



# Budget Support

Core Concepts: Definition of EU budget support and eligibility criteria

*Online Sessions*

# What is Budget Support for the EU?

# Results of the pre-course test

# EU Approach to budget support

## 4 eligibility criteria

Credible and relevant  
development/sector  
policy

Stability oriented  
macro-economic policy



Relevant and  
credible PFM  
reform  
programme

Transparency and  
oversight of the budget

## 4 interrelated components

Performance &  
assessment criteria

Capacity  
building

Policy dialogue

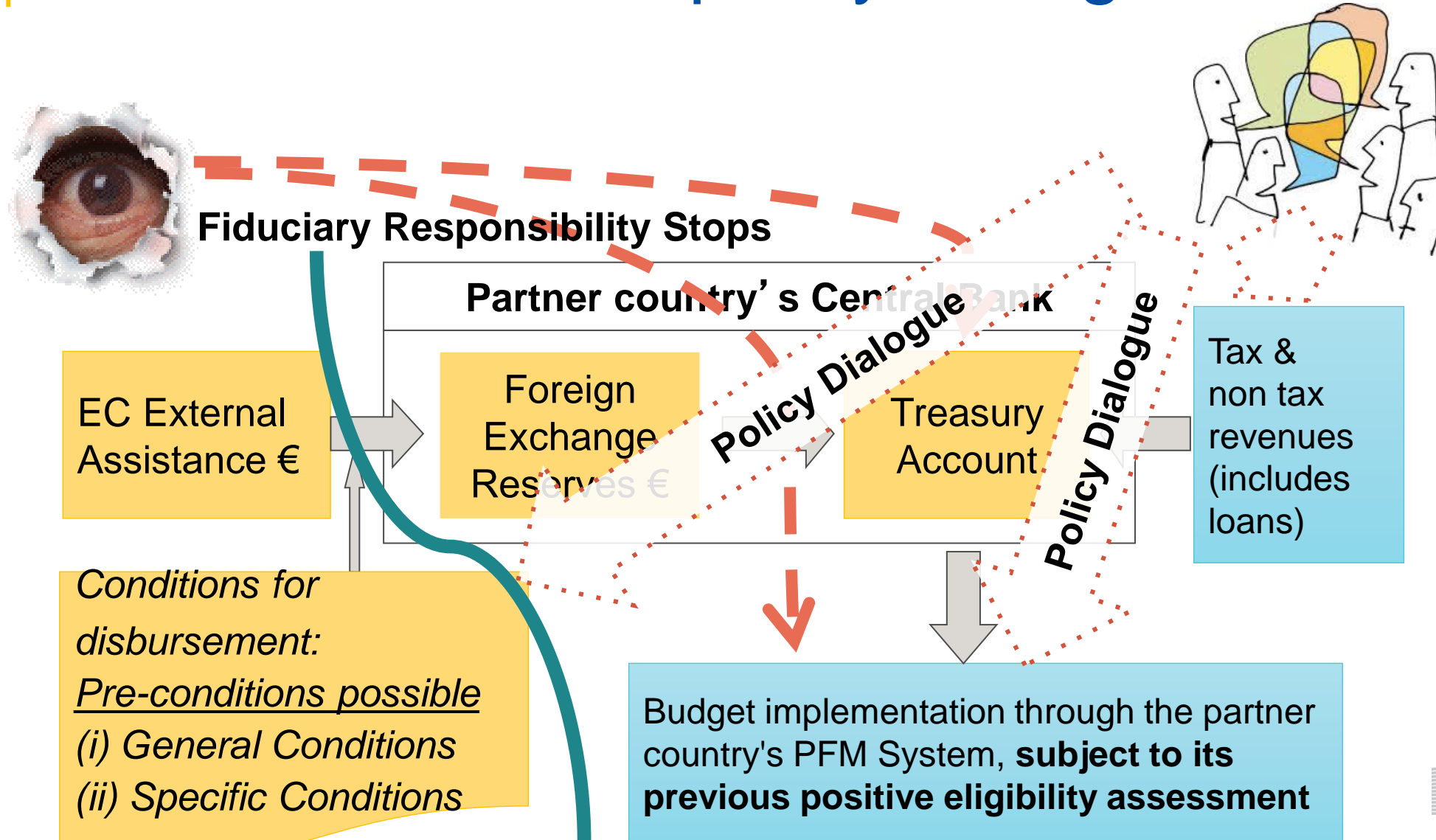
Financial  
transfers  
(grants)



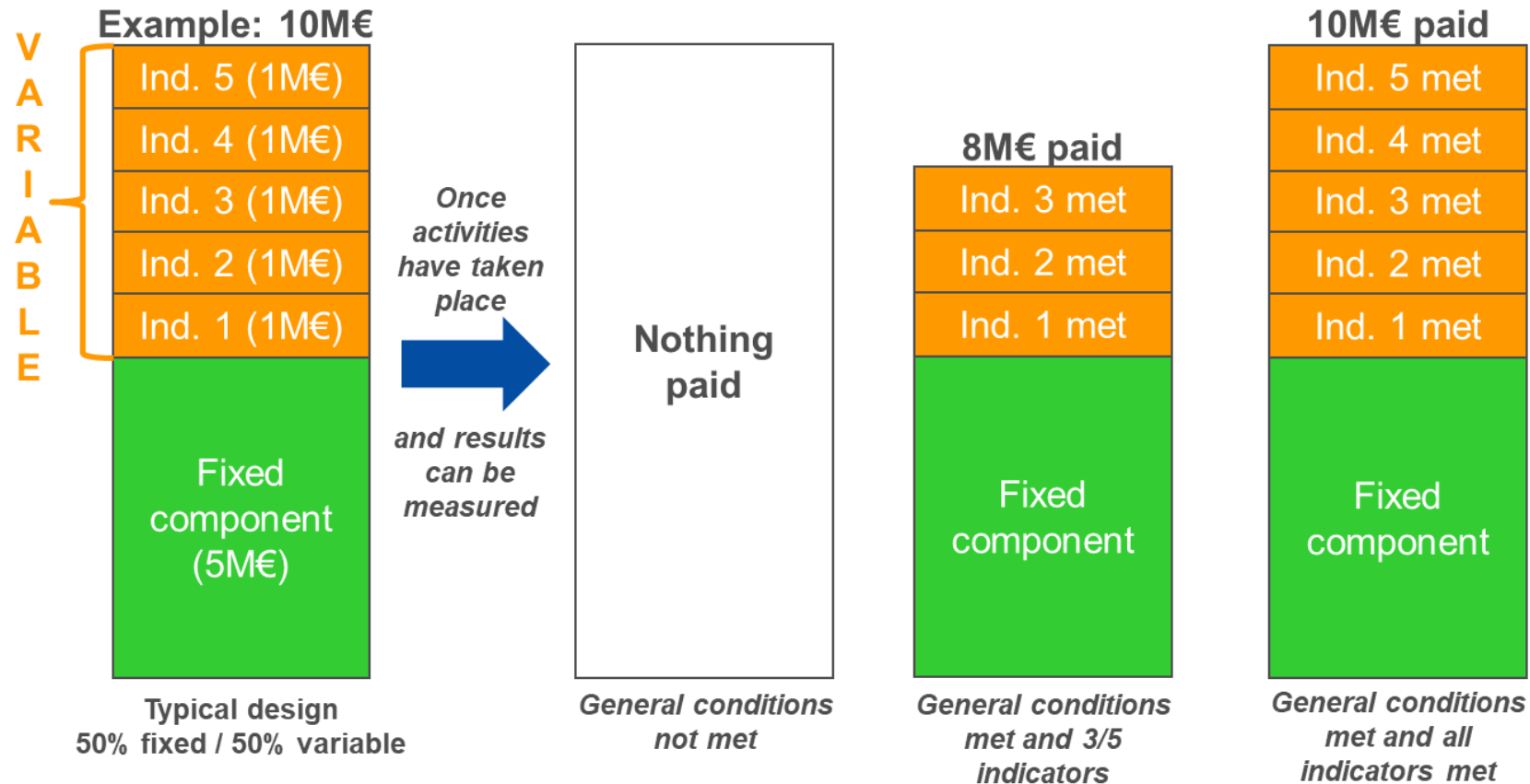
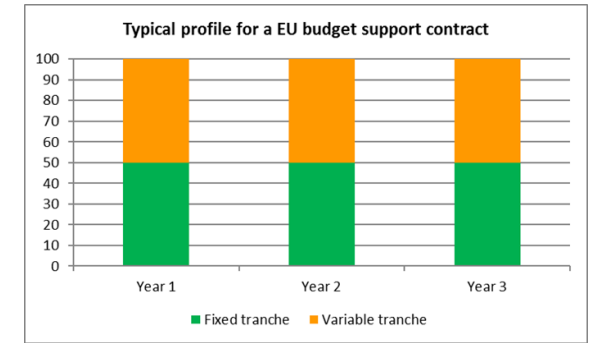
## 3 types of multiannual contracts

**Sustainable Development Goals Contract (SDG-C)**  
**State and Resilience Building Contract (SRBC)**  
**Sector Reform Performance Contract (SRPC)**

# Flow of funds and policy dialogue



# A performance-based modality





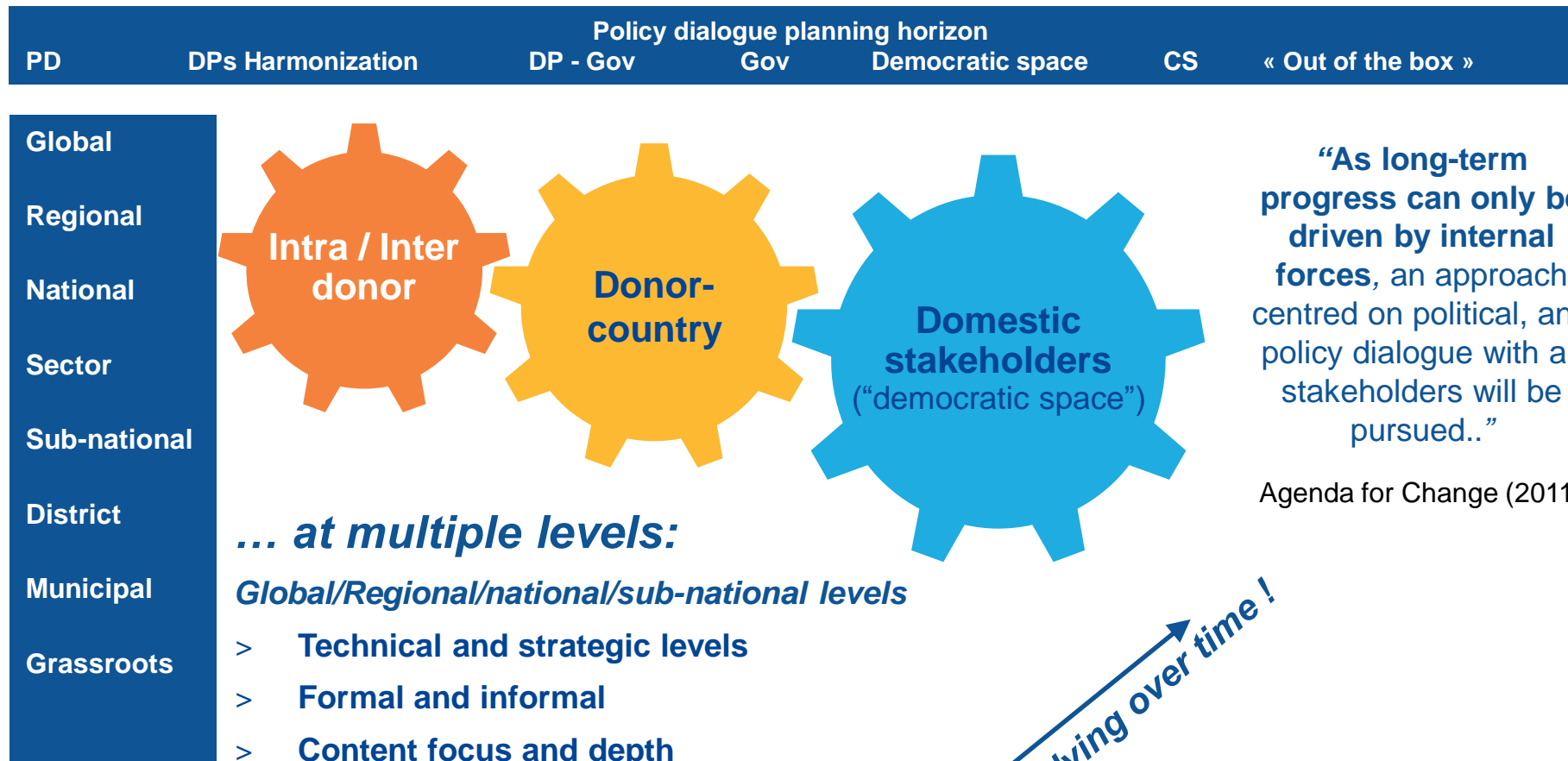


# Quiz time

Let's go to Menti!



# A continuous, dynamic, multi-dimensional, non-linear purposeful exchange



# Policy dialogue: main features

- A **continued policy dialogue** during the Budget Support formulation and implementation
- A **focused dialogue to engage with partner country** around critical areas:
  - ✓ Domestic sector reform agendas (governance, accountability, regulatory and institutional framework...)
  - ✓ Assessment of eligibility criteria and performance indicators
  - ✓ Efficiency and effectiveness of sector policy formulation and implementation processes
  - ✓ Specific sector reforms to improve the quality of/access to public service delivery
  - ✓ Specific sector PFM issues that are not particularly covered by generic PFM reforms

# Quiz time

Let's go to Menti!

# Capacity development objectives

- Promote effective, accountable and inclusive institutions
- Enhance Government capacity to design, implement, monitor, and evaluate policies and to deliver public services
- Promote the active engagement of all stakeholders in policy design, implementation and monitoring
- Strengthen the national monitoring and evaluation framework, including statistical system
- Integrate gender equality measures in planning, budgeting and monitoring
- Mitigate risks where there is commitment to reform but lack of capacity

# Any questions?

Please take a 5 min break

# Four eligibility criteria needed to be satisfied

## For programme approval

**1.** Existence of a credible and relevant programme to restore/maintain macro-economic stability

**2.** Existence of a credible and relevant programme to improve public financial management (PFM)

**3.** The proposed or enacted budget is published

**4.** Credible and relevant national/sector policy supports poverty eradication/inequality reduction/sustainable and inclusive growth and job creation, consolidation of democracy and peaceful society, and the promotion of gender equality

## For programme implementation

**1.** Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances

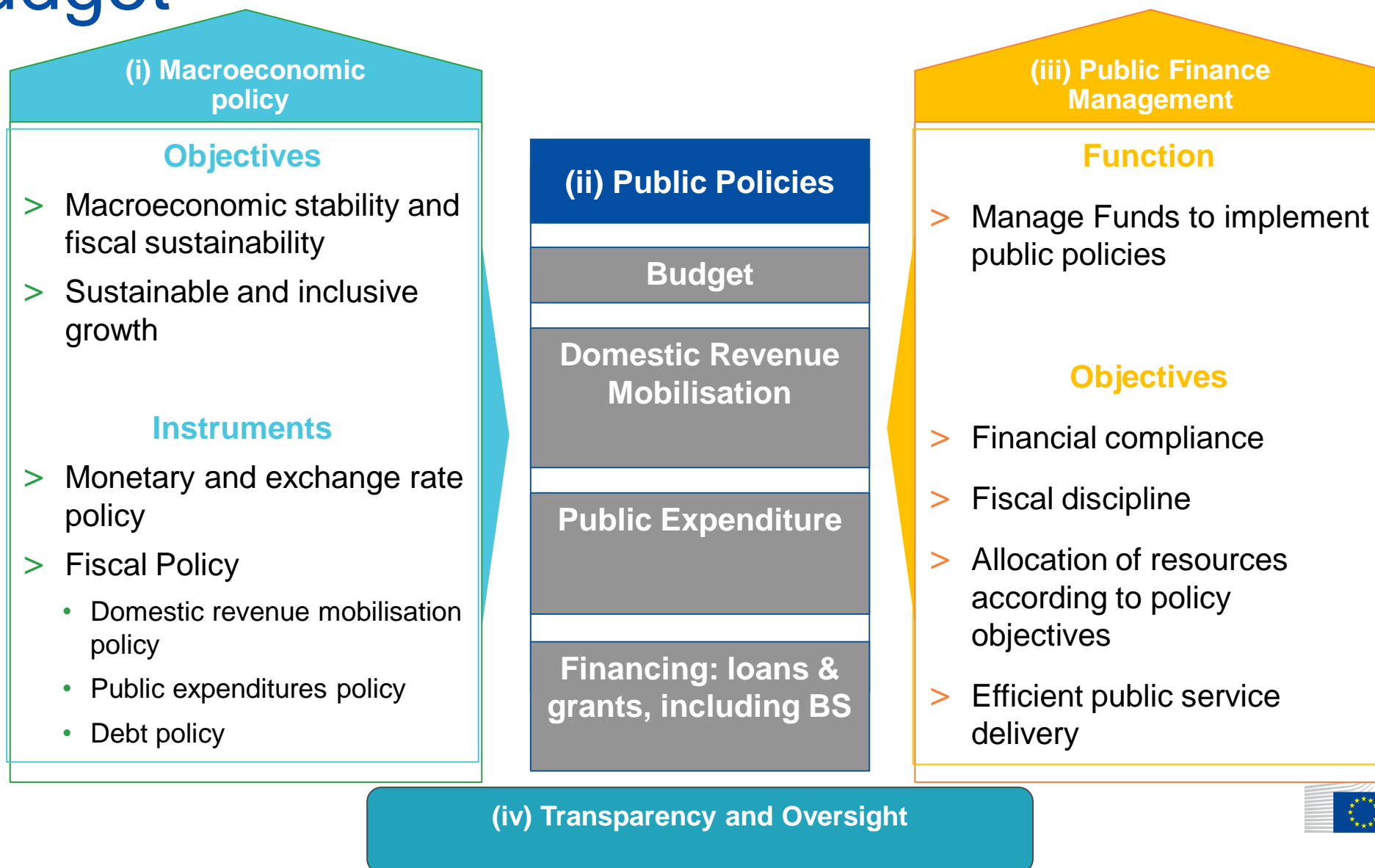
**2.** Satisfactory progress in the implementation of reforms to improve PFM, including Domestic Revenue Mobilisation (DRM), and continued relevance and credibility of the reform programme

**3.** Satisfactory progress with regard to the public availability of accessible, timely, comprehensive and sound budgetary information.

**4.** Satisfactory progress in the implementation of the national/sector strategy and continued credibility and relevance of that or any successor strategy.



# Budget



# Exercises

The idea of the series of 6 exercises is to familiarise yourselves with the preparation/formulation and implementation of a budget support programme. Each exercise is a building brick towards the design of a budget support programme. At the end of the 6 exercises, you will have designed a budget support programme and implemented its first year.

Please be aware that these exercises are challenging:

- Exercises 1 to 5 are timed for a total of about 4 hours: in real life preparing a budget support would take probably around 2 years
- Exercise 6 is timed for 40 minutes for a process usually spread over a year and culminating in a formal analysis and dialogue that can take several weeks.

**Please note:** The exercises **are not** an in-depth analysis. They should however allow you to pick up on the main issues by skipping through the documents provided.

**Tip:** Agree who should be the reporter in your group, agree a division of labour if you feel it is necessary, and fill in the pre-formatted slides with the results of your discussions and work for easy delivery at plenary.

Ask your trainers if you need any further advice, explanations etc.!

# Exercise 1 (Module 1)

45 minutes in groups  
20 minutes plenary feedback



**Working groups: how to use the analysis of macro-economic, PFM and budget and transparency eligibility criteria to identify elements for designing budget support**

The EU and the Republic of Fictiland have agreed that EU cooperation for the next Multi-Financial Framework will focus on renewable energies and climate action.

The EU intends to provide budget support to expand access to sustainable energy in rural areas, and to co-finance investments in transmission lines with other donors. Initial assessment of the eligibility criteria has confirmed that Fictiland is eligible for budget support.

**With a view to ensure effectiveness of budget support and continued satisfaction of eligibility during programme implementation, on the basis of the documents provided, please identify areas which:**

- **Require close monitoring and attention in policy dialogue and/or specific conditions**
- **Require complementary assistance (support to capacity building, studies, TA)**

The main issues that arise in each of the four areas of eligibility assessment are provided in the tables hereafter. They summarise the information provided in the documents you have received. Please take the documents, start by reading the context section, read chapters 2, 3 and 4, use the associated annexes if you want to dig deeper, and indicate in the pre-filled tables the missing elements.

# Exercise 1.1a – Macro-economic assessment – Macro-economic aggregates

Issues	Issues identified	Support to capacity building	Point of Policy dialogue	Possible BS condition
<b>Composition of GDP and sources of growth</b>	Vulnerability to world eco context (exports, FDI, remittances). Climate risks and vulnerability are an area that is not covered in the information provided.			
<b>Fiscal balance (overall revenue and expenditure levels, financing of the deficit, debt sustainability, etc.)</b>	Appears healthy but fiscal deficit to monitor in case of economic slowdown. State guarantee of ECF commercial loans could become a risk			
<b>Inflation</b>	High economic growth has the risk of overheating. In Fictiland inflation is controlled by the monetary policies, which also carries a risk.			
<b>External balances</b>	Not an issue at the moment but risky in times of world recession			

## Tip: Read Chapter 2 of documents provided

To find out more, use the Guidelines pages 33-36 and Annex 4, pages 92-97 for macro-economic assessment and pages 53 and 167 for Domestic Resource Mobilisation DRM policy

# Exercise 1.1b – Macro-economic assessment – Macro-economic policies

Issues	Issues identified	Support to capacity building	Point of Policy dialogue	Possible BS condition
<b>Fiscal policies, including Domestic Resource Mobilisation (DRM)</b>	DRM need support on tax impact studies? Macro/revenue projections support needed? Sufficient contingency built into the budget for climate risk?			
<b>Monetary policies (money growth, regulation of the banking sector and financial market, credit requirements, etc.)</b>	Monitored closely by IMF			
<b>Debt management</b>	OK at the moment but again to be monitored in case of fiscal degradation			
<b>External sector and vulnerability to external shocks</b>	Monitor FDI, remittances			

## Tip: Read Chapter 2 of documents provided

To find out more, use the Guidelines pages 33-36 and Annex 4, pages 92-97 for macro-economic assessment and pages 53 and 167 for Domestic Resource Mobilisation DRM policy

# Exercise 1.2a – PFM assessment

Issues	Issues identified	Support to capacity building	Point of Policy dialogue	Possible BS condition
① <b>Diagnostic of PFM:</b> aggregate fiscal discipline, strategic allocation of resources according to policy objectives, efficient use of resources for service delivery, compliance with laws and regulations.	Budget planning, budget credibility, strategic allocation of resources. Is this a technical or a political issue? Efficiency of use of resources? Public investment management in particular at subnational level (energy)?			
② <b>Respect of PFM principles:</b> norms, rules, procedures, due processes, honesty/probity, legitimacy, transparency and accountability	Seems to be OK. PEFA PIs 15 to 23 score OK although expenditure commitment controls and internal audit need improvement. Procurement merits attention in a country with high public investment			



**Look at all phases of the budget cycle** (and esp. domestic revenue mobilisation, transparency and oversight), **at national and subnational levels.**

**Tip: Read Chapter 3 of documents provided**

To find out more, use the Guidelines pages 36-41 and Annex 5, pages 98-116 for PFM assessment and pages 53 and 167-168 for tax administration

# Exercise 1.2b – PFM assessment

Issues	Issues identified	Support to capacity building	Point of Policy dialogue	Possible BS condition
③ <b>PFM Reform:</b> action plan, monitoring arrangements, sequencing and prioritization of reforms, political buy-in, corruption, fraud, institutional arrangements, institutional and financial resources, coordination, capacity strengthening needs, gender issues	Poor relation between policies and budget. (multi-annual-) Budget planning weak and institutional linkage between MOF and MOI not conducive to improvement (dual budgeting). Nothing said on gender budgeting so possible opening there			
④ <b>Tax administration:</b> tax collection and administration capacities, legal framework, illicit financial flows	Tax administration works efficiently. However, there is an (political?) issue of tax revenue collection at provincial level.			



**Look at all phases of the budget cycle** (and esp. domestic revenue mobilisation, transparency and oversight), **at national and subnational levels.**

## Tip: Read Chapter 3 of documents provided

To find out more, use the Guidelines pages 36-41 and Annex 5, pages 98-116 for PFM assessment and pages 53 and 167-168 for tax administration



# Exercise 1.3 – Budget transparency and external oversight assessment

Issues	Issues identified	Support to capacity building	Point of Policy dialogue	Possible BS condition
① <b>At programme approval: Entry point met:</b> Publication of the Budget within the previous or current budget cycle (either Executive's budget proposal or enacted budget)	Needs coherent budget classification Needs compatible reporting formats Scarce information at sector level			
② <b>During implementation: Entry point still met?</b> For each tranche disbursement, verified satisfactory progress (or no deterioration) in the production, public availability, timeliness of release of budget documents	Trend is positive but publication doesn't mean that the documents can effectively serve as support to analysis			
③ <b>Check on documents available:</b> Budget proposal	Yes			
Enacted budget	Yes but late			
In-year reports (mid-year reports)	Yes			
End-year report	Yes			
Audit report	Yes, but late and covers 60% only			
Other (such as citizens' budgets)	Yes			

## Tip: Read Chapter 4 of documents provided

To find out more, use the Guidelines pages 41-44 and Annex 6, pages 116-127 for budget transparency and external oversight assessment

Please take a 5 min break

# Plenary session: presentation of results of Exercise 1 & discussion

# Any questions?



# Budget Support

Core concepts: Choice of contracts and intervention logic

*Online Sessions*

# EU Approach to budget support: Recap and Q&A

## 4 eligibility criteria

Credible and relevant development/sector policy

Stability oriented macro-economic policy



Relevant and credible PFM reform programme

Transparency and oversight of the budget

## 4 interrelated components

Performance & assessment criteria

Capacity building

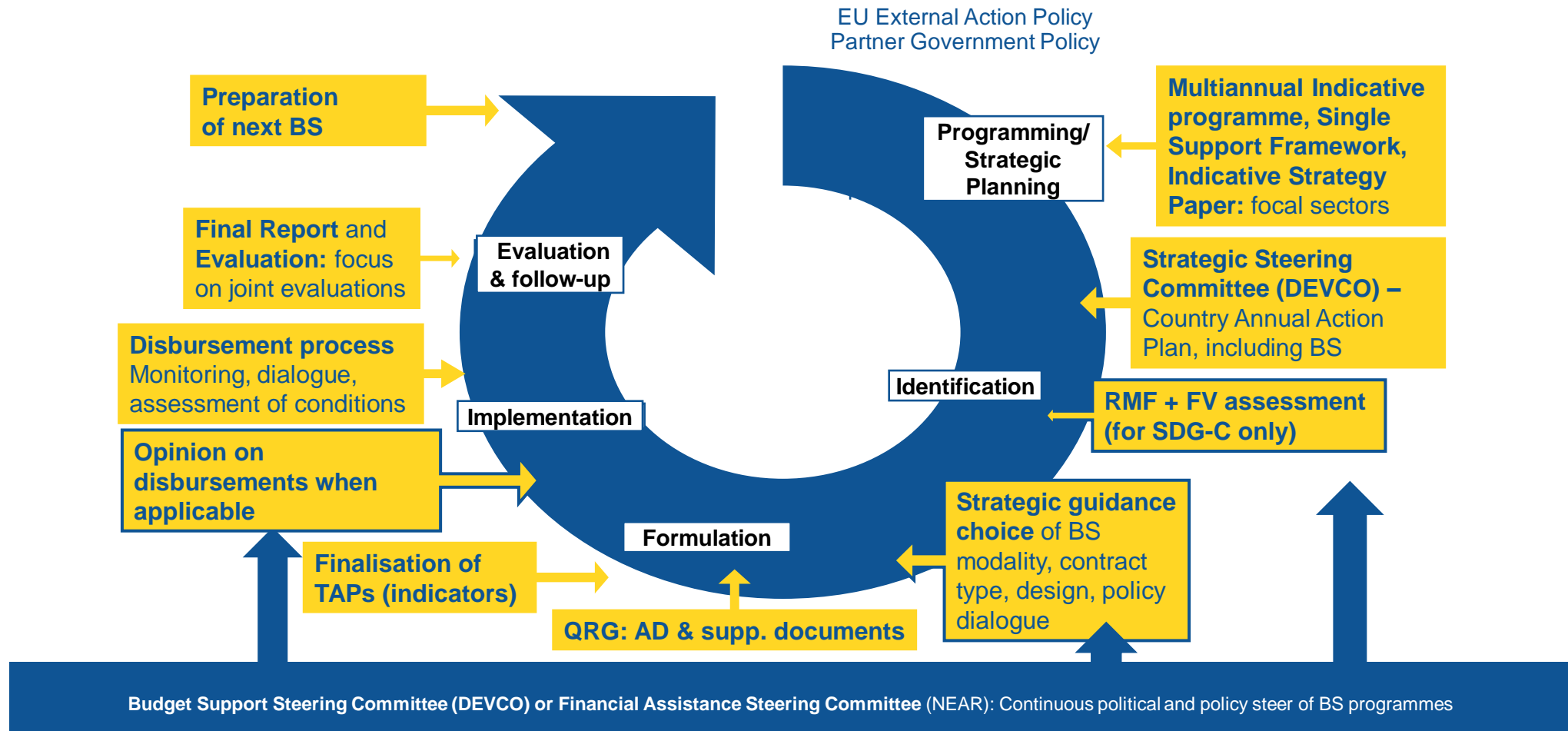
Policy dialogue

Financial transfers (grants)



Support to a national or sector development policy using domestic policy and budgetary processes

# EU CYCLE OF OPERATIONS





# Choice of contract



## Sustainable Development Goals Contract

### SDG-C

A mutual and shared commitment to universal Fundamental Values assumed.

Positive assessment of country's adherence and **commitment to Fundamental Values.**



## Sector Reform Performance Contract

### SRPC

Country's adherence to Fundamental Values **taken into consideration** as part of the Risk Management Framework (RMF).

At sector level the supported interventions should not harm and do maximum good (Rights-based approach)



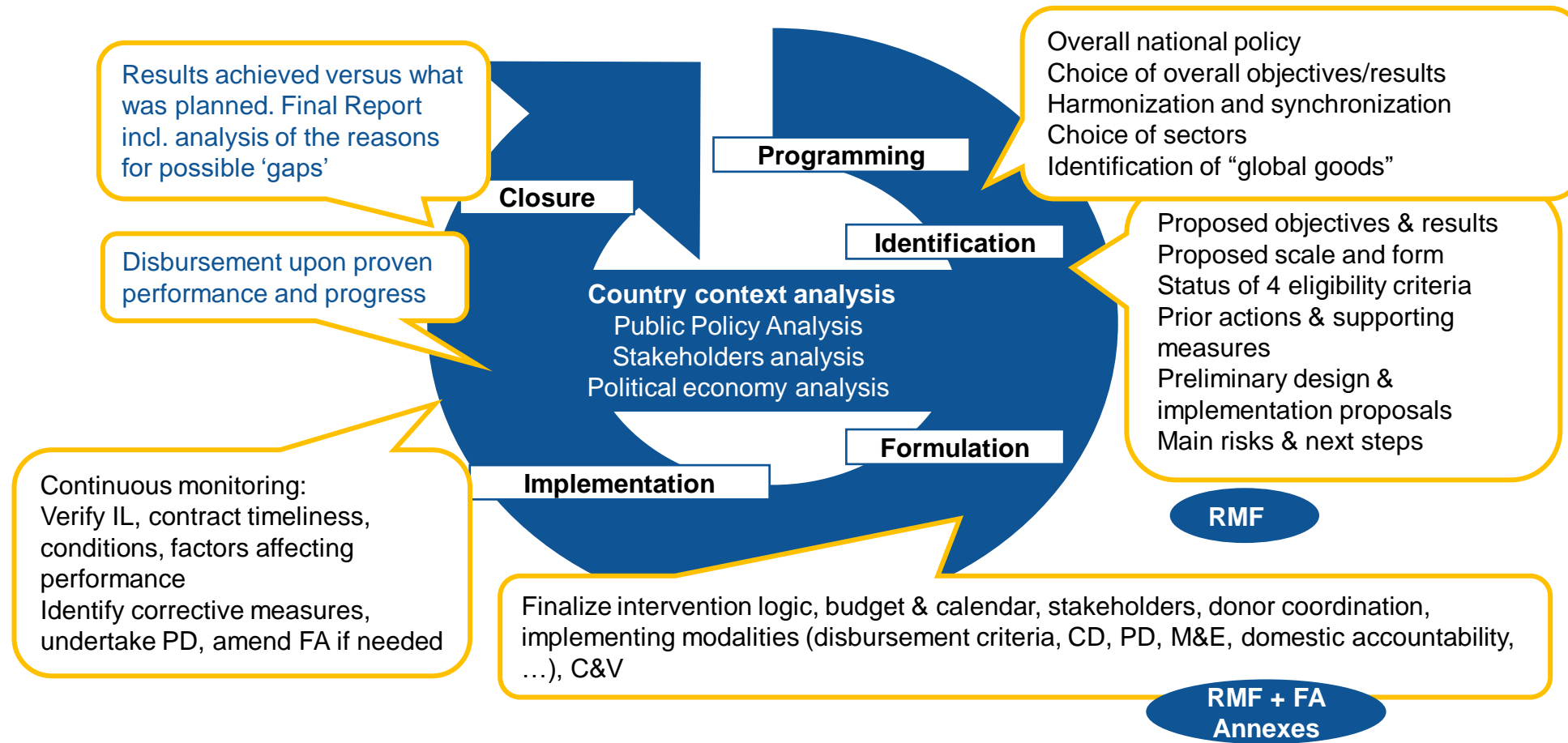
## State and Resilience Building Contract

### SRBC

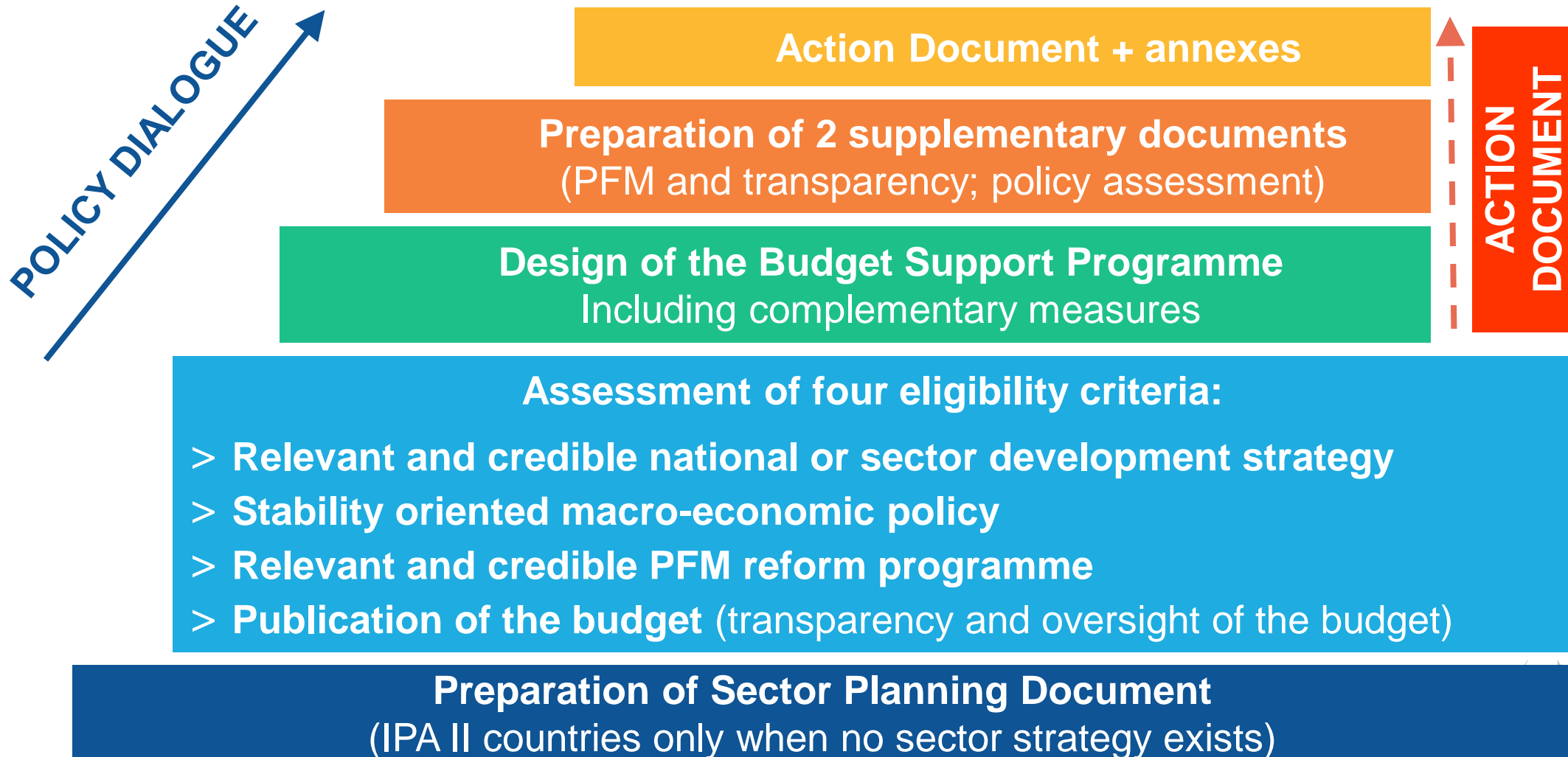
Country's commitment to Fundamental Values and/or political response to improve the situation should be taken into account as part of the RMF.

**A forward looking approach.**  
Opportunity of intervention vs. risk of inaction

# THE CONTEXT ANALYSIS AT THE CENTRE: A CONTINUOUS AND ITERATIVE PROCESS

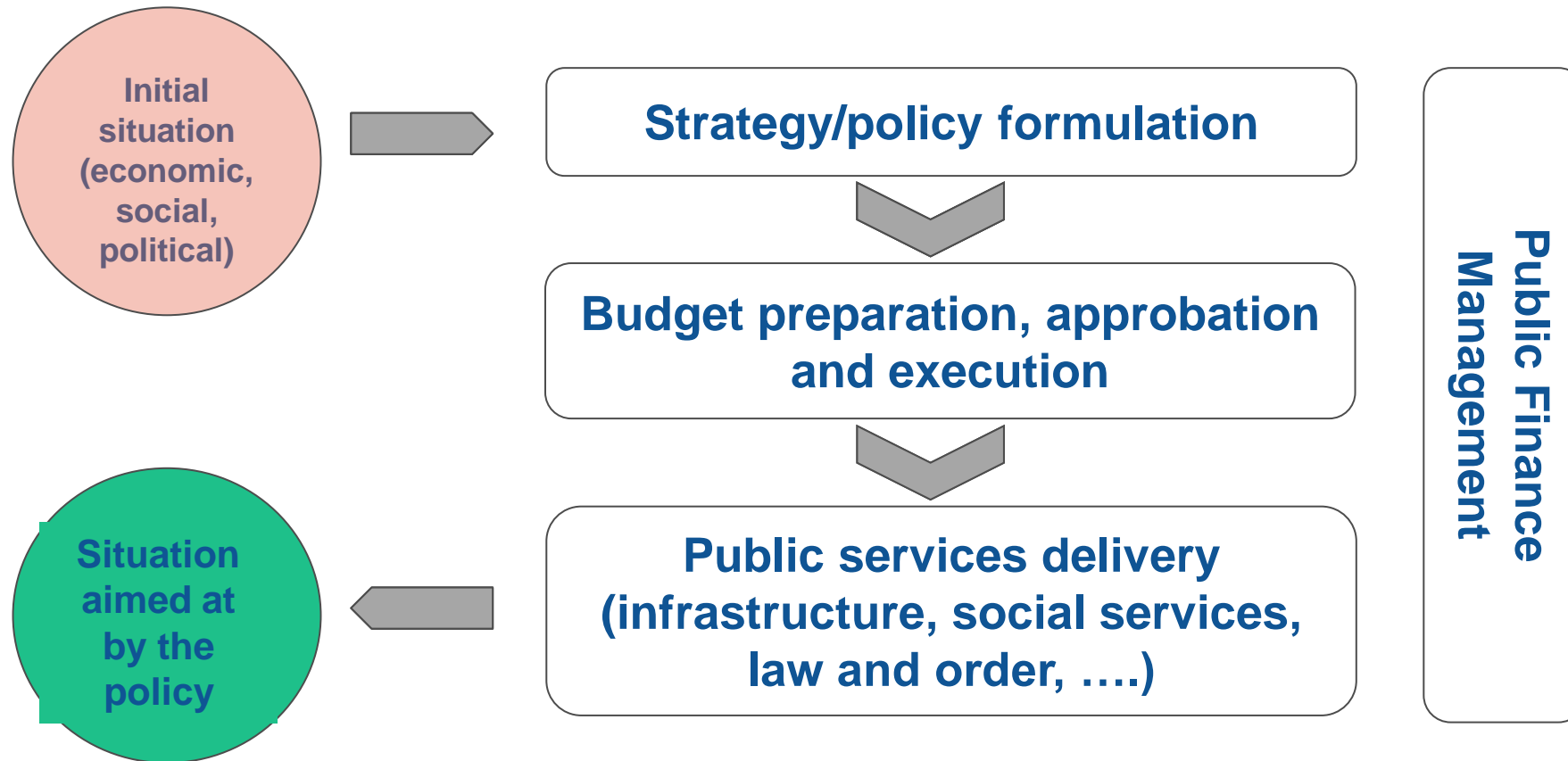


# BS PREPARATION PROCESS



Please take a 5 min break

# PUBLIC POLICY PROCESS



- Need to understand where decisions are made, by whom
- Political Economy Analysis (PEA), Policy Dialogue process and Stakeholders analysis

# EXERCISE 2 (Module 2)

25 minutes in groups  
25 minutes plenary feedback



## Working groups: analyse the sector policy for eligibility

The government of Fictiland has developed a new energy strategy for 2020-2025, which the EU is ready to support. The sector has been analysed and a summary can be found in the documents provided (Chapters 1 and 4). Similarly to the previous exercises, a summary of issues has been prepared on the basis of the analysis of the documents provided. **Please discuss and note in the template:**

- The areas that would benefit from capacity building support
- The priority areas for Performance indicators of variable tranches
- The areas that need priority attention in monitoring (risks) and policy dialogue
- Any missing information you will need to design the budget support.

*Reminder (see also Annex 3 of the guidelines) look at:*

*Policy framework: policy formulation (where, when, whom?), M&E framework, review and donor coordination mechanisms, policy coherence*

*Relevance: overall objectives, specific objectives, domestic accountability and national control mechanisms*

*Credibility: track record of implementation, funding of the policy, Performance Assessment Framework, institutional capacity and ownership, analytical basis and data quality*

# Exercise 2a – Sector Policy assessment

Issues	Issues identified	Support to capacity building	Point of Policy dialogue	Possible BS Condition (Performance Indicators)
① <b>Policy framework:</b> policy content and formulation, M&E system, coordination mechanisms (incl. with donors), coherence of policies, existing communication strategy	There are a lot of policies but we know nothing about content, M&E, coordination, etc. or effective operationalisation of policies (i.e. generation/transmission/distribution funding) No information about formulation processes			
② <b>Policy relevance:</b> contribution to overall objectives, response to sector challenges, inclusiveness of service delivery access and quality, sector governance (incl. external oversight), tackling of cross-cutting issues (gender, youth)	In general high. A big question mark over the GHG implications of further sector expansion Has greening sufficient attention (all ODA funded)?			

**Tip: Read Chapter 1 (Sector context) and Chapter 5 of documents provided**  
To find out more, use the Guidelines pages 33-34 and Annex 3, pages 86-91



# Exercise 2b – Sector Policy assessment

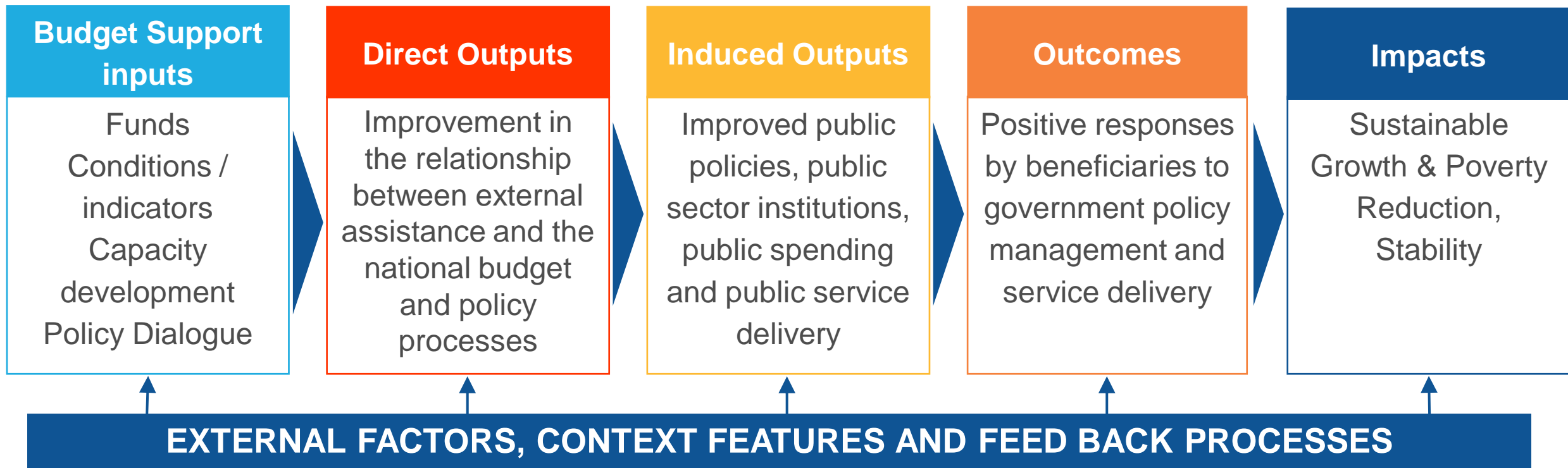
Issues	Issues identified	Support to capacity building	Point of Policy dialogue	Possible BS Condition (Performance Indicators)
③ <b>Policy credibility:</b> track record in policy implementation, policy financing (costing, MT budget allocations, budget comprehensiveness, financial sustainability, fiscal decentralisation), institutional capacity and ownership, quality of data underpinning policy	Moderate to High. ECF sustained contribution is not straightforward, esp. if electricity tariffs are not adjusted M&E is absent State budget will jump in if ODA not forthcoming so problem of fiscal deficit			
④ <b>Other risk areas</b> that require close monitoring	MOI and MOF relationship Capacities at province level See risks in documentation			
⑤ <b>Missing elements required for analysis and decision-making</b>	Need more information on action plans, costing, institutional responsibilities M&E			

**Tip: Read Chapter 1 (Sector context) and Chapter 5 of documents provided**  
To find out more, use the Guidelines pages 33-34 and Annex 3, pages 86-91

# Budget support Intervention Logic (OECD/DAC 2012)

## GOVERNMENT POLICY & SPENDING ACTIONS (STRATEGY)

### Inputs to Government policy & spending actions



Please take a 5 min break

# EXERCISE 3 (Module 3)

20 minutes in groups  
20 minutes plenary feedback



## Working groups: how to use the analysis of public policy to prepare the budget support's intervention logic

The EU analysed the complementary information and documentation received from the government and the policy eligibility criterion is satisfied. Budget support design can start.

The EU has decided that the energy sector will be supported with a €130 million package, of which €30 million as a co-financing of investment costs with MS, the ADB and the WB, and €100 million as a SRPC to support the expansion of sustainable energy in rural areas.

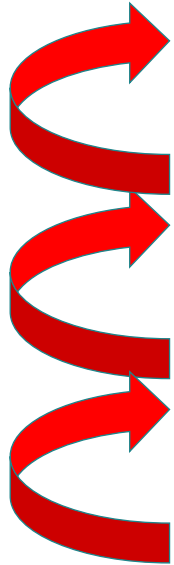
You are now tasked with preparing the Action document for the operation. As a first step, you will prepare the intervention logic of the operation, enabling you to clearly identify the expected contributions of budget support to the sector's objectives, understand the dynamics that will produce the expected results, the assumptions made and the risks entailed. You might not be able yet to fill in all parts of the intervention logic, but go as far as you can.

**Tip: Read Chapter 1 (Sector context) and Chapter 5 of documents provided**

To find out more, use the Guidelines pages 21 and 22 and Annex 2, pages 81 to 85.

# Exercise 3.1 – Intervention Logic of support to the energy sector of Fictiland

	Results chain	Indicators	Mechanisms, challenges/risks and processes, assumptions
<b>Overall objective: impact</b>	Improved living conditions in remote areas		
<b>Outcome(s)</b>	Coverage of remote areas by off-grid electricity supply		
<b>Induced Outputs</b>	Improved Governance of energy sector		
<b>Direct outputs</b>			



# Any questions?



# Budget Support

Design and design simulation

*Online Sessions*

# DESIGN CONSIDERATIONS

The design flows from the sector and eligibility criteria analysis and the ensuing policy dialogue. It involves:

- > Agreeing with government on the **PFM Reform Strategy and its monitoring framework**: essential for assessing and disbursing.
- > Agreeing with government on **policy**: essential for assessing and disbursing.
- > Agreeing with government **on areas requiring capacity building support**, including macro-economic, public finance and sector management.
- > Agreeing with government on **means of verification and assessment, timing, principles and rating**.
- > Agreeing with government on **coordination and monitoring frameworks**.

- > Deciding **amounts, duration, size, phasing**.
- > Agreeing with government on **fixed and variable tranches: number, amount, distribution**.
- > Agreeing with government on **disbursement conditions**: incl. indicator definition, baseline, target, timing, scoring method.
- > Agreeing with government on **Transparency and external oversight**: entry point and milestones for the programme implementation.



# THE ROLE OF GOVERNMENT INSTITUTIONS

Key institutions involved and roles in preparing budget support	Line Min.	NAO/ ..	MoF
	Policy definition	Programming	PFM Reform Strategy: Design and Implementation
	Coordination within administration and with donors	Alignment with cooperation (accession) strategy	Coordination of reform effort with other PFM institutions (SAI, Parliamentary Committee) and line ministries
	Policy dialogue	Monitoring link to IPA sub-committees	Coordination through SWG with donors, strong monitoring and reporting

**Fulfil the agreed policy implementation within specified timeframe:**

A dynamic interpretation of each eligibility criterion

The fulfilment of agreed indicators for performance tranches

# EXERCISES in Module 3



## **Working groups: design a budget support programme**

The EU has set aside €100 million in support of Fictiland's energy sector for the next 3 years. You have analysed the sector, discussed the priority areas for support with the Fictive authorities and identified the challenges to be addressed. You have also decided the yearly amounts of BS to be provided over 2021-2023, the distribution of fixed and variable tranches and timing of disbursements

In the exercises today, you will use your sector knowledge and the discussions with the authorities to propose:

- Areas of Complementary Support Assistance (CSA) to strengthen institutional capacities in the sector
- Triggers for disbursement: pre-conditions and Performance Assessment Framework including 6 indicators definition, baseline, target, means of verification, timing for assessment
- Weight of indicators and scoring method

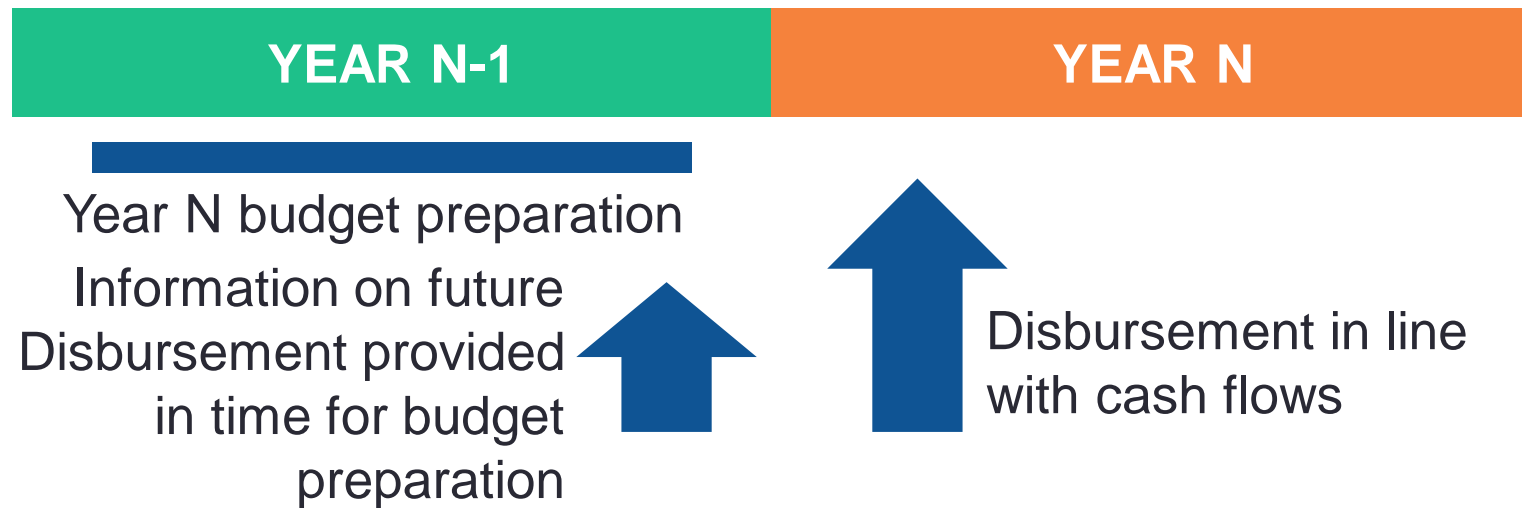
# FUNDING ARRANGEMENTS

## Additionality of funds:

- All funds are additional to domestic revenues
- When considering additionality of BS:
  - Consider effects on the MTFF and strategic resource allocations according to overall policy priorities (also, or in particular at sector level)
  - Consider recurrent cost implications and sustainability.
- Additionality  $\neq$  targeting
- No additionality at sector level but additional space at macro level: focus on dialogue, incentives and conditions on results
- Emphasis on effectiveness and efficiency of sector policies and expenditure

# TIMING OF DISBURSEMENT AND DURATION: BS PREDICTABILITY

**Predictability in the short term:** align to budget cycle and treasury cash flow



**Predictability in the medium term:** duration of contract:

- SDG-C and SRPC (3-4 years in principle), usually repeated
- 1- 3 years for SRBC (depending on volatility of situation)

- **No floating tranches**

# Quiz time

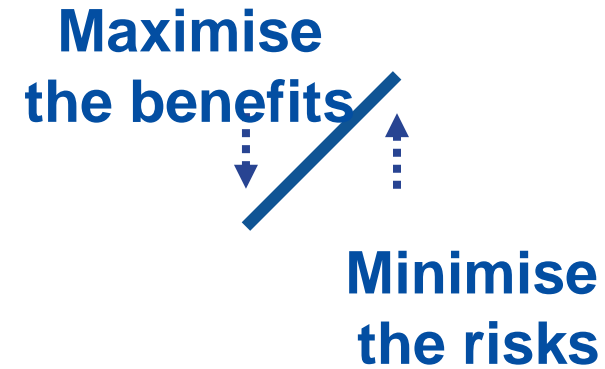
Let's go to Menti!

# SIZE AND PHASING OF VARIABLE TRANCHES

- > VT meant to have incentive effects and to signal specific performance issues: larger VT may have stronger incentive effect, but the PC is taking higher risks.



**Balance needed between creating incentives and avoiding unpredictability and volatility of disbursements (on average 50% FT and 50% VT)**



- > Countries with good track record and low risk profile can get contracts with longer duration and low VT share.

Please take a 5 min break

# EXERCISE 4

15 minutes in groups  
10 minutes plenary feedback



## Working groups: Reach agreement on Complementary Support Activities

The initial assessments have revealed areas of considerable institutional weaknesses. The EU has decided to set aside an envelop of € 10 million from the total budget support of €100 million to address some of these gaps.

All along the in-depth assessments of the four eligibility criteria, you have noted areas of weaknesses that, if not addressed, could jeopardise the reaching of the energy policy objectives. In addition whilst preparing the Intervention Logic you faced some issues with access to reliable data.

Please carefully consider the areas you identified earlier as being potentially in need of capacity building and propose a package of technical assistance, studies, training, and other support, that could be provided under the €10 million CSA envelop. Read Supplementary information on the M&E system in your background document (Chapter 7).



Do not forget to have a look at what other development partners already provide  
**Prioritise! Be realistic!**

**Tip: : Read Chapter 6 and 7 of documents provided**

No chapter or annex in the Guidelines, but see a paragraph on p15



# Capacity building needs identified during assessment of four eligibility criteria and Intervention Logic preparation for Fictiland's energy sector support

*We will fill this table with what came out of the previous exercises*

Issues	Issues identified	Possible CB
Policy framework		
Policy relevance		
Policy credibility		
Macro-economic management		
PFM management, systems and processes		
External oversight and transparency		
Energy sector		
Other risks and challenges		

# EXERCISE 4 (Module 3)

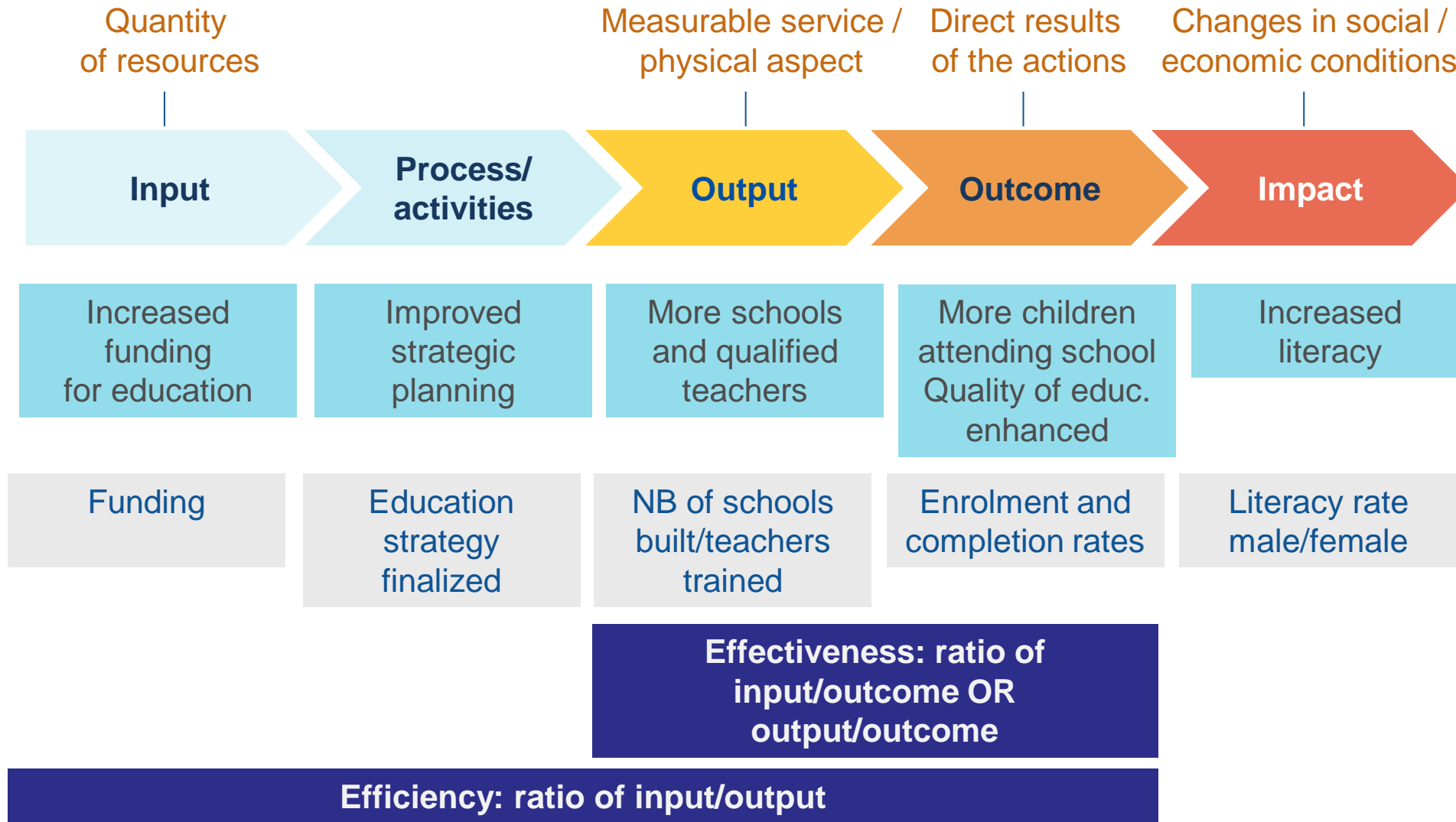
15 minutes in groups  
10 minutes plenary feedback

SRPC to the Energy sector of Fictiland of a maximum of €100 million over 2021-2023 with €10m set aside for CSA

## Areas for capacity strengthening

Area of change that requires strengthening	Type of capacity strengthening	Ministry/ Agency benefiting	Timing and length of intervention
Example: Budget management at provincial level	Training	Provinces	continuous

# WHICH INDICATORS FOR BUDGET SUPPORT?



# INDICATOR DOCUMENTATION SHEET

INDICATOR no X	TITLE
Policy	Reference to the partner country's policy
Objective	Reference to the relevant objective within the policy
Department	Department making use of this indicator within this policy
Indicator type	Process / input / output / outcome
Measurement unit	e.g. %, national currency, km and other units
Calculation method	Exact formula (e.g. numerator and denominator for a ratio)
Disaggregation	e.g. by sex, geographic area or population groups
Data collection method	e.g. administrative collection or survey
Measurement periodicity	e.g. monthly, annual or every 3 years
Department responsible	Department(s) in charge of data collection, processing and publication
Delivery date	Timeline for the publication of data and related documentation
Limitations and bias	Methodological weaknesses, statistical features (e.g. precision; confidence interval; expected coverage or completeness) or, in case of a proxy, the bias with regard to the desired indicator
Means of interpretation	Significance in relation to the policy – what is actually measured? What can other indicators tell in connection with this indicator?
Change in methodology	State whether the department responsible for the production of the indicator intends to change the calculation or data collection method.
Baseline	Year & value (or state of play for process indicators)
Targets	Years & values (or expected progress for process indicators)

**See Annex 8**

Please take a 5 min break

# EXERCISE 5 (Module 3)

20 minutes in groups  
20 minutes plenary feedback



## **Working groups: Agreement on choice of performance indicators**

After 18 months of intense discussions, you are about to reach a final agreement on the performance indicators, to which 72% of the EU budget support will be linked in the form of 3 variable tranches to be disbursed in 2021, 2022 and 2023 (see funding profile hereafter).

For this exercise, you will be divided into two groups, one group representing the EUD, the other group representing the Fictive Government. Please nominate a speaker.

Your task is to:

- agree on a list of 8 performance indicators amongst the 12 potential indicators that you and the Government have been considering over the past 12 months.
- Allocate weights and amounts to the indicators
- Decide on a scoring method for the indicators

Read your instructions, fill the template and prepare your arguments before proceeding with the interaction in plenary (20min). The exercise is over when an agreement has been reached but will take no longer than 20 minutes.

# Funding profile (for information)

SRPC to the Energy sector of Fictiland of a maximum of €90 million over 2021-2023 with annual tranches of financial support with a fixed and a variable component, the variable component being performance based

## Disbursement: amounts in Euros (= Maximum) and schedule

	2021		2022		2023		Total
	In € m	Timing	In € m	Timing	In € m	Timing	In € m
Fixed tranche	30	Q3	20	Q2	15	Q2	65
Variable tranche	5	Q3	10	Q2	10	Q2	25
<b>Total BS</b>	<b>35</b>		<b>30</b>		<b>25</b>		<b>90</b>
CSA	4	Q4					4

Maximum total  
amount €90m

# EXERCISE 5 (Module 3)

**Table 6.1: Support to Fictiland's energy sector 2021-2023: Performance indicators 1/**

Indicator	Baseline value	TARGET VALUES			Timing of assessment
		Year ...	Year ...	Year ...	
1.					
2.					
3.					
4.					
5.					
6.					
7.					
8.					



# EXERCISE 5 (Module 3)

**Table 6.2: Support to Fictiland's energy sector 2021-2023: Performance indicators 2/**

Indicator	Weight 2021	Weight 2022	Weight 2023	Total Allocation (in M€)
1.				
2.				
3.				
4.				
5.				
6.				
7.				
8.				

Scoring method:

# TRAPS TO BE AVOIDED WITH BUDGET SUPPORT

- **Over-asking** (more than reasonably can be achieved).
- **Multiplicity of conditions.**
- **Conditionalities beyond Government's control.**
- **Lack of clarity in the FA**, in particular related to the monitoring / measurement of indicators.
- **'The battle among consultants'** in relation to the indicators.
- **Taking over government's responsibilities** (e.g. TA elaborates the new sector policy).
- **Micro-management** (as opposed to government ownership).
- **Any reporting and auditing** over and above what is agreed upon.
- **Overloading the BS** because of perceived fears of risks.

# DON'T OVERLOAD BUDGET SUPPORT!



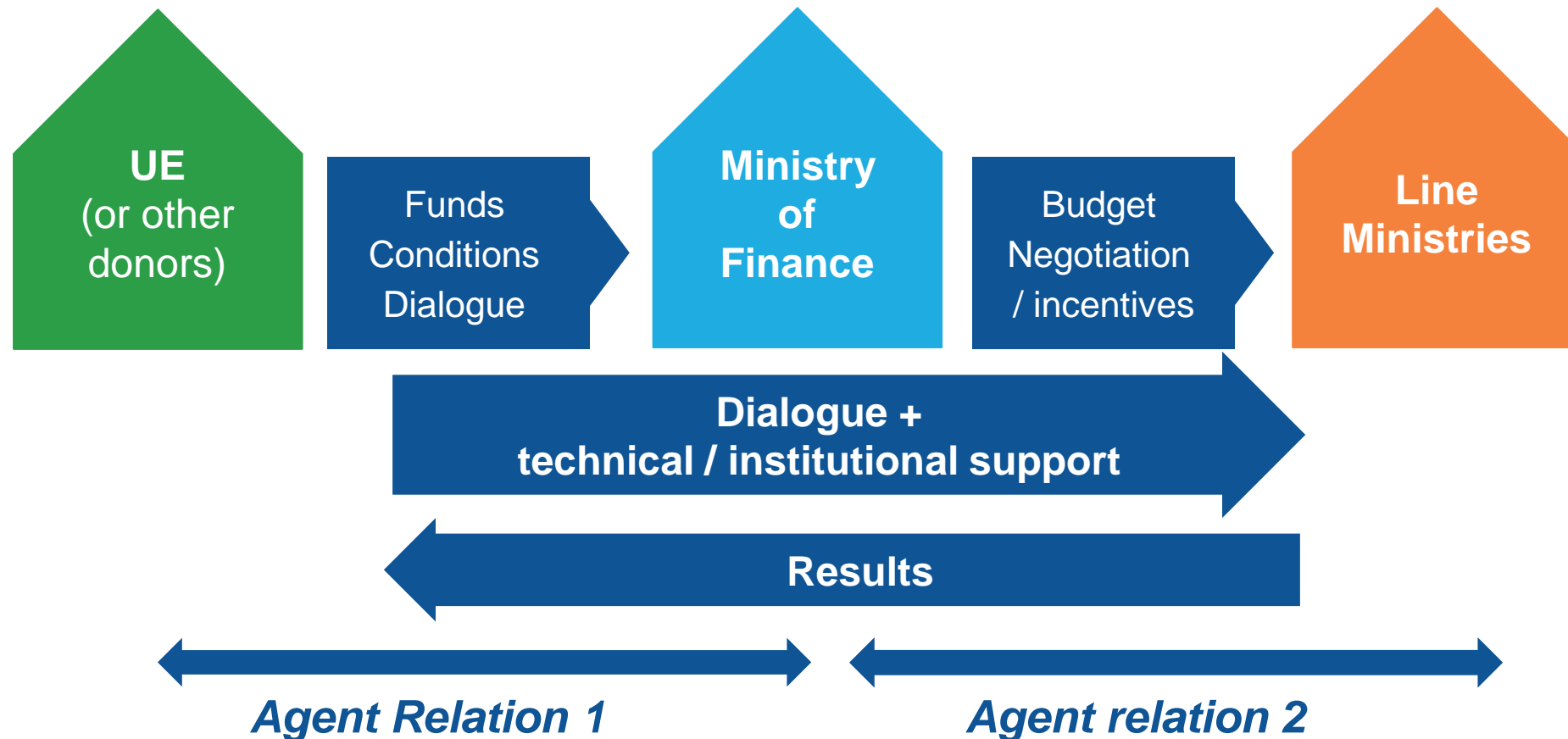


# Budget Support

Monitoring and disbursement and implementation simulation

*Online Sessions*

# THE PRINCIPAL-AGENT RELATIONSHIP



# DISBURSEMENT AS EXPRESSION OF COLLABORATION

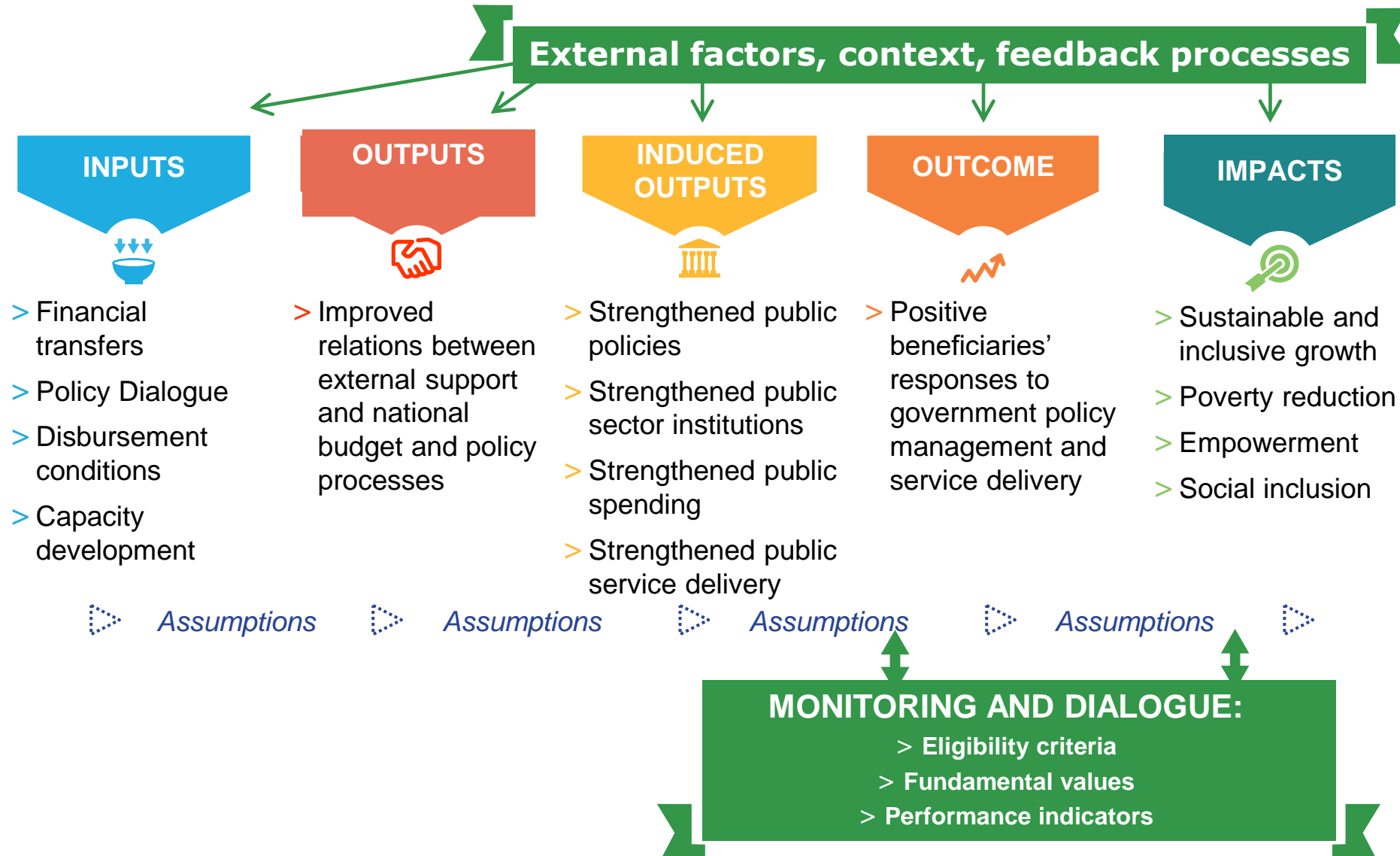


# Quiz time

Let's go to Menti!



# WHAT IS SUBJECT TO MONITORING?





# Quiz time

Let's go to Menti!

# MONITORING A BS PROGRAMME: A CONTINUOUS PROCESS

## Follow up and data collection

- > Reports from Min Finance, Central Bank
- > IMF/WB / ECFIN Reports
- > Sector reports (implementation)
- > Enacted budget
- > Reports on budget execution
- > Assessments of PFM (PEFA, PEMFAR, PER, OBI)
- > Implementation reports of PFM Action Plan
- > Human rights reports
- > M&E and disbursement indicators

## Analysis

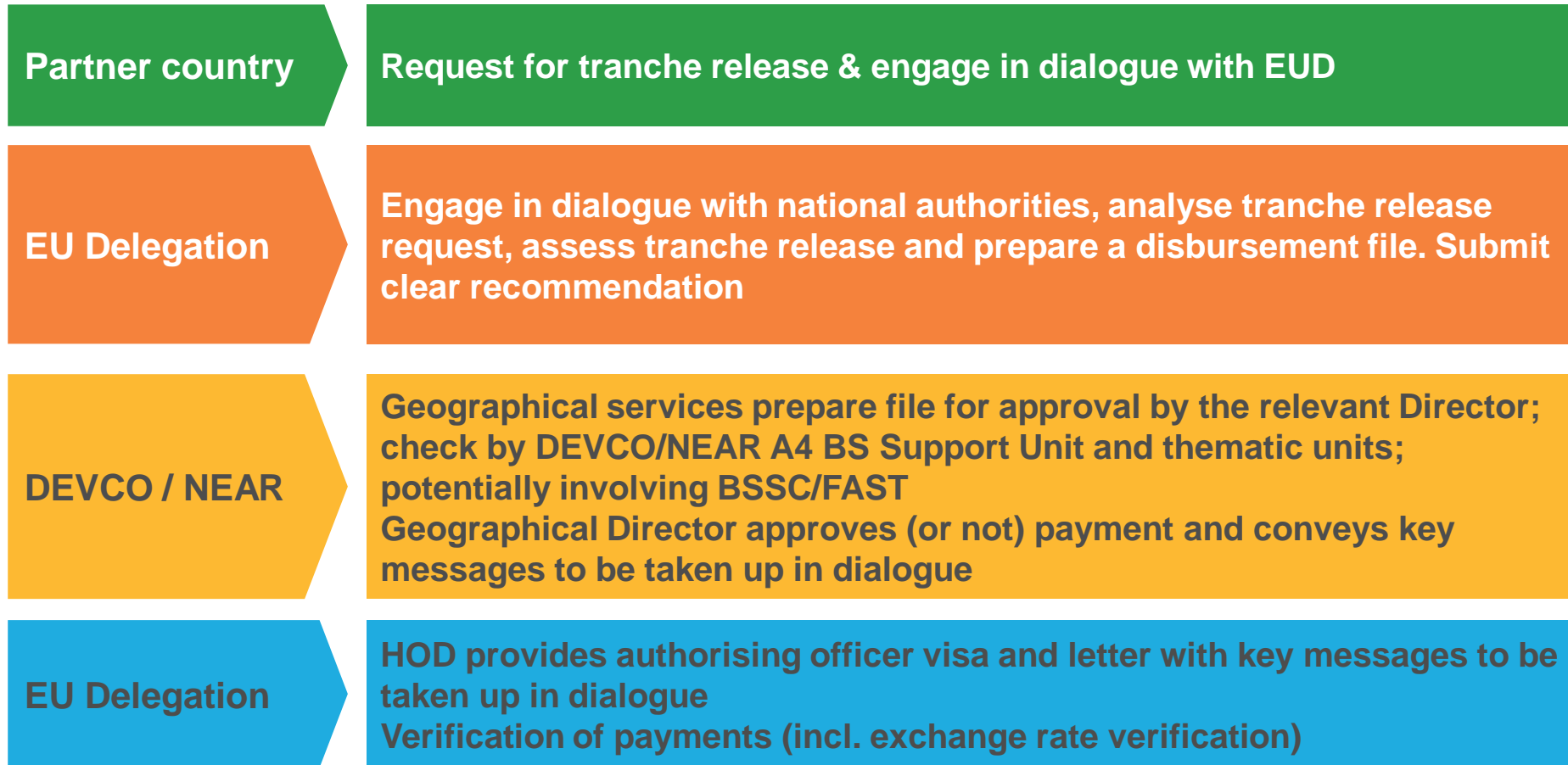
- > Macroeconomic framework
- > Progress in implementing policies
- > Relevance/credibility of the policies
- > Progress of PFM reform
- > DRM (revenue) and Budget (expenditure) execution
- > Availability/accessibility of budget documents
- > Monitoring of performance indicators, achievement of results, specific objectives.
- > Evolution of risks
- > Monitoring of risk and mitigating measures

## Payment file/ annual report

- > Verify continued relevance/credibility of policies
- > Macroeconomic assessment
- > Annual progress on PFM
- > Assessment of progress in transparency
- > Risk Management Framework (RMF)
- > M&E systems

**POLICY DIALOGUE**

# DISBURSEMENT PROCESS



# REQUIREMENTS FOR DISBURSEMENT

	Assessment	Requirements
<b>Public policy</b>	<ul style="list-style-type: none"><li>• Satisfactory progress in implementation</li><li>• Credible and relevant successor strategy</li></ul>	<ul style="list-style-type: none"><li>• Aligned to partner country's policy reporting cycle</li><li>• Country's monitoring and evaluation arrangements</li><li>• Statistical quality</li><li>• Coordinated with Dev Partners</li></ul>
<b>Macroeconomic stability</b>	<ul style="list-style-type: none"><li>• Stability oriented policies aimed at restoring key balances</li></ul>	<ul style="list-style-type: none"><li>• Identify the country's vulnerability to external shocks</li><li>• Coordinate with IMF ('on track' or assessment letter)</li></ul>
<b>PFM and budget transparency</b>	<ul style="list-style-type: none"><li>• Progress in implementation reforms</li><li>• Satisfactory access to budget information</li></ul>	<ul style="list-style-type: none"><li>• PFM monitoring table.</li><li>• Aligned to partner country's budget cycle</li><li>• Attention to DRM</li></ul>
<b>Disbursement indicators</b>	<ul style="list-style-type: none"><li>• Progress in implementation of indicators</li><li>• Constraints and bottlenecks</li></ul>	<ul style="list-style-type: none"><li>• As in TAPs of FA</li></ul>

Please take a 5 min break

# EXERCISE 6 (Module 4)

20 minutes in groups  
20 minutes plenary feedback



## Working groups: Negotiation around disbursement, June 2021

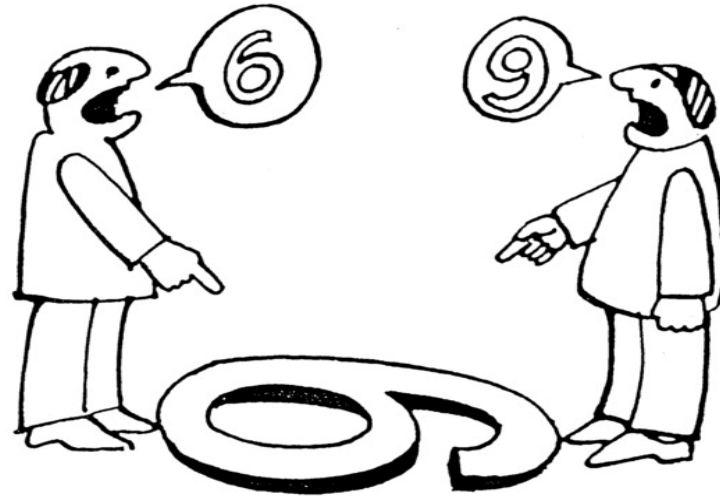
A first year of budget support has passed. During 2020, you have kept close to the Ministry of Energy and its various technical departments to monitor progress. You participated in the Sector Working Group with the other development partners and stakeholders.

With the COVID-19 pandemic, it has been difficult to implement policy plans as they had originally been designed. To support the Government in coping with the economic and fiscal aftermath of the health situation, the EU already brought forward the payment of the 2021 fixed tranche. You are now sitting down with the authorities to discuss the disbursement of the 2021 variable tranche, which is based on the performance for 2020. Four out of the 8 indicators did not reach their agreed targets in 2020....

For this exercise, you will be divided into two groups, one group representing the EUD, the other group representing the Fictive Government. Please nominate a speaker. Prepare your arguments for disbursement. An article has just been published in the Fictou Daily Post... see the provided documents.

**Tips:** Beware of the contractual nature of the SRPC  
Pay attention to actual/potential corrective measures

# FROM THE PERSPECTIVE OF THE EUD AND FROM THE PERSPECTIVE OF THE PARTNER ORGANISATIONS:



Please take a 5 min break



# DISBURSEMENT TEMPLATE

**Distinguish between first disbursement and subsequent ones:**

- > First: complete unless formulation concluded less than 6 months ago
- > Subsequent: update on eligibility

**Template is comprised of:**

- > **Introduction:** summary including changes since previous assessment, country/sector context and RMF risk situation, eligibility and conclusion with proposed disbursement
- > **Review of eligibility criteria** and update of policy dialogue
- > **Annexes:**
  - Government disbursement request
  - PFM (incl DRM) and Transparency Report
  - Latest validated RMF
  - Sources of information

# WHICH DOCUMENTS TO INSERT IN A DISBURSEMENT FILE

## Partner Country Formal request from the Government

- > **Cover Letter**
- > **Analysis and evidence** of continued eligibility and targets achieved for the indicators of the variable tranche
- > **Amount requested**
- > **Proof of transfer previous disbursement** (exchange rate) (if not done before)
- > **Validity of bank account**

## EU Delegation

### Template covering:

- > Introduction, including conclusion on proposed disbursement
- > Review of eligibility criteria and conclusions
- > Update of policy dialogue
- > Annexes

# IF THINGS GO WRONG: GRADUAL AND PROPORTIONAL RESPONSE

Change in Fundamental Values	Response
Stable or positively progressing situation	<ul style="list-style-type: none"><li>• Minor adaptations for fine-tuning if required</li></ul>
Concerns arising	<ul style="list-style-type: none"><li>• Mitigation measures to be proposed</li><li>• Roadmap for improvement</li></ul>
Significant deterioration	<ul style="list-style-type: none"><li>• Report from EU Delegation to Geographic Director (support by DEVCO/NEAR, EEAS).</li><li>• Next to BBSC. Suggestions for precautionary measures (complementary actions?); delay in disbursement; reduction of BS</li></ul>
Extreme cases	<ul style="list-style-type: none"><li>• Suspension</li><li>• Possible re-allocation of resources to non-governmental activities</li></ul>

# Questions and Answers

## A4

# ROUNDING UP: RELEVANT INFORMATION?

- **On DEVCO Internet:** [https://ec.europa.eu/international-partnerships/budget-support\\_en](https://ec.europa.eu/international-partnerships/budget-support_en)
- **On DEVCO Intranet:** Always refer to it (for templates, documents etc)
  - <https://myintracomm.ec.europa.eu/dg/devco/eu-development-policy/budget-support-public-finance-domestic-revenue/Pages/budget-support.aspx>
  - Links to Videos:
    - What is EU budget support? – <https://bit.ly/EUbudgetsupportVideo1>
    - How EU budget support operates – <https://bit.ly/EUbudgetsupportVideo2>
    - EU budget support, a partnership for results – <https://bit.ly/EUbudgetsupportVideo3>
    - EU budget support at the time of crisis, the State and Resilience Building Contract – <https://bit.ly/EUbudgetsupportVideo4>
- **On Capacity4Dev platform:**
  - Restricted group « Budget Support Network » - <https://europa.eu/capacity4dev/bsn>
  - Public Group: « Economics, public finance, domestic revenue mobilisation & budget support » - [https://europa.eu/capacity4dev/macro-eco\\_pub-fin](https://europa.eu/capacity4dev/macro-eco_pub-fin) - Training material available here

# Keep in touch

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# Thank you



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