

State Building Contracts

8 July Brussels

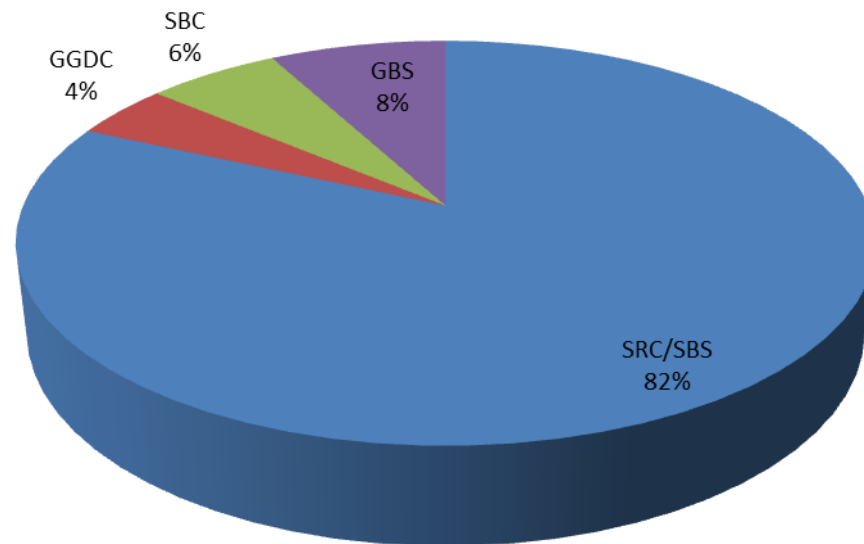
DG DEVCO 03
Budget Support & Public Finance Management
European Commission

State Building Contracts - Rationale

- ✓ **Provided only in situations of fragility or democratic transition**
- ✓ Supporting transition process towards development and democratic governance
- ✓ Ensuring vital state functions, including service delivery
- ✓ Improving the financial capacity of the partner government to undertake measures aiming at restoring peace, ensuring macroeconomic stability and fulfilling other short-term objectives
- ✓ **Budget support as a complementary instrument to other means of intervention (humanitarian aid, projects, capacity development, etc.)**

Types of BS contracts

Number of BS contracts by type



SBC: financial data

- 15 on going SBCs- Most in Western & Central Africa countries
- SBC on going financing commitments: €1369M, i.e. 12% of the total BS commitments.
- Size of an average SBC: €91M versus the average budget support contract €48M.
- Disbursements: €645M (i.e. 40% of the commitments) paid in 2014
 - €118M in 2012 and
 - €276M in 2013.
- The speed of payment is higher than for other BS operations.

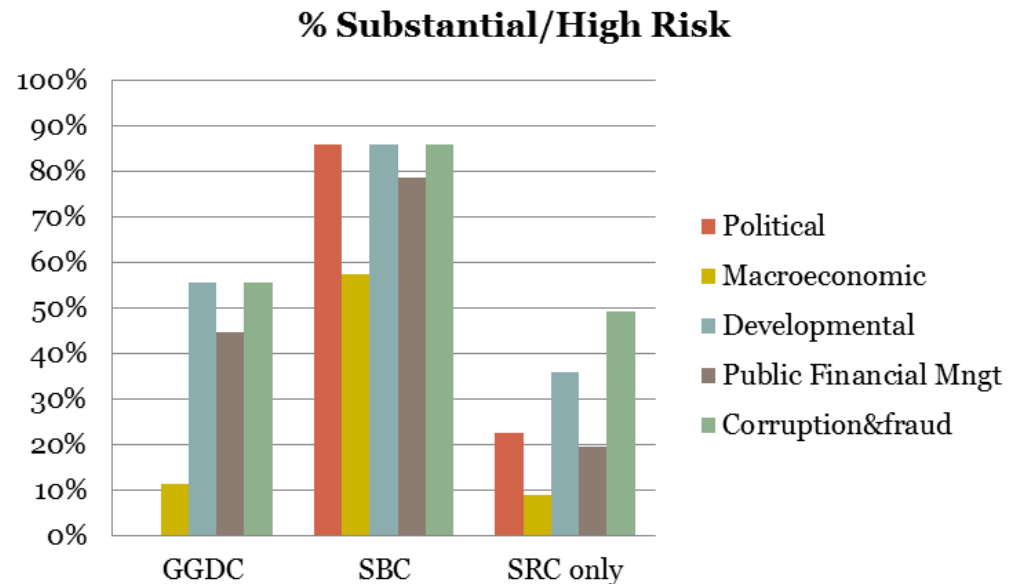
Eligibility Criteria

1. **Public Policy**: coherent framework to address the situation of fragility, relevant and credible, not overambitious.
2. **Stability-oriented macroeconomic framework**: crucial importance of economic development to step out of fragility situation => stable macroeconomic framework, Focus on the country relations with the IMF.
3. **Public financial management**: Credible and relevant PFM Action Plan/reform program. Core functions essential (budget availability, treasury system, mechanisms to report on budget execution).
4. **Transparency and oversight of budget**: Commitment to publish the budget before the first disbursement (if not met for the programme approval)

Risk Assessment

- Key element
- Analysis should be forward-looking
- Risks of non-intervention have to be highlighted
- Risk response strategies and mitigating measures
- SBC => case by case analysis

=> possibility to accept higher risks.



International coordination

- Strengthened coordination is crucial
- Both at HQ and local level
- Shared diagnostic, assessments and joint Road Maps
=> separate specific conditions for an SBC
- Institutions Dialogue on Fragility (EU, IMF, WB, ADB...UN...)

The SBC Road map

- An assessment of whether the partner country can be considered fragile or in a fragile/transition situation;
- A clear purpose linked to state building and democratic transition objectives;
- An assessment of the partner country commitment and stabilisation strategy to be supported by the SBC;
- An assessment of the eligibility criteria for SBC;
- An assessment of the risks, including the political risk, the mitigation measures and benefits;
- An indication of wider international support, MS, WB, IMF...

Good practices

- Forward-looking approach: Ivory Coast
- Quick, comprehensive & coordinated response: Mali
- Transition process: Tunisia
- Donor Coordination: South Sudan

Fragile States where SBC was not chosen

- Yemen: weak PFM, but not financial constraints to finance key expenditures => PFM reform project
- Timor Leste: No financial constraints to finance key expenditures, but PFM weaknesses (too dependent from oil revenues), lack of execution, lack of capacity of the line ministries => SRC on PFM reforms
- Somalia: extreme weaknesses of key institutions (Central bank), rudimentary nature of PFM, limited cooperation of IBW => premature, capacity building support, moving towards debt relief and broader engagements with IBW.

Design and implementation features

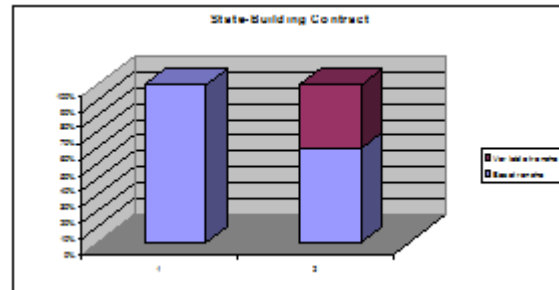
- 1-2 years programme, renewable only once (max 4 years duration):
- Larger fixed tranches
- A limited number of indicators for variable tranches => simple, realistic, focus on reforms and output (as opposed to outcomes)
- Components, elements for the dialogue and Indicators related to vital state functions and governance
- Mitigating measures: capacity development, specific conditions related to PFM, targeted aid

First lessons Learnt (1/3)

- **Volatility of the situation:** need for a quick reaction, a short-term program, strong coordination and fast implementation
- **EU inter-services support:** enhanced support from the headquarter to the delegation
- **Risk /cost of non-intervention:** a greater focus on assessing the costs of no intervention
- **Coordination and coherence with MS:** shared information & analysis, joint missions and consider inviting MSs to provide direct financial support to SBCs
- **First steps towards SBC:** engaging at an early stage; embracing a strategy of carefully sequenced reforms tailored to improve capacity; As soon as the BS eligibility conditions seem to be met, Gvt & donors should start discussing formulating a budget support and a road map.

First lessons learnt (2/3)

- **Political transition:** Political transition cannot be a specific indicator or condition for the SBC.
- **Duration:** 1 or 2 years too short in the countries with structural fragilities (Haiti, CAR...).
- **Fixed tranches and variable tranches:** A first, important fixed tranche. Later tranches: a mix of fixed and variable tranches.



- **Components:** a max. 5 components or priorities (i) context and justification, (ii) the elements of dialogue, (iii) accompanying measures and (iv) a description of the indicator (with baseline, yearly benchmarks, source of verification, time schedule, etc.). Ivory Coast and Mali are good examples.

First lessons Learnt (3/3)

- **Targeted aid** (disbursements against verified expenditures) can be an option in the case of very weak PFM systems.
- **Indicators:** number to be limited (around 5).
- **Technical assistance:** complementary support focusing capacity development can be very significant (Mali and Haiti) and include different components (such as PFM TA, sector TA, audits, etc.).
- **Civil society:** EU recognises an essential role for CSOs in the peace and security agenda, particularly in conflict prevention, peace-building and state-building. This role must be taken into account in the SBC.

ODI's report: *"EU SBCs- Early lessons from the EU's new budget support instruments for fragile states"*. Myra Bernardi, Tom Hart, & Gideon Rabinowitz- Feb. 2015

- **Flexible instrument for rapid support to fragile state.**
- **Design tension between supporting short term stabilisation or crisis management , and long term state building objectives.**
- **Due to the volatility: closer and more frequent risk monitoring**
- **Political economy can hinder effective political dialogue**
- **TA: more strategic and more flexible approach.**

Thank you for your attention!