seeking to retire about half of the debt owed to private creditors.<br>EFSF disburses €11.3 billion to Greece for debt buy back.<br>EFSF disburses €23 billion to Greece in two tranches. |
| Jan 2013 | Dutch Finance Minister Jeroen Dijsselbloem is appointed Eurogroup president.<br>Moody's downgrades Cyprus by 3-notches to Caa3/ NEG.<br>Fitch downgrades Cyprus by 2-notches to B/ NEG.<br>Portugal sells €2.5 billion of five-year bonds through banks, the first offering with that maturity in almost two years.<br>EFSF disburses €2 billion to Greece. |
| Feb 2013 | Nikos Anastiades wins presidential election in Cyprus.<br>ESM disburses €1.865 billion to Spain.<br>EFSF disburses €0.8 billion to Portugal.<br>EFSF disburses €1.4 billion to Greece.<br>IBRC is liquidated by the Irish authorities. |

| | SELECTED GENERAL AND PROGRAMME EVENTS |
|---|---|
| Mar 2013 | S&P stabilises Portuguese outlook to BB/ STA. |
| | S&P downgrades Cyprus to CCC/ NEG. |
| | Eurogroup has its first exchange with the new Cypriot government. |
| | Ireland sells €5 billion of new benchmark ten-year bonds to meet nearly all its funding needs through the next year. |
| | Eurogroup agrees to the adjustment of the maturities of the EFSF loans to Ireland and Portugal to smooth the debt redemption profiles. |
| | Eurogroup and Cyprus reach agreement on a future macroeconomic adjustment programme. |
| Apr 2013 | Fitch changes Cypriot outlook to RW NEG; B. |
| | S&P changes Cypriot outlook to STA; CCC. |
| | ESM BoG approves an assessment of the public debt sustainability of Cyprus. Cyprus and programme partners reach staff-level agreement on the policy conditionality underlying the macroeconomic adjustment programme. |
| | EFSF disburses €2.8 billion to Greece. |
| May 2013 | Fitch upgrades Greece to B-/ STA. |
| | Portugal issues its first new government bonds in two years, in a heavily-oversubscribed offer of ten-year debt that raises €3 billion. |
| | EFSF disburses €0.8 billion to Ireland. |
| | EFSF disburses €2.8 billion to Greece. |
| | EFSF disburses €4.2 billion to Greece. |
| | EFSF disburses €7.2 billion to Greece. |
| | ESM disburses €2 billion to Cyprus. |
| Jun 2013 | Fitch downgrades Cyprus to B-/ NEG. |
| | S&P places Cypriot rating as Selective Default. |
| | IMF Executive Board reviews Greece misreporting, remedial steps, and discusses ex post evaluation of 2010 Stand-By Arrangement (SBA). |
| | Beginning of the bank Balance Sheet Assessment process in Ireland. |
| | EFSF disburses €1.6 billion to Ireland. |
| | EFSF disburses €3.3 billion to Greece. |
| | EFSF disburses €1.05 billion to Portugal. |
| Jul 2013 | Euro area Member States sign ESM Treaty. ESM becomes the sole and permanent mechanism for responding to new requests for financial assistance. |
| | Fitch downgrades EFSF to AA+ Stable. |
| | S&P upgrades Cyprus to CCC+/ STA. |
| | EFSF disburses €2.5 billion to Greece. |
| Aug 2013 | Portugal’s Constitutional Court rejects a bill that would effectively allow the state to fire civil servants. |
| Sep 2013 | EFSF disburses €1 billion to Ireland. |
| | ESM makes a €1.5 billion disbursement in bonds to Cyprus. |
| Nov 2013 | Fitch changes Spanish outlook to Stable; BBB. |
| | Moody’s upgrades Greece to Caa3/ STA. |
| | S&P upgrades Cyprus to B-/ STA. |
| | Eurogroup congratulates Spain on successful financial sector programme implementation. |
| | EFSF disburses €3.7 billion to Portugal. |
| | Completion of the Irish Prudential Liquidity Assessment Review (PLAR) process (deleveraging) for two banks. |

| | SELECTED GENERAL AND PROGRAMME EVENTS |
|---|---|
| Dec 2013 | EU finance ministers agree on the design of the Single Resolution Mechanism.<br>EFSF disburses €2.3 billion to Ireland<br>EFSF disburses €0.5 billion to Greece.<br>ESM disburses €100 million to Cyprus.<br>End of Irish EFSF programme.<br>End of Spanish ESM programme. |
| Jan 2014 | Greece’s highest administrative court reverses wage cuts that were imposed by the government. |
| Mar 2014 | ESM approves establishment of Early Warning System. |
| Apr 2014 | EFSF disburses €1.2 billion to Portugal.<br>Eurogroup calls on Greece to do its utmost to conclude a review rapidly.<br>EFSF disburses €14.8 billion under Greek PSI.<br>EFSF disburses €6.3 billion to the Greek segregated account.<br>Greece returns to global capital markets for the first time since 2010, raising €3 billion in a five-year bond deal. |
| May 2014 | Portugal’s Constitutional Court strikes down some austerity measures, thus requiring the government to implement compensatory measures to reach its fiscal targets.<br>End of Portuguese EFSF programme.<br>Eurogroup underlines the need for completion of the prior actions for the disbursement to Greece. |
| Jun 2014 | Spain makes a voluntary early repayment of €1.3 billion to the ESM.<br>Moody’s revises EFSF and ESM outlook to Stable on Aa1 rating.<br>ESM Members reach political understanding on the operational framework of the direct recapitalisation instrument.<br>European Commission publishes first Irish Post Programme review.<br>Portuguese government decides to allow the programme to expire at the end of June without the final review and without receiving the last tranche. |
| Jul 2014 | ESM disburses €600 million to Cyprus.<br>Spain makes a €308 million repayment of unused funds to the ESM. |
| Aug 2014 | ESM Boards establish the Direct Recapitalisation of Institutions instrument.<br>Moody’s upgrades Greece to Caa1/ STA.<br>ESM approves Cyprus fifth review.<br>EFSF disburses €1 billion to Greece. |
| Sep 2014 | S&P upgrades Greece to B/ STA.<br>Euro area finance ministers approve Ireland’s plan to repay its IMF loan ahead of schedule. |
| Oct 2014 | ECB takes over the role of banking supervisor for the Euro area’s 120 largest banks under the Single Supervisory Mechanism.<br>IMF publishes Portuguese Fiscal Transparency Evaluation. |
| Dec 2014 | Fitch revises ESM outlook to Stable on AAA rating and downgrades EFSF to AA Stable.<br>Ireland completes the early repayment of almost half of its loans from the IMF.<br>ESM disburses €350 million to Cyprus.<br>European Commission publishes Portuguese and Spanish Post Programme Monitoring report (Oct 2014).<br>Greece and EFSF execute second Amendment Agreement. |
| Jan 2015 | European Commission publishes Irish Post Programme Monitoring report. |
| Feb 2015 | Ireland starts early repayments to the IMF.<br>Eurogroup receives request for extension of the Greek programme.<br>EFSF receives €10.9 billion in redelivery of bonds not used by the Greek HFSF. |
| Mar 2015 | Spain makes a €1.5 billion voluntary early repayment to the ESM. |
| Apr 2015 | European Commission publishes Spanish Post Programme Monitoring report (Spring 2015). |

| | SELECTED GENERAL AND PROGRAMME EVENTS |
|---|---|
| Jun 2015 | Eurogroup welcomes Cypriot programme being brought back on track.<br>Expiry of Greek EFSF programme. |
| Jul 2015 | EFSF approves Reservation of Rights relating to non-payment to the IMF.<br>Spain makes a €2.5 billion voluntary early repayment to the ESM.<br>ESM disburses €100 million to Cyprus.<br>ESM approves Decision in principle to grant financial assistance to Greece and first disbursement is made. |
| Oct 2015 | ESM approves Maximum Authorised Maturity for ESM borrowing operations.<br>ESM disburses €500 million to Cyprus. |
| Jan 2016 | European Commission publishes Irish Post Programme Monitoring report Autumn 2015. |
| Mar 2016 | IMF staff completes 2016 FSAP mission in Ireland.<br>End of Cypriot ESM programme.<br>Eurogroup supports the Cypriot government's decision to exit its macroeconomic adjustment programme without a successor arrangement. |
| Apr 2016 | European Commission publishes Portuguese Post Programme Monitoring report. |
| Jun 2016 | European Commission publishes Spanish Post Programme Monitoring report.<br>ESM to conduct first evaluation of EFSF and ESM activities in the context of financial assistance programmes. |

Sources: The time line draws on EFSF and ESM documents; Eurogroup statements; Greek Crisis Timeline: a chronology of key events for the Greek debt crisis, a database of key official documents & pronouncements (Athens Centre for International Political Economy (ACIPE)); An IMF-centric timeline of key events during the Euro area crisis, September 2008 - December 2014 (IMF Independent Evaluation Office (2014)); Ireland Ex Post Evaluation of Exceptional Cases under the 2010 Extended Arrangement (IMF IEO 2015); Fitch, Moody's, Standard & Poor's