EUROPEAN
COMMISSION

Brussels, 17.12.2019
SWD(2019) 449 final

COMMISSION STAFF WORKING DOCUMENT

EXECUTIVE SUMMARY OF THE EVALUATION

of Decision No 778/2013/EU

of the

European Parliament and of the Council of 12 August 2013 providing further macro-financial assistance to Georgia

{SWD(2019) 447 final}

In August 2013, the European Parliament and the Council approved a Macro Financial Assistance (MFA) operation of EUR 46 million to Georgia. This was the second of the two operations pledged by the EU at an International Donors' Conference in Brussels in October 2008, after Georgia's armed conflict with Russia. Together with the hit from the global financial crisis, the conflict with Russia put the Georgian economy and its external financing under severe pressure, which necessitated international financial support.

The aim of this ex-post evaluation of MFA is to assess the relevance, efficiency, effectiveness, coherence, and EU value added of the MFA-II operation to Georgia, which was implemented in 2015-2017. It also explores the social impact of MFA and its effect on Georgia's public debt sustainability and sets out to draw lessons. The ex-post evaluation has been conducted by an external contractor and draws on evidence gathered through a variety of quantitative and qualitative research techniques, including desk research, interviews and a focus group discussion with a wide range of stakeholders, as well as a validation workshop with stakeholders closely involved in the design and implementation of the programme.

The purpose of this evaluation is also to inform the future use of the MFA instrument. The evaluation also ensures transparency and accountability, in accordance with the Financial Regulation and the MFA decision for Georgia.[1]

The evaluation finds that MFA-II was **relevant** in terms of its objectives, financial envelope and structural conditions. It sought to alleviate short-term external financing pressure, which was present both in 2011 (when the Commission submitted its proposal to the EU co-legislators) and in 2014 (when the Memorandum of Understanding was negotiated and the implementation started). The overall design of the operation allowed a swift first disbursement and covered the most relevant reform challenges in Georgia. The evaluation finds that some additional policy measures in healthcare and banking could also have been relevant, yet this has to be balanced with the need to keep the list of MFA conditions focused. Some of these measures have subsequently been included as policy conditions in the current MFA operation to Georgia approved in 2018.

The amount of MFA-II was **appropriate** (in terms of burden sharing with other donors), proportional (limited to the minimum necessary to achieve short-term macroeconomic stability in Georgia) and relevant at the time of the actual disbursements (helping to close a financing gap). The financial terms of the MFA-II (a combination of grants and loans) was also appropriate.

The MFA-II was **effective** in helping to improve Georgia's balance-of-payments situation (notably, to limit the increase in Georgia's external debt and increase confidence in the Georgian economy). Moreover, the MFA operation supported fiscal consolidation through highly concessional financial terms and policy conditions in the areas of public procurement and healthcare. Finally, the structural effects of the MFA operation largely materialised as planned, as Georgia implemented all policy conditions.

The MFA-II was designed and implemented **efficiently,** and in close coordination with the Georgian's authorities, the IMF and the World Bank. Delay in the adoption was caused by procedural disagreements between the co-legislators. However, the evaluation finds that this exceptionally long timeline of approving the operation did not result in efficiency losses, because from late 2010 until July 2014 and from mid-2015 until April 2017, Georgia did not

[1] Decision No 778/2013/EU (OJ L 218, 14.8.2013, p. 15–23).

have a disbursing IMF programme (a precondition for granting MFA). This would have prevented disbursements of MFA even if the operation had been approved earlier.

The MFA-II was a **coherent** part of a comprehensive package of EU assistance to Georgia, reflecting a close coordination of these interventions. The **EU's added value** was most apparent in stimulating the structural reform process in Georgia. MFA-II also helped to mitigate fiscal pressures and resulted in significant savings due to favourable terms of the assistance. MFA-II also increased the effectiveness of bilateral support that Georgia received from several EU Member States, by helping to create a more favourable environment for this support. At the same time, the visibility of MFA-II was relatively low. The issue of MFA operational visibility will be further examined in a MFA meta-evaluation planned to commence in 2020.

The evaluation finds that MFA-II had an overall **positive social impact**. It helped to improve the quality and efficiency of the public healthcare services, although progress in this area is uneven and is being addressed as part of policy conditionality of the current MFA operation approved in 2018. The MFA operation also helped to smooth the macroeconomic adjustment path and, in this way, maintain social spending. More broadly, the MFA operation contributed to restoring macroeconomic stability that supported economic growth and, hence, had a positive impact on employment, income and other social developments.

Finally, MFA-II had a positive effect on the **sustainability of Georgia's public debt** and enabled fiscal savings. Together with the IMF arrangements, the MFA operation helped to limit the increase in Georgia's public debt. This positive effect materialised mainly through the confidence channel and the economic growth channel. The fiscal savings of around 0.3% GDP resulted from the very favourable financial conditions of the MFA operation. These savings (compared to market financing) helped to smooth Georgia's adjustment path, and create fiscal space for reforms and sustained social spending.

Looking ahead, the Commission will seek to put into practice the lessons learned and further consider the identified limitations in the upcoming MFA meta-evaluation planned for 2020.