

# Emergency assistance for Eurozone countries during the crisis

## Use of European emergency funds between 2010 and 2015

During the Euro crisis, the EU established emergency funds and assistance programmes for countries in financial difficulties. This involves several billion euros. We have examined the emergency support for Greece, Ireland and Spain. How were these emergency funds established? What is the money used for? When will it be repaid? Is there democratic control of this money? Is there independent monitoring of the expenditure and the results?

## Conclusions

Our research has revealed a number of issues:

- There is little insight into exactly where the money lent by the European emergency funds ends up.
- There are no independent European evaluations carried out into the effectiveness of the emergency support for Eurozone countries in financial distress. Only the International Monetary Fund (IMF) has undertaken a number of ex-post evaluations.
- There is a gap in the democratic control and accountability of the 'Eurogroup' (the finance ministers of the Eurozone countries), the main decision-maker in relation to the European emergency funds.
- There is a lack of independent external control on most of the money from the emergency funds that has already been spent.

It is clear that when the European assistance programmes and the associated emergency funds were created there was no time to arrange the finer details of control and accountability. Indeed, the emergency funds were set up under severe time pressure in 2010. Haste was necessary due to the rapidly declining confidence in the financial markets of eurozone countries such as Greece, Italy and Ireland. The design of the assistance programmes for Greece and Ireland shows traces of this time pressure.

Meanwhile, however, a certain degree of calm has returned to the financial markets. It is now time to fix the apparent gaps in the required - from a democratic perspective - transparency and accountability.

## Recommendations

We have made the following recommendations to the Minister of Finance:

- The minister should lobby at a European level for ECOFIN (consisting of the ministers or secretaries of state for economic affairs and/or finances of the EU member states) to independently evaluate the concluded assistance programmes – just as the IMF has done. The evaluations should be about the establishment and implementation of the programmes, the financial data of the countries concerned and the actual spending of the money from the emergency funds.

- The lack of an independent external audit of the EFSF emergency fund (the largest share of this financial help was provided to Eurozone countries) should be rectified by accommodating the external audit under the ESM Board of Auditors.
- The ESM Board of Auditors should use the opportunities for research provided by the ESM treaty, including research into the legality and effectiveness of the expenditure. To do this, the audit committee must have sufficient staff and resources.

Further, we have formulated a number of lessons for the future, which the Minister of Finance could highlight in Brussels:

- Countries that borrow money from the emergency funds should make clear where the money is spent, including, inter alia, an independent and public reporting.
- With a view to repayment of the emergency assistance, the European Commission should intensify the ‘post-programme monitoring’ of countries that have left the assistance programmes. To do this, the European Commission could use the analysis capabilities of the ‘European Semester’: the cyclical monitoring and coordination of the economy and public finances of EU member states. Coupled with this, ECOFIN should make specific recommendations to these countries with respect to restoring their budgetary and macroeconomic situation. These recommendations could, where necessary, include corrective elements.
- For any future assistance programmes, agreements should be made at the outset regarding the independent evaluation of the effectiveness of the measures taken.
- The mechanisms for democratic control and accountability with respect to the decision-making of the Eurogroup and the troika can be strengthened. Parliaments – both at the European and the national level – must be clear about this decision-making process and the justifications.
- It is important that the European Commission is better able to monitor the quality of financial data that serve as the basis for an assistance programme. This could help prevent any repeat of the issues surrounding the first programme of assistance for Greece from 2010-2011 (when the financial data that formed the basis for the aid proved not to be correct).

## Response

### Minister of finance's response

The Minister of Finance shall bring to the European Commission’s attention the importance of establishing evaluations for concluded loan programmes. He welcomes research by the ESM Board of Auditors into the legality and effectiveness of the spending of emergency loans. He agrees with us that the European Commission’s monitoring of the quality of financial information must be strengthened.

The minister states that the independent external audit of the EFSF cannot be transferred to the ESM Board of Auditors. He also indicates that there should be a broader examination of the exact use of the emergency aid. The minister does not agree with our point about strengthening the post-programme monitoring.

In our afterword, we emphasize that the evaluations of concluded loan programmes should be independent evaluations. Further, we also note that there is a difference of opinion regarding the desirability of an independent external audit of the EFSF. Given that this is now being

carried out by those directly involved, there is, in our view, no question of independent external control.