



Budget Support

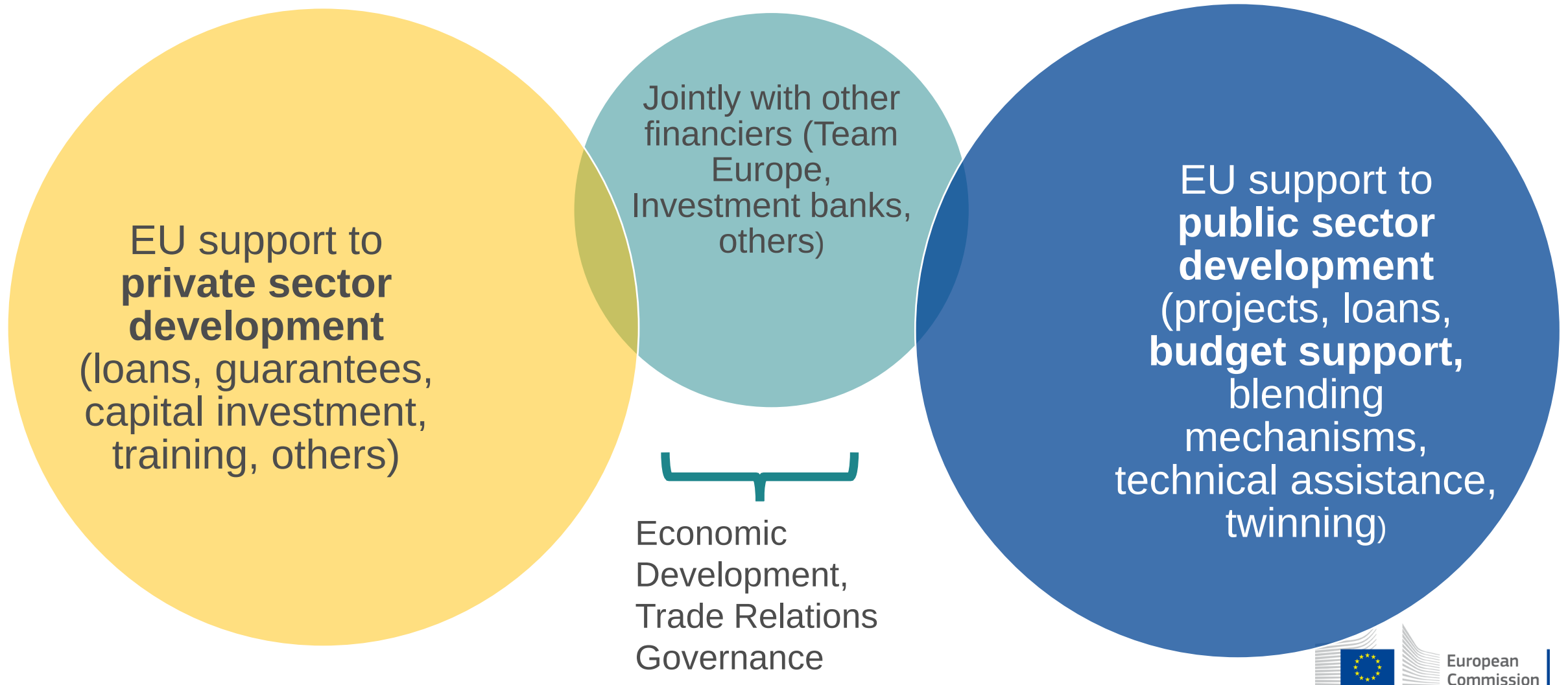
Day 1: Core Concepts

Definition of EU budget support and eligibility criteria

Online Sessions

What is Budget Support for the EU?

EU funding modalities



EU Approach to budget support

4 eligibility criteria

Credible and relevant development/sector policy

Stability oriented macro-economic policies



Relevant and credible PFM reform programme

Transparency and oversight of the budget

+ consideration of the commitment towards - and respect of - EU's fundamental values

4 interrelated components

Performance & assessment criteria

Capacity building

Policy dialogue

Financial transfers (grants)



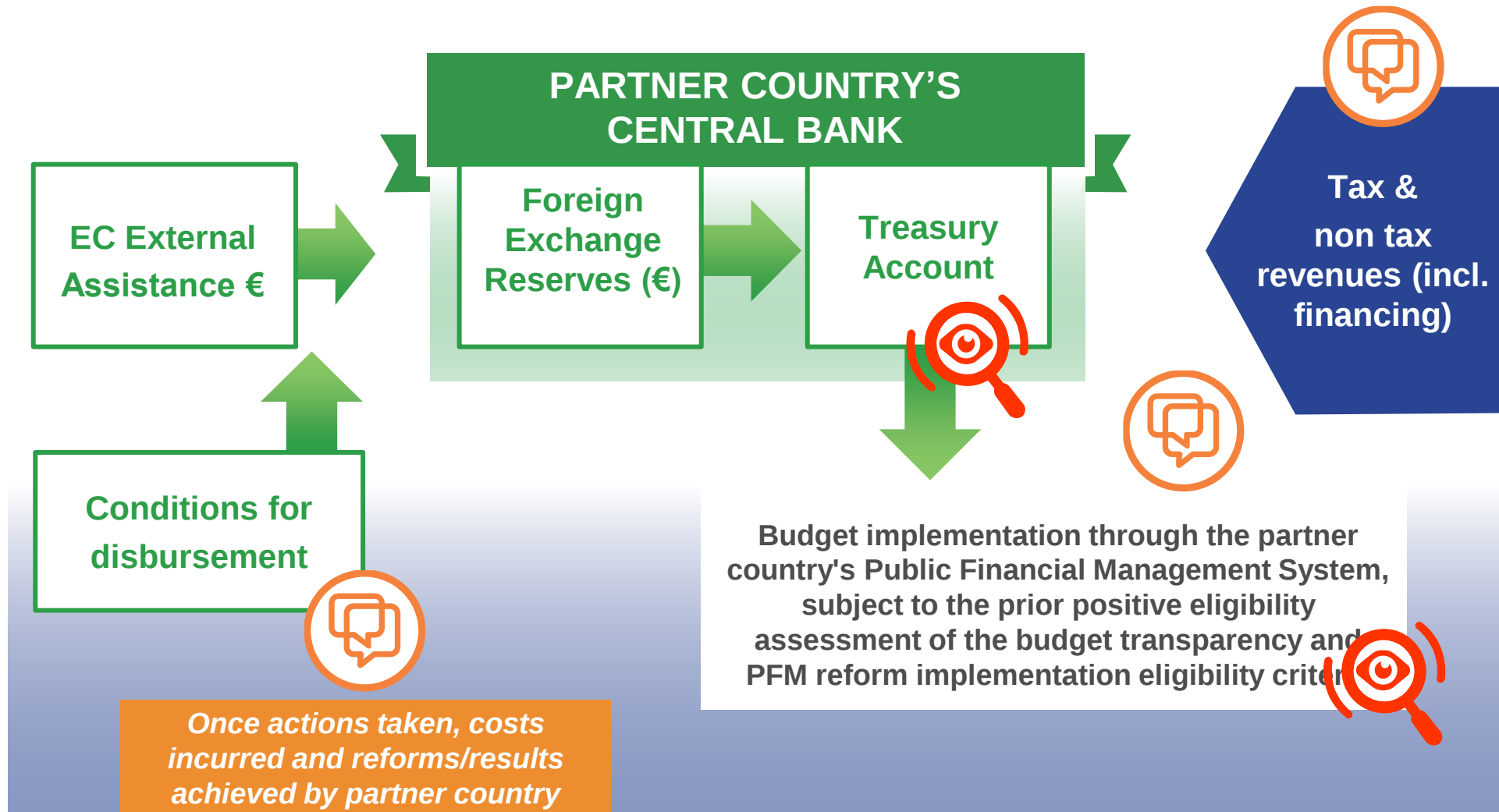
3 types of multiannual contracts

Sustainable Development Goals Contract (SDG-C)

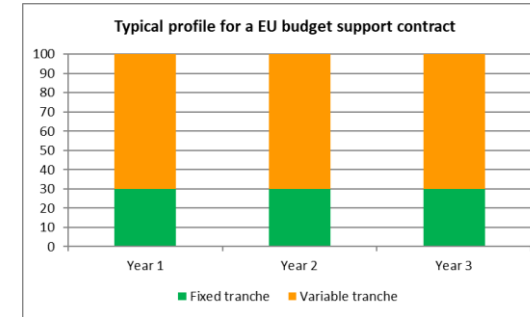
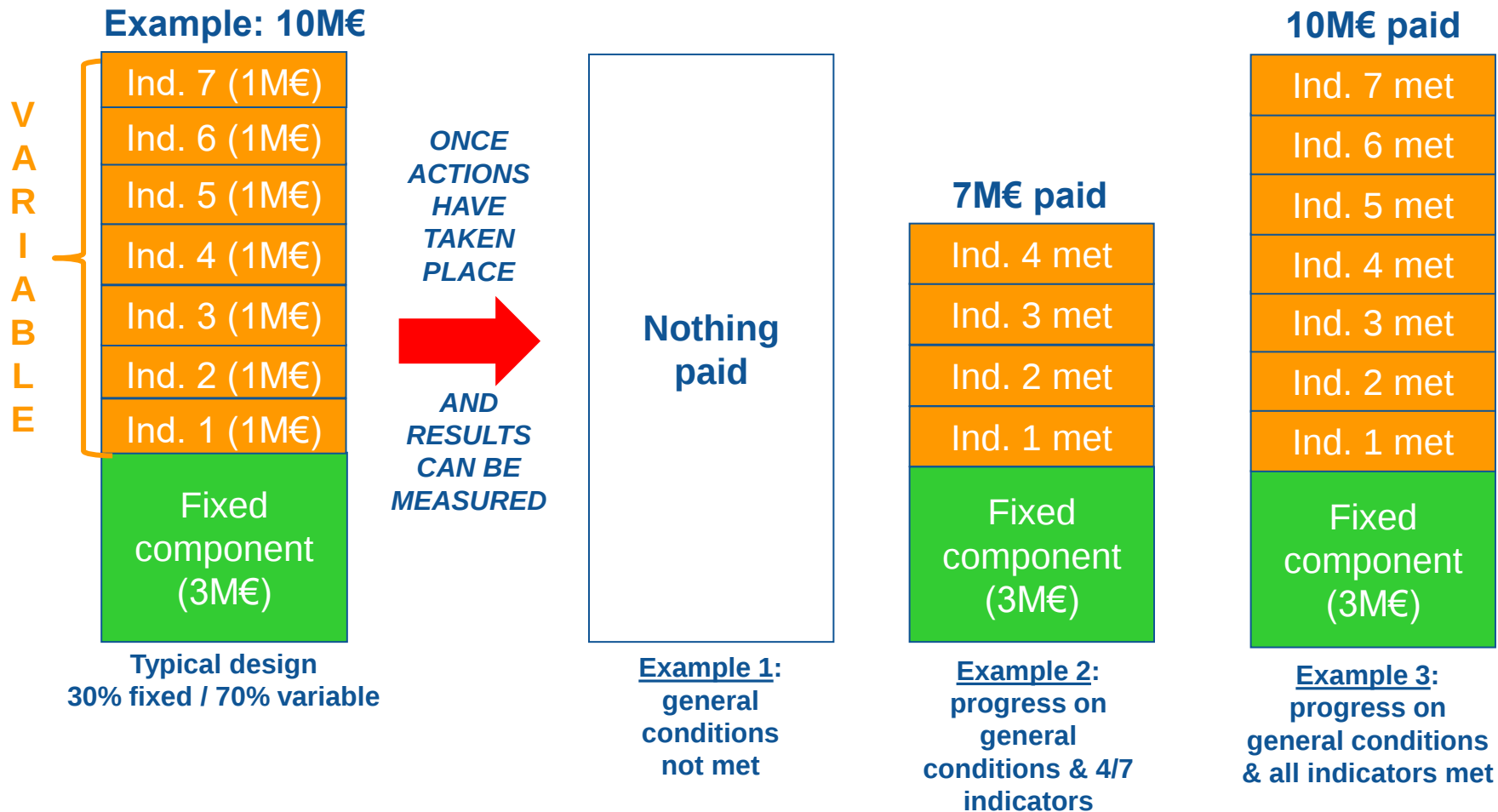
State and Resilience Building Contract (SRBC)

Sector Reform Performance Contract (SRPC)

Payments once conditions met (ex post)



Payments on performance



**Fixed tranche
≠
unconditional,
guaranteed
or pre-financing**

– 3 scenarios (no, partial or full payment) –

Thinking about the flow of funds of budget support, can you draw any parallels with this photo?



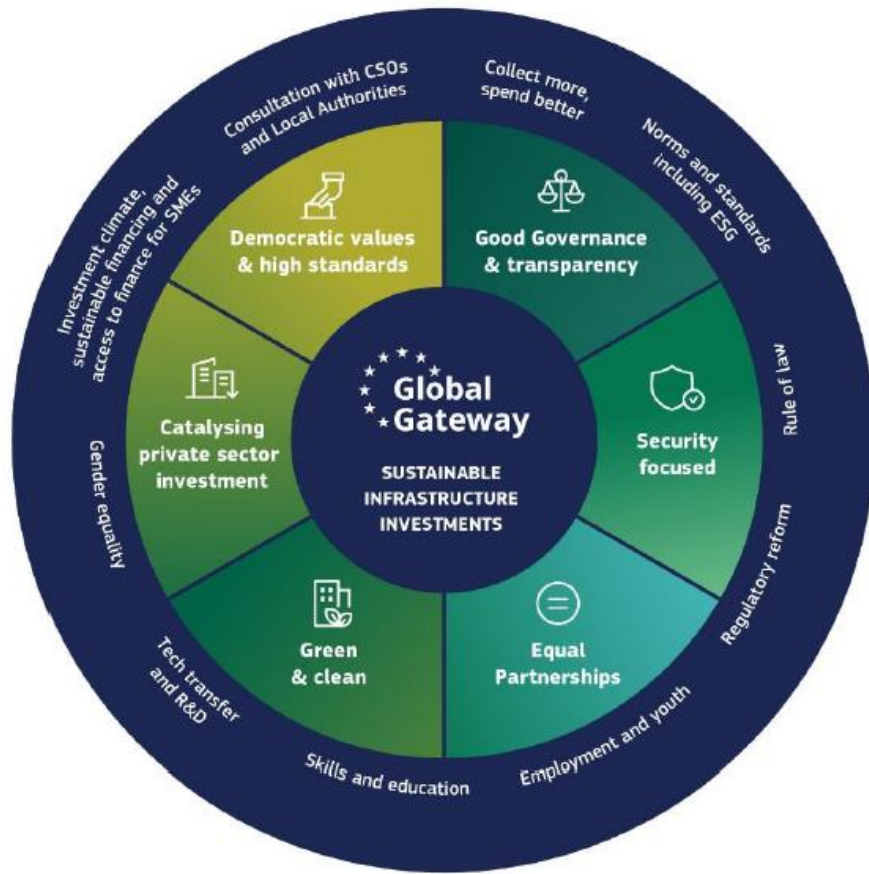
Budget support, External Action, Team Europe



Budget support, an asset for Team Europe (Initiatives)

- Coordination with EU MS/DFIs, EIB, EBRD
- Integrated in the EU Multiannual Indicative Programmes
- Reflected in plans for Global Gateway implementation
- In ENEST/MENA countries, synergies with Facility & Macro-financial Assistance

The Global Gateway and broader policies



The Global Gateway and its 360° approach



Economic governance & Global Gateway

Foster an investment-friendly environment for mobilizing increased investments in infrastructure meeting high technical, competitive, environmental, social and governance standards.

The EU supports:

- Strengthening **domestic resource mobilization, public finance management and debt management**
- Reforms of **regulatory frameworks** for greater sustainability, transparency and non-discrimination
- **Sustainable finance** flows
- The **capacity of partner countries to develop infrastructure plans and prepare credible projects**
- **Adherence to international standards for infrastructure spending** by other donors
- Active participation in **international standard setting bodies**

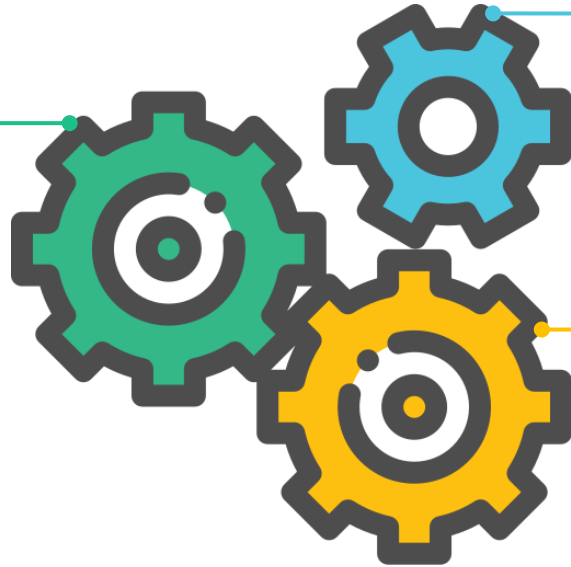


https://commission.europa.eu/system/files/2021-12/joint_communication_global_gateway.pdf

https://international-partnerships.ec.europa.eu/document/download/f2a837cc-95be-420a-ab89-d8eee453b1a8_en?filename=swd-collect-more-spend-better_en.pdf

Budget support for Global Gateway

Macroeconomic stability: fiscal policies (revenue and spending – recurrent and **investment**), debt sustainability



Relevant and credible development and sector policies: financing; regulatory frameworks; public **investment** component with maintenance and recurrent costs; reporting and monitoring systems

Public finance management & fiscal transparency:

- tax and customs administration
- budgeting (gender and green)
- public procurement
- public **investment** management
- state-owned enterprises
- public debt management
- external control & anti-corruption



Conditions for successful & sustainable investments, maximising their returns

Quiz time

What is policy dialogue about?

Let's go to Menti!



Tools and Methods Series
Guidelines N°7

Budget Support Guidelines

September 2017



What is Policy Dialogue?

ESSENTIAL activity (under Budget Support) and
CRUCIAL (for other interventions)

It is expected to **CONTRIBUTE** to the objectives
of budget support & other interventions

Used to **MITIGATE** some of the **RISKS**

COHERENT and in line with the **AGREED
OBJECTIVES**

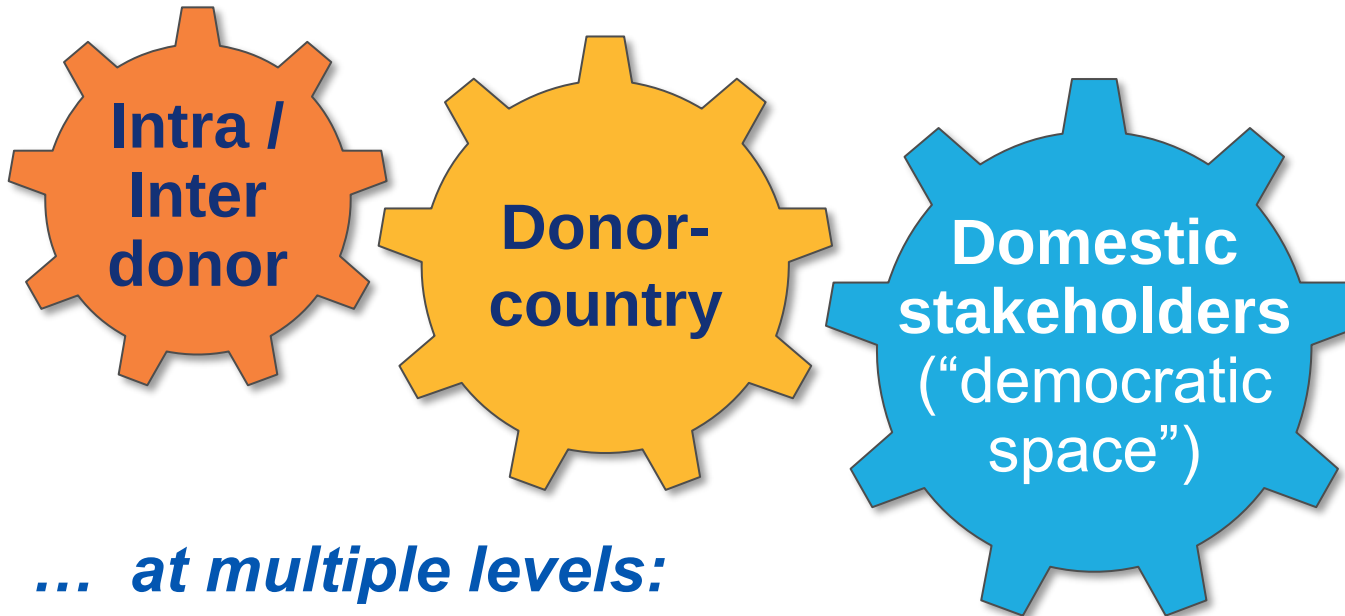
Adaptation of Annex 13, Budget Support Guidelines 2017

Policy dialogue is a continuous, dynamic, multidimensional, non-linear, purposeful exchange

PD DPs DP – Gov Gov Democratic space Civil Society & Private Sector

Global
Regional
National
Sector
Sub-national
District
Municipal
Grassroots

... between:



... at multiple levels:

... and evolving over time !

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 reform agendas (governance, accountability, regulatory & institutional framework)
 - ✓ Global Gateway objectives and other EU objectives
 - ✓ Eligibility criteria (policies, macroeconomics, PFM, transparency) and indicators
 - ✓ Efficiency and effectiveness of sector policy formulation and implementation processes
 - ✓ Public investment plans, of which Global Gateway investment projects
 - ✓ Reforms to improve the investment climate and the quality of/access to public services
 - ✓ Specific sector PFM issues that are not particularly covered by generic PFM reforms

Quiz time: What is capacity development in the context of budget support?

Let's go to Menti!

Capacity development objectives

- Enhance Government capacity to design, implement, monitor, and evaluate policies and to deliver public services
- Support PFM reforms (e.g. revenue administration, procurement, investment management) and promote effective, accountable and inclusive institutions
- Support regulatory/institutional reforms to improve investment climate in sectors in connection with Global Gateway objectives and in relation to GG projects
- Promote stakeholders' engagement in policy design, implementation & monitoring
- Strengthen the national monitoring & evaluation framework / statistical system
- Integrate gender equality measures and greening PFM systems/fiscal policies
- Mitigate risks, where there is commitment to reform but lack of capacity

Any questions?

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

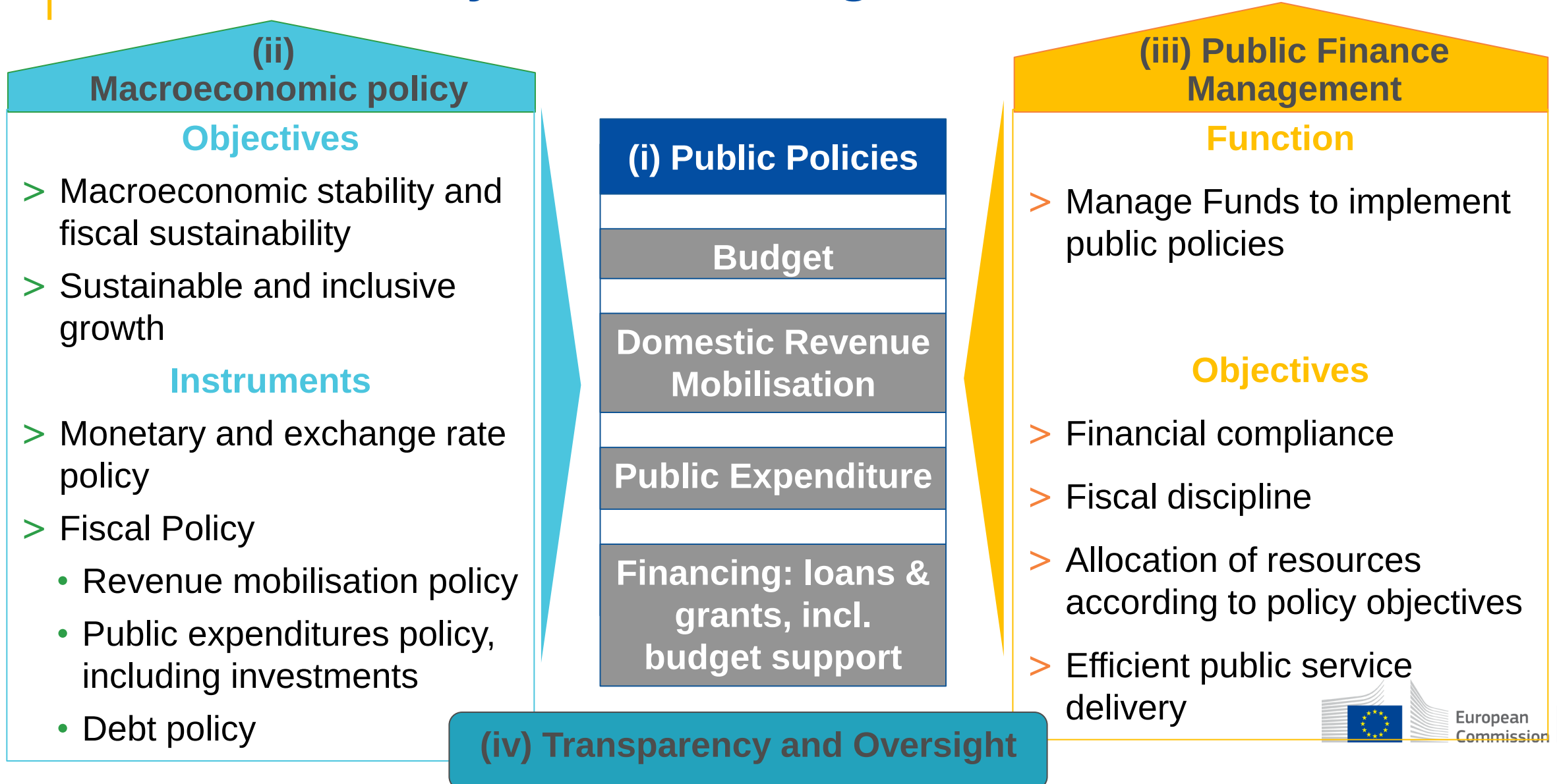
1. Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances

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.

The centrality of the budget



Why start the assessment of macro-economic policies at an early stage?

Macro-economic stability

- Ensures a favourable context for development – think about volatility!
 - Is essential for investments, private sector development and job creation – think about planning!
 - Contributes to equity – think about inflation!
- A relevant macro-economic policy will address imbalances through monetary, exchange rate, and fiscal policies
- A credible macro-economic policy is where institutions are capable to plan, finance and implement effectively policies backed by political commitment with predictability for departments in charge of service delivery

Macro - Analytical grid

Four building blocks:

- **(1) *Real economy*: Evolution of main macro-economic aggregates and potential sources of instability:** composition of GDP, sources of GDP growth, external balances
 - **(2) *Fiscal operations, policies and aggregates*:** overall revenue and expenditure levels, tax policy and exemptions/waivers, financing of the deficit, debt sustainability
 - **(3) *Monetary indicators and policies*:** control of inflation, money growth, regulation of the banking sector, credit requirements, regulation of the financial market, etc.
 - **(4) *Balance of Payments*.** Imports / Exports / Financial flows. **Vulnerability to external shocks and resilience efforts**
- ➔ Is the **policy mix** conducive to stability? Are fiscal, monetary exchange rate policy concurring into balancing the economy? Does it improve the investment climate?

Exercises

Fictiland and sector context

- Fictiland a mountainous country, mostly rural population, numerous ethnic groups, three tier government structure
- Rapid economic growth over past 30 years: now a LMIC with poverty rate < 6% and substantial progress towards achievement of SDGs
- Strong infrastructural development but coming up against rising demand for electricity, to which access remains uneven (quality and grid)
- ECF has monopoly over grid but not over electricity generation (hydropower 38%, coal 32%, gas 17%)
- Power = 85% of Fictiland's GHG by 2030 (growth GHG/capita +5% year) with population and economy highly vulnerable to climate impact

EU cooperation with Fictiland

- Agreed focus for the next Multi-Financial Framework: renewable energies and climate action
- Intended modalities:
 - €100 million as a SRPC to the renewable energy sector (eligibility criteria have been verified as satisfied)
 - €30 million as a co-financing of investment costs in transmission lines with Member States, the ADB and the WB (probably blending)
 - Possible additional assistance in capacity strengthening (considering twinning)

Exercise 1: Macro-economic policy



Section 2 of the **Background Document** (text and the IMF Article IV table) provides you with macroeconomic information in a summary. **Exercise 1.** focuses on sustained Fiscal balance only. Have a closer look at government's fiscal policies.

Discuss in your group:

1. Which section of the IMF-table refers to the Government Financial Operations? In which line would you expect information about Budget Support?
- 2. Are Fictiland's fiscal policies aimed at fiscal stability and hence contribute to macro-economic stability?
- 3. Based on the information about the fiscal balance only, would you consider Fictiland's eligible for budget support on the macroeconomic criterion?

Any questions?



Budget Support

Day 2: Core Concepts

Definition of EU budget support and eligibility criteria
(continued)

Online Sessions

Quiz time: Budget support and eligibility criteria

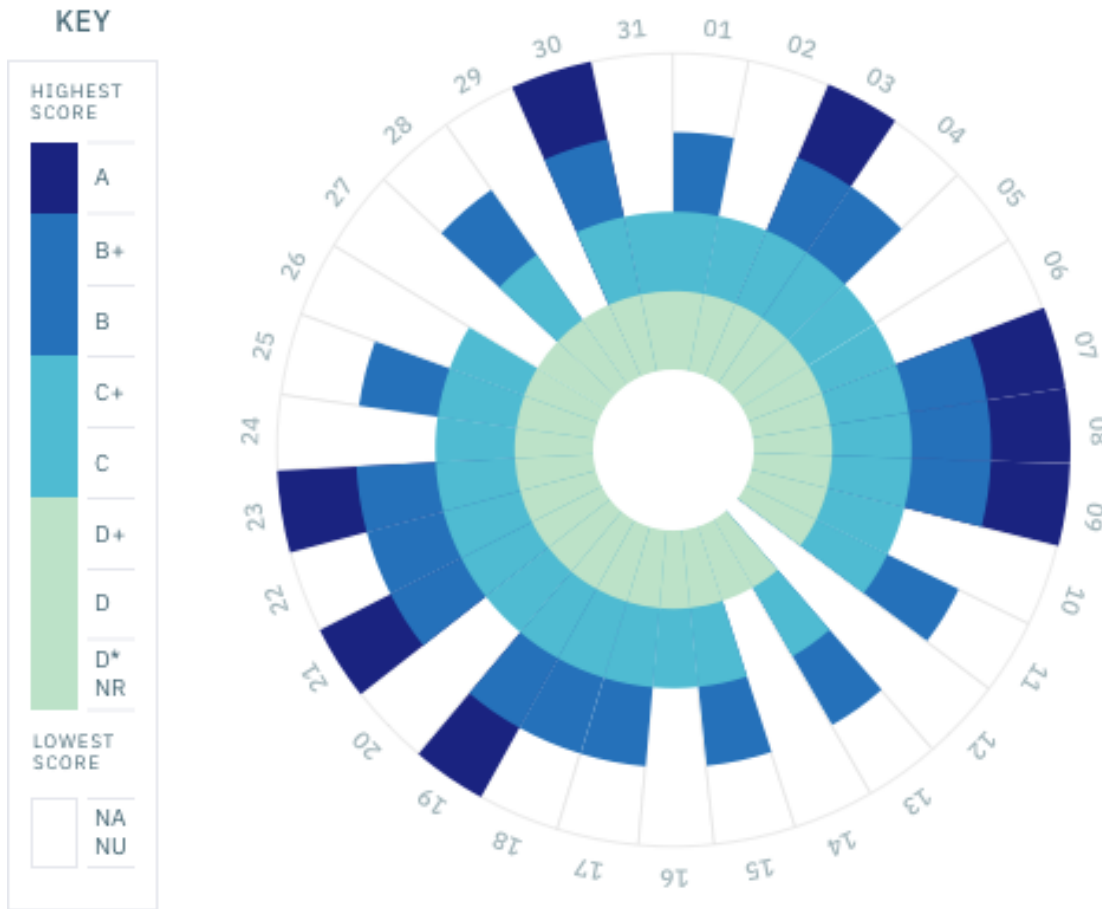
RECAP Day 1

Analytical Grid PFM

- **Diagnostic of the PFM system:** aggregate fiscal discipline, strategic allocation of resources according to policy objectives, efficient use of resources for service delivery, compliance with laws and regulations.
- **Respect of PFM principles:** legitimacy and norms; rules, procedures, and due processes; transparency and accountability.
- **Key weaknesses:** reforms and milestones for monitoring progress?
- **PFM reform:** action plan, monitoring arrangements, sequencing and prioritization of reforms, political buy-in; corruption and fraud; institutional arrangements, institutional and financial resources, coordination, capacity strengthening needs, gender-responsive budgeting; green budgeting; key reforms for investment climate/business environment.

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

PEFA PFM Measurement tool



PEFA is a methodology for assessing public financial management performance. It identifies 94 characteristics (dimensions) across 31 key components of public financial management (indicators) in 7 broad areas of activity (pillars). Method updated in 2016; Various 'drill-down' instruments Current focus at PFM Reform

www.pefa.org

Exercise 2: Public Finance Management

40' in groups
15' plenary feedback



To ensure (continued) satisfaction of eligibility at either the start or during programme implementation, the PFM expert has identified a number of areas of concern. These are shown in Table 2.

Amongst these issues of concern in each of the analytical areas, please identify:

- Those requiring close monitoring and attention in policy dialogue and/or specific conditions
- Those that could usefully benefit from complementary assistance

Take the Fictiland document provided, read section 3 (PFM) and annex 2 (PEFA) and fill Table 2. The most relevant paragraphs for this exercise are marked in green

Exercise 2 – Table 2.1: PFM assessment

Issues	Issues identified	Possible CB	Point of Policy dialogue	Possible conditions (Performance Indicators)
① Diagnostic of PFM: aggregate fiscal discipline, strategic allocation of resources according to policy objectives, efficient use of resources for service delivery, compliance with laws and regulations.	Investment and recurrent budget planning separate threatening sustainability, budget credibility, strategic allocation of resources are weak. Efficient use of resources? Public investment management in particular at subnational level (energy)? Regulatory framework is in process of improvement			
② Respect of PFM principles: norms, rules, procedures, due processes, honesty/probity, legitimacy, transparency and accountability	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			



Tip: 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 2 – Table 2.2: PFM assessment

Issues	Issues identified	Possible CB	Point of Policy dialogue	Possible conditions (Performance Indicators)
③ PFM Reform: 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-) The institutional linkage between MOF and MOP is not conducive to improvement in budget formulation (dual budgeting). The Reform programme leaves out the investment component. Nothing is said on gender budgeting, so possible opening there			
④ Tax administration: 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: Use the Guidelines pages 36-41 and Annex 5, pages 98-116 for PFM assessment and pages 53 and 167-168 for tax administration

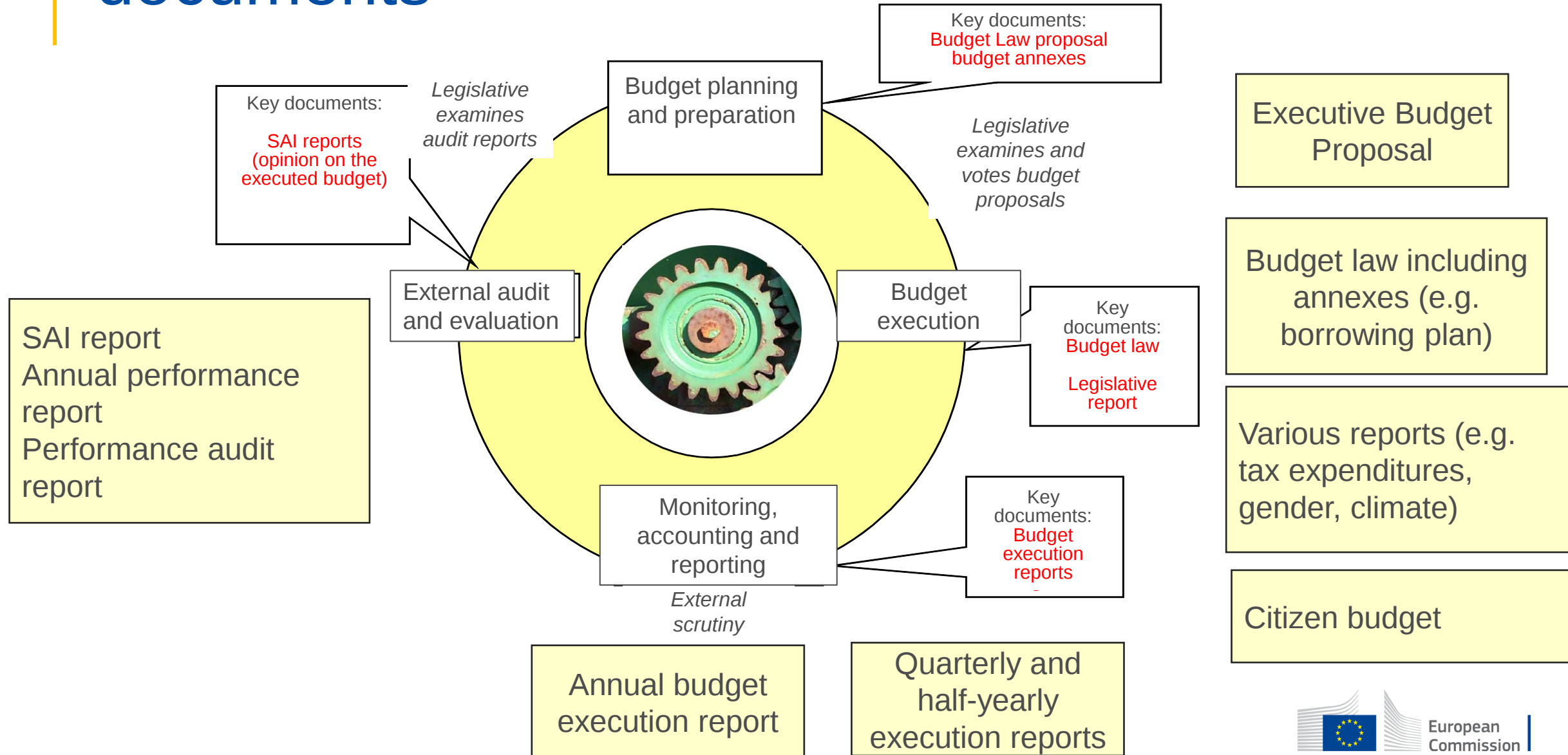
Requirement and focus for Transparency and oversight of the budget

- **For programme approval:** an *‘Entry point’ must be met. Focus on the publication of the Budget: either Executive’s budget proposal or enacted budget within the previous or current budget cycle. Due attention to fiscal and audit reports (also follow-up).*
- **During implementation:** For each tranche disbursement: ‘entry point still met?’ means satisfactory progress (or no deterioration) in the production, public availability / accessibility, timeliness of release of budget/audit documents, quality and comprehensiveness of budget documentation (e.g. tax expenditures, borrowing plan)

Assessment of transparency and oversight

Six major budget documents: budget proposal; enacted budget; in-year reports [mid-year report]; year-end report; audit report and other documents (citizens’ budgets).

Budget cycle and essential budget documents



Exercise 3: Budget transparency and external oversight



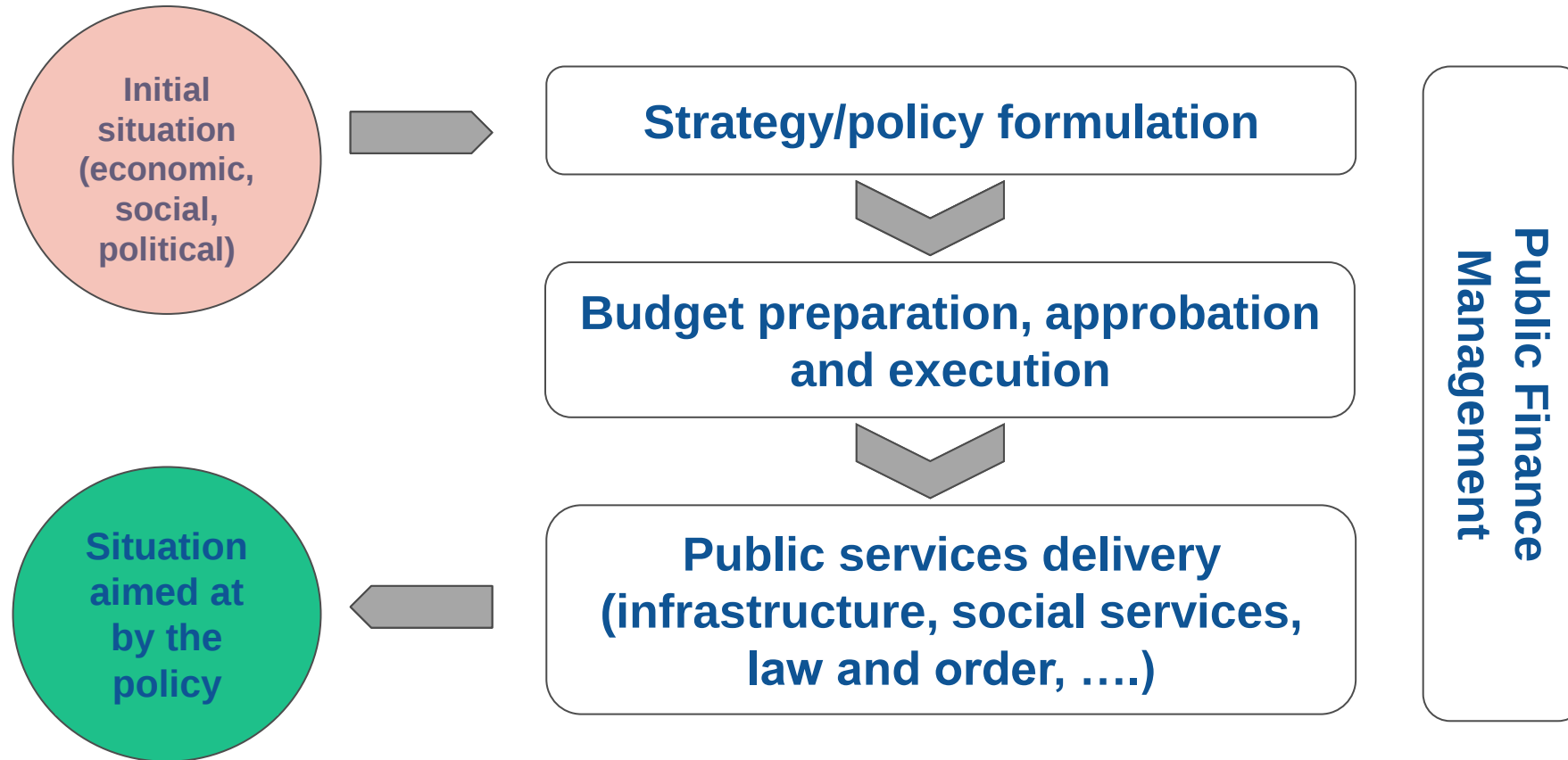
Table 3 shows the areas that should be analysed when assessing the country's eligibility to budget support with regards to budget transparency and oversight. With a view to ensure effectiveness of budget support and continued satisfaction of eligibility during programme implementation, please identify:

- Issues of concern that require close monitoring and attention in policy dialogue and/or specific conditions
- Issues that could usefully benefit from complementary assistance

Exercise 3 – Table 3: Budget transparency and external oversight assessment

Issues	Issues identified	Support to capacity building	Point of Policy dialogue	Possible conditions (Performance Indicators)
① At programme approval: Entry point met: 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 During implementation: Entry point still met? 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 Check on documents available: Budget proposal	Yes with flaws			
Enacted budget	Yes but late			
In-year reports (mid-year reports)	Yes			
End-year report	Yes			
Audit report	Yes, but late & covers 60% only			
Other (such as citizens' budgets)	Yes			

Public policy process



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

Public policy analysis

POLICY FRAMEWORK

- > Policy content and policy formulation process
- > Policy coherence
- > Monitoring, evaluation and coordination mechanisms
- > Communication strategy

POLICY RELEVANCE

- > Adequacy of Government response to country or sector challenges (contribution to sustainable growth, sector reform and service delivery, domestic accountability and oversight, resilience, crosscutting areas, ...)

POLICY CREDIBILITY

- > Past track record
- > Policy financing
- > Institutional capacities & ownership
- > Quality of data underpinning Policy

Exercise 4: Sector Policy

40' in groups
20' plenary feedback



The government of Fictiland has developed a new energy strategy for 2020-2050, with an implementation plan 2020-2030 which the EU is ready to support. The sector has been analysed and a summary can be found in the documents provided (sections 1 and 5). Similar to the previous exercises, from the analysis of the documents provided, please discuss and note in the template:

- Problematic areas
- Issues that might 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.

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

To find out more, use the Guidelines pages 33-34 and Annex 3, pages 86-91

Exercise 4 – Table 4.1 – Sector Policy assessment

Issues	Issues identified	Support to capacity building	Point of Policy dialogue	Possible conditions (Performance Indicators)
① Policy framework: policy content and formulation, investment component with maintenance/recurrent costs, M&E system, coordination mechanisms, coherence of policies, communication strategy	There is no M&E system so data not reliable? There is a policy document but need more specifically on rural expansion of power. Large number of stakeholders: levels of Gov't, donors, sources of funding, beneficiaries. Are they all engaged? Pivotal role of Provinces. Reaching remote areas: equity considerations.			
② Policy relevance: contribution to overall objectives, response to sector challenges, inclusiveness of service delivery access and quality, sector governance (incl. oversight), tackling of cross-cutting issues (gender, youth)	Rural electrification is a priority of the national development policy Questions about the sustainability of expanding further the power Trade-offs between speed of roll-out and reaching remote communities Multiple objectives: green issues, gender, equity affordability, cost recovery, sustainability			

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

To find out more, use the Guidelines pages 33-34 and Annex 3, pages 86-91

Exercise 4 – Table 4.2 – Sector Policy assessment

Issues	Issues identified	Support to capacity building	Point of Policy dialogue	Possible BS Condition (Performance Indicators)
③ Policy credibility: 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	Weak human resources esp. at Provincial level Track record is positive Strong political commitment Financing is questionable (ODA is not secured, tariffs are still subsidised - will prices be adjusted? How will it affect rural incomes/equity? How is the grid going to be maintained?			
④ Other risk areas that require close monitoring	Energy pricing Uneven institutional capabilities (stable staffing?)			
⑤ Missing elements required for analysis and decision-making	Policy documents (details), annual plans and costing Credibility of assumptions?			

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

To find out more, use the Guidelines pages 33-34 and Annex 3, pages 86-91



Budget Support

Core concepts: Choice of contracts and intervention logic

Online Sessions

Attention to fundamental values



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)



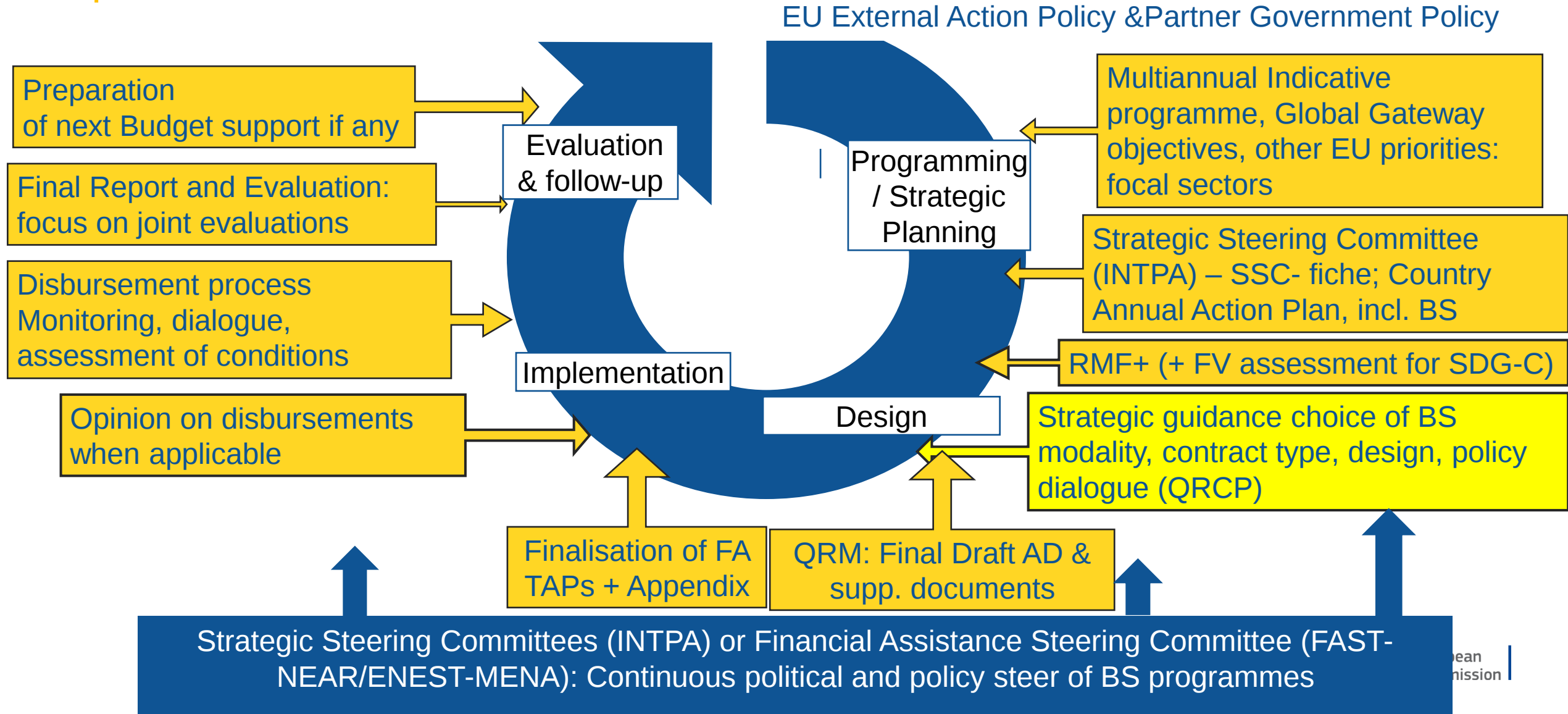
State and Resilience Building Contract

SRBC

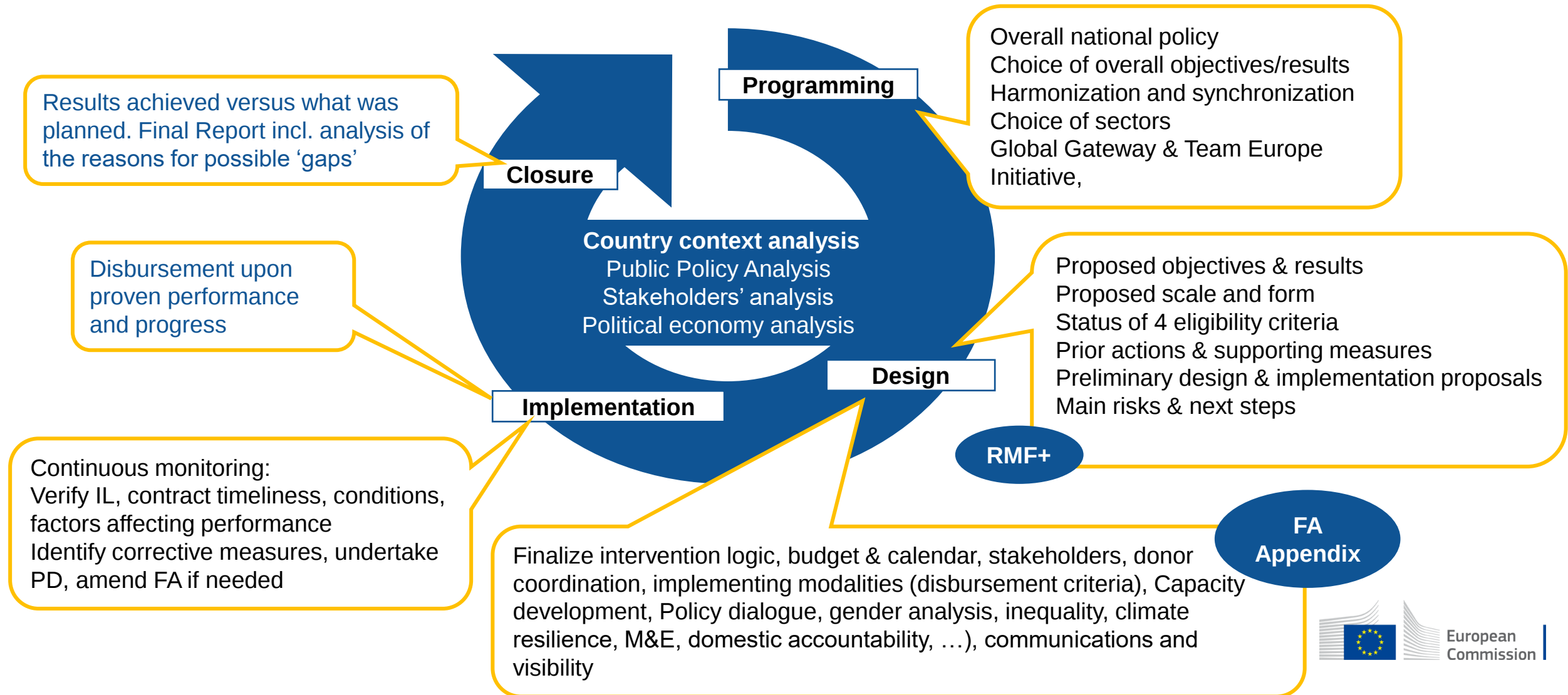
Country's commitment to Fundamental Values and/or political response to improve the situation should be taken into account as part of the RMF+.

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

EU Cycle of operations



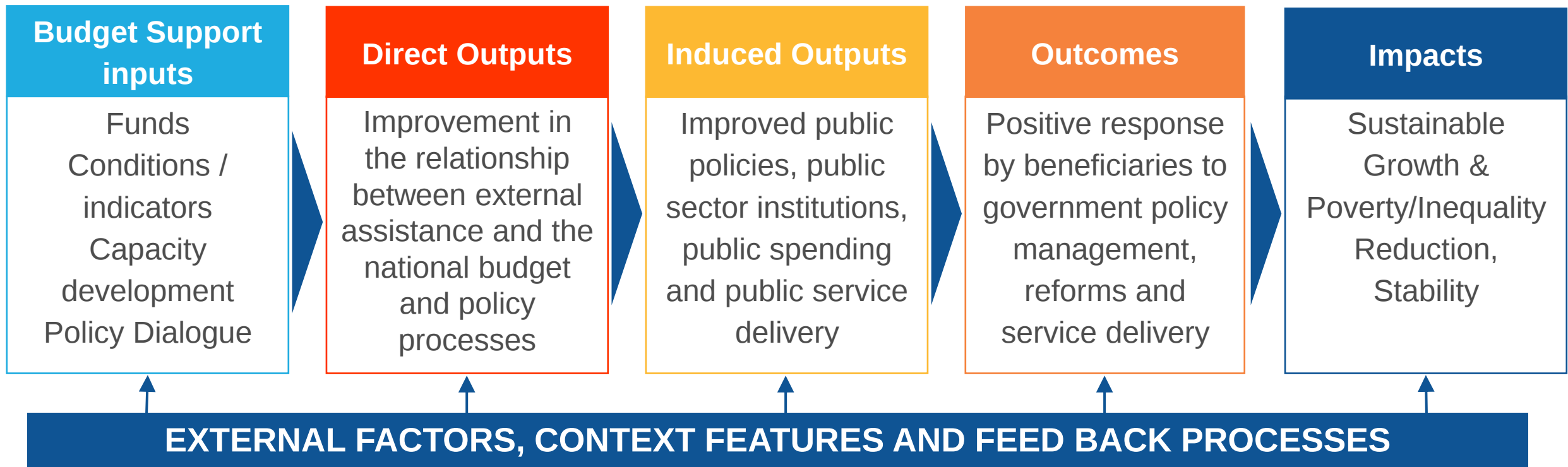
The context analysis at the centre: A continuous and iterative process



Budget support Intervention Logic (OECD/DAC 2012)

GOVERNMENT POLICY & SPENDING ACTIONS (STRATEGY)

Inputs to Government policy
& spending actions



Any questions?



Budget Support

Day 3 Continuation intervention logic; design

Online Sessions

Quiz time: Budget support eligibility criteria and intervention logic

RECAP Day 2

Exercise 5: Intervention Logic

30' in groups
10' plenary feedback



The EU analysed the complementary information and documentation received from the government and the policy eligibility criterion is satisfied. The EU has decided to provide a €100 million SRPC over 2025-2027 to support the expansion of sustainable energy in rural areas. Budget support design can start.

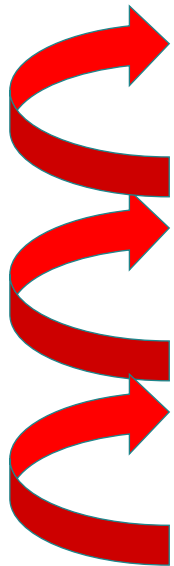
You are now tasked with preparing the Action document for the operation. As a first step, you will prepare the intervention logic of the operation, enabling you to clearly identify the expected contributions of budget support to the sector's objectives, understand the dynamics that will produce the expected results, the assumptions made and the risks entailed. Please place the different elements at the right place in the intervention logic.

Tip: Remember esp. Sections 1 and 5 of documents provided and read section 6 (lessons learned)

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

Exercise 5 – Table 5: Intervention Logic of support to the energy sector of Fictiland

	Results chain	Indicators	Mechanisms, processes, challenges/ risks and assumptions
Overall objective: impact			
Outcome(s)			
Induced Outputs			
Direct outputs			



Exercise 5.1 – IL of support to the energy sector of Fictiland - Example

Assumptions/risks

ECF technical back up provided to Provinces
ECF & GoF prioritise programme
GoF, ECF, DPs provide funding

DPs =TA pool funding
Gvt commitment to update tariffs/costs
Overcome political reluctance on improved budget mgmt

Proper technical back up must be provided by ECF to Provinces

Results chain	Indicators	Baseline (year)	Targets (year)
Overall objective: impact Improved living conditions in remote areas	Increased economic value generated by small businesses operating in rural areas Income levels in remote areas Health outcomes and literacy rates in remote areas	No known baseline	2023 baseline available 2025: +30% business 2025: Income :10% 2030: social indicators +5%
Outcome(s) Coverage of remote areas by off-grid electricity supply	- rural, mountainous and island areas households' access to a reliable electricity supply - Reduced hours of outages - accountability in sector	2021: 98% -	2030: 100% Reporting Yearly basis on budget, extension of access, number of households
Induced Outputs Improved Governance of energy sector	- M&E system operating - Disaggregated and detailed electricity data availability - Increased share of green power supply - Revision of tariff mechanism - Improved MT budget planning at province level - Improved management investments	2021: no baseline	M&E by 2022 Data by 2023 Tariff revised each year MT Budget available 2022
Direct outputs Funding of projects CB in PFM, project management, data collection Studies in electricity tariffs	- No of projects funded by ECF - No of projects funded by Provinces - No of feasibility studies completed - Trained staff at Provinces for budget management - Trained staff in project management - Data collection & treatment systems - Electricity tariff simulations	Not known	2030: 50 overall 



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:

- > Connecting with **Global Gateway priorities/projects**, also with risks in **RMF+**
- > Agreeing with government on basis for assessing **macro-economic stability**
- > 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 governance.
- > Agreeing with government on **access to information, 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.	Foreign cooperation Liaison Office	Ministry of Finance
	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

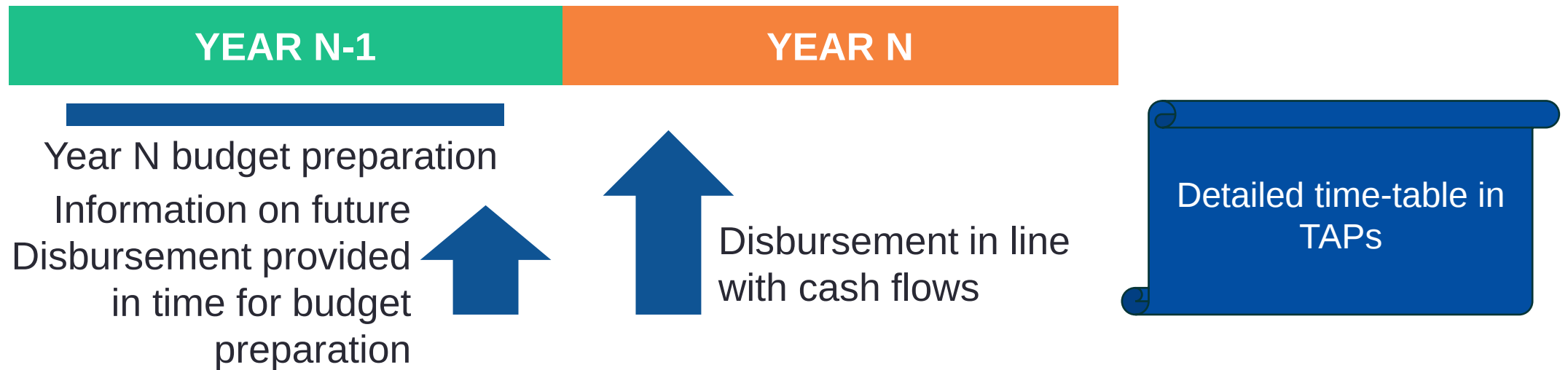
Funding arrangements

Understand the ‘additionality’ of budget support

- Ex post payment, i.e. once government has acted, incurred costs and achieved the agreed reforms/results
- Once paid, budget support funds are additional to domestic revenues
- Consider effects on the Medium-Term Fiscal Framework, strategic resource allocations according to overall policy priorities and within sector(s)
- Consider recurrent cost implications and sustainability.
- Additionality $\neq$ targeting – incentives for both MoF and line ministries (i.e. make required budget available for the line ministries to meet indicators)
- Focus dialogue, incentives and conditions on results and on the effectiveness and efficiency of policies/expenditures

Timing of disbursement and duration: BS predictability

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

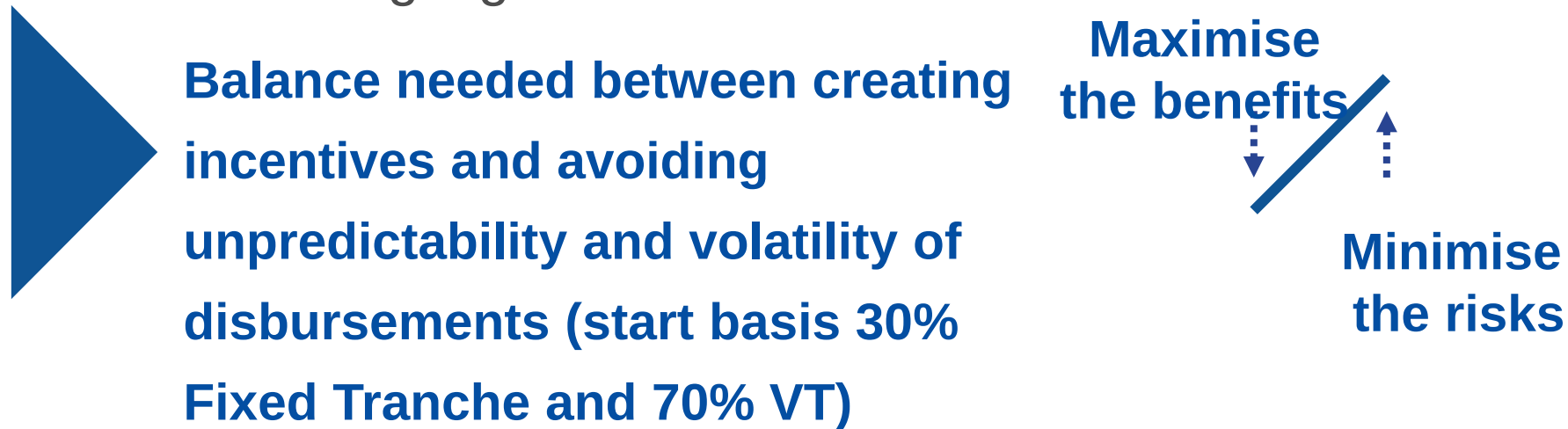


Predictability in the medium term: duration of contract:

- SDG-C and SRPC (3-4 years in principle), usually repeated
- 1- 3 years for SRBC (depending on volatility of situation, and specific objectives of the operation i.e. short-term stabilisation or structural fragility)
- **No floating tranches**

Size and phasing of variable tranches

- > Variable Tranche 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.



Disbursement profile specific to each operation (caution with 100% VT, which may tend to lower the importance of general conditions)

Funding profile: Energy SRPC in Fictiland

SRPC to the Energy sector of Fictiland of a maximum of €100 million over 2024-2026 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

	2024		2025		2026		Total
	In € m	Timing	In € m	Timing	In € m	Timing	In € m
Fixed tranche							
Variable tranche							
Total BS							
CSA							

Maximum total amount €100m

Illustration of funding profile: Energy SRPC in Fictiland

SRPC to the Energy sector of Fictiland of a maximum of €100 million over 2024-2026 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

	2024		2025		2026		Total
	In € m	Timing	In € m	Timing	In € m	Timing	In € m
Fixed tranche	20	Q3	20	Q2	15	Q2	55
Variable tranche		Q3	10	Q2	15	Q2	25
Total BS	20		30		30		80
CSA	20	Q4					20

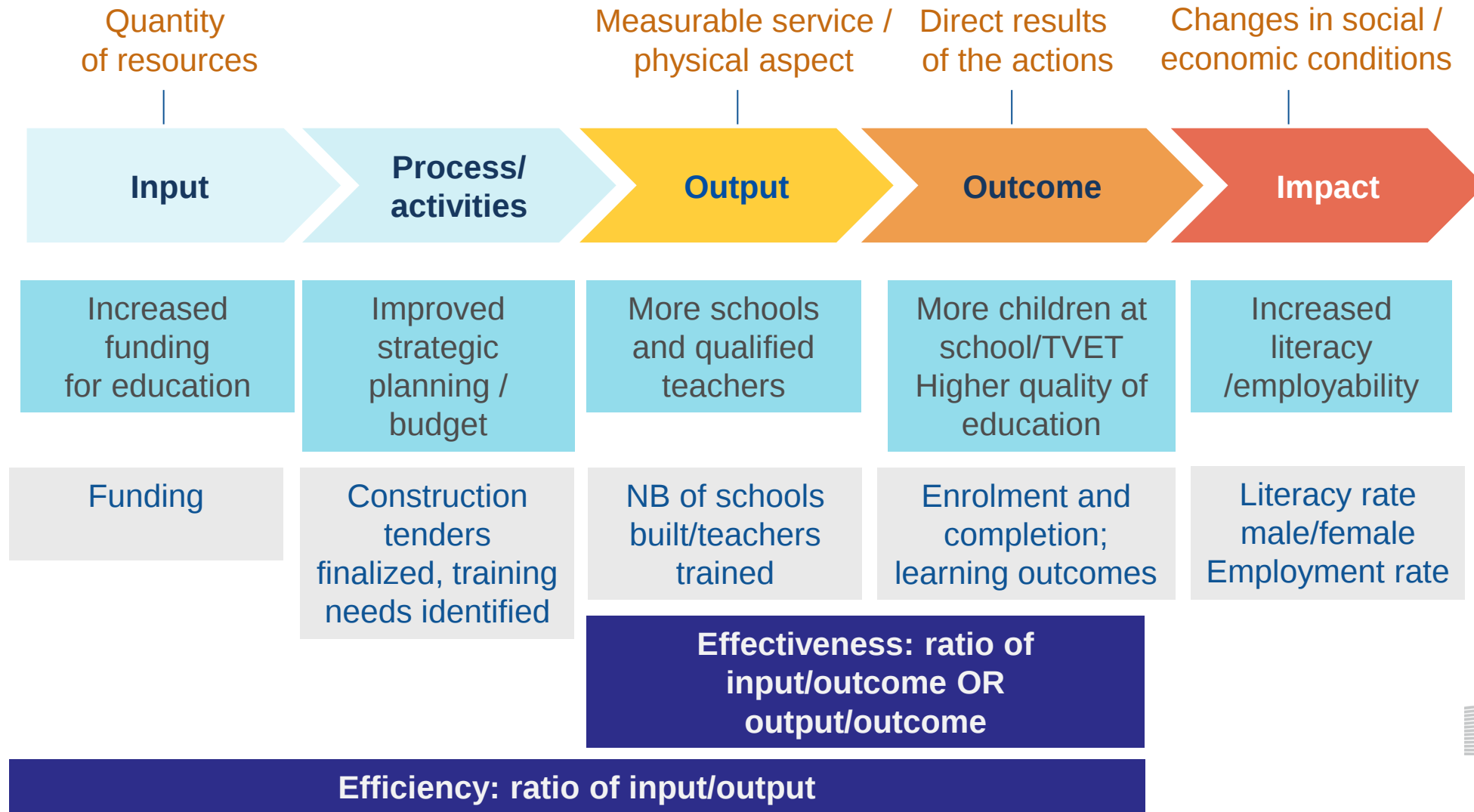
Maximum total
amount €100m

Complementary measures: Choices of capacity building support for Fictiland's energy sector

Background: SRPC to the Energy sector of Fictiland of a maximum of €100 million over 2023-2025 with €20m set aside for CSA

Area of change that requires strengthening	Type of capacity strengthening	Ministry/ Agency benefiting	Timing and length of intervention
Budget management at provincial level	Training	Provinces	continuous
Procurement	TA by EU Reform programme	Provinces	continuous
Energy information systems: from collection to treatment & publication	TA, training of statisticians, hardware if needed	FSO	asap
Tariff studies	Study	MOF and ECF	asap
Support to feasibility studies (greening)	Study, consultancies	ECF, market parties	asap
Studies on compensations for vulnerable groups (when electricity subsidy is lifted)	Study & research	MOF, other ministries	At the same time as tariff study
Legal and regulatory frameworks, norms and technical standards development for Renewable Energy & Independent Power Producers	TA, studies	Regulator, ECF, MOE	2022
Reinforcement of audit function (central & Province)	EU twinning with MS SAI	SAI	2021-2025
Participation in Pool fund on PFM TA	n/a funding only (PIMA Province to be foreseen)	Through IMF	
Participation in Pool fund on Energy TA	n/a funding only	Through ADB	

Which indicators for budget support?



Data quality in budget support: weaknesses in some indicators and in the verification of the payment for variable tranches



(...) Most (variable tranche performance indicators) were focused on short-term actions rather than longer-term results, (...) Only 13 % of the 248 indicators reviewed measured outcomes or impacts in the supported sectors (...) which would enable the Commission to better measure longer-term results (..)

More than one third of the indicators were vaguely defined or had incorrect baselines, or none at all. This allowed for different interpretations as to whether targets had been achieved (..)

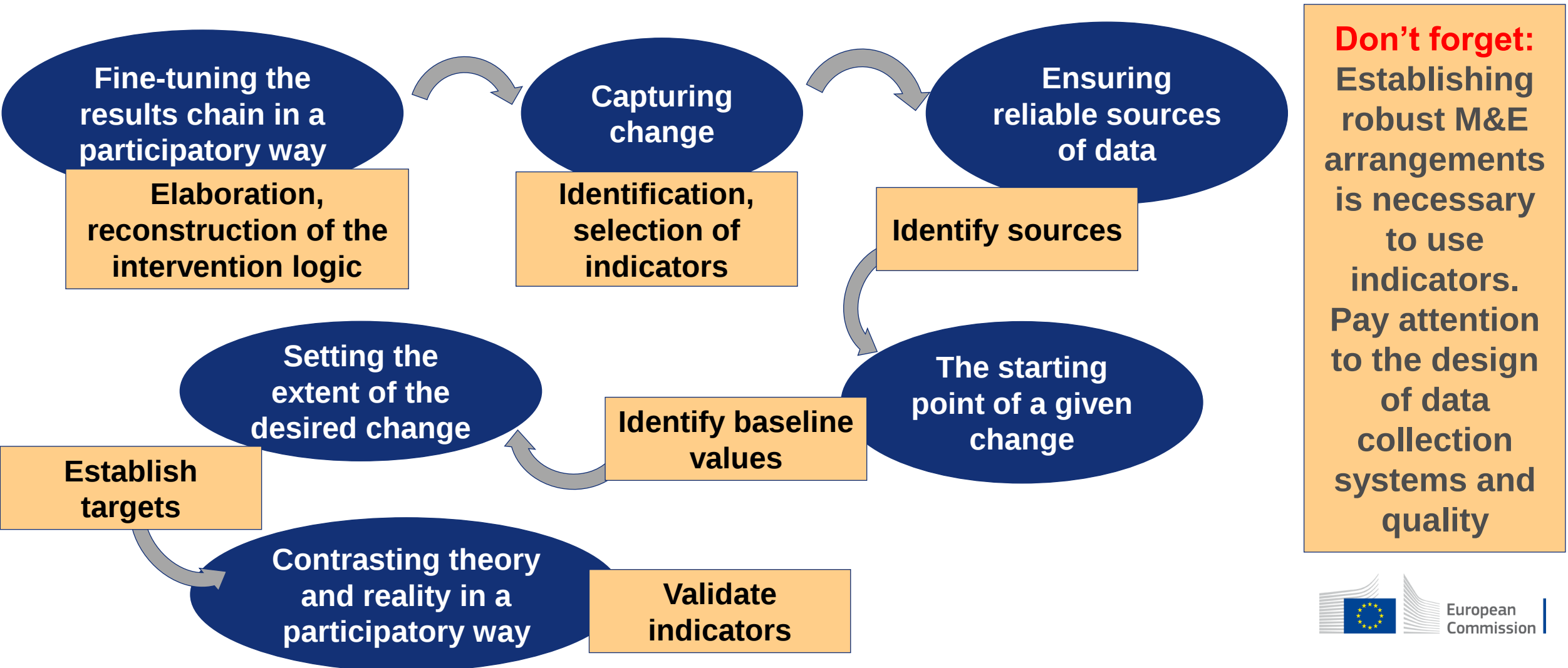
Particular attention should be paid to:

- (a) Using performance indicators that are specific and do not allow different interpretations;*
- (b) Using baseline values and targets*

Other ECA recommendations

- The Commission should:
- update baseline information prior to contract signature or correct the baseline values during contract implementation if necessary, by amending the budget support contract
- avoid situations in which the partner country achieves targets exclusively due to EU-funded technical assistance
- refrain from using sub-indicators in order to limit the actual number of indicators to the maximum described by the guidelines.

Practical steps in defining, verifying and using indicators



Indicator Template (AD template June 2021)

Full Title Indicator	
Base line year 0	Source:
Target for year 1	Period under review; indicative date of completion; sources of verification, expected date of transmission to Commission; what would be considered partial completion; amount attached
Target for year 2 (etc)	As above
Indicator type	Process/ input/ output/ outcome (select 1)
SDG marker	No more than 3 SDGs
Purpose	5 digit purpose code (OECD-DAC Creditor Reporting System)
Relevance / reference to country's public policy	Demonstrate alignment (incl. exact reference if possible); relevance to the intervention logic and to policy dialogue priorities
Definition and calculation	Formula (numerator, denominator) or as used in government official documents; measurement unit (% , km, national currency etc.)
Disaggregation	If available by gender, geographic area, population groups
Data collection and publication	Department in charge of data collection, processing, analysis and publication; Usual publication periodicity, timeliness or delays observed in the past
Data quality	Data quality assurance (diagnostics, national strategy strengthening statistical systems); statistical weakness; confidence level; mitigation measures to overcome weaknesses
Risks or exogenous factors	Describe. Mitigating measures?

Exercise 6: Agreement on Performance Indicators

50' in groups
20' plenary feedback



After 18 months of intense discussions, the EUD and the Fictive Government are about to reach a final agreement on the performance indicators, to be disbursed in the form of 2 variable tranches (2026 and 2027)

Gradually the choice has been narrowed down to 12 indicators (see the list in section 8 of the background document) and negotiations now need to conclude on a final 8 indicators.

Use the criteria provided to assess and discuss which indicators are fit for purpose. Retain only 3 out of the 4 indicators proposed (in your group).

Group 1: **Grid and Solar development:** Please look at indicators 1, 4, 7 and 12

Group 2: **Grid and Governance:** Please look at indicators 1, 5, 6 and 8.

Group 3: **Grid and Social Assistance.** Please look at indicators 1, 8, 10 and 11..

Work in groups for 40 -50 minutes.

Table 6.1: Agreement on Performance Indicators

[illegible]

Traps to be avoided with Budget Support

- **Over-asking** (more than reasonably can be achieved).
- **Multiplicity of conditions** (use of sub-indicators).
- **Conditionalities beyond Government's control** (e.g. for legislative/judiciary).
- **Lack of clarity in the FA**, in particular related to the monitoring / measurement of indicators.
- **Taking over government's responsibilities** (e.g. TA delivers on a target directly).
- **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.

Any questions?



Budget Support

Day 4 Monitoring and Disbursement simulation

Online Sessions

Quiz time

Let's go to Menti!

Monitoring

Monitoring and evaluation (M&E)

What is it ?

Continuous system of routine collection of information.

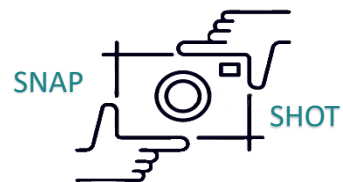
What does it do?

Determines progress in carrying out planned activities and measures progress towards achieving sector strategy objectives.

Why use it ?

To provide feedback to programme implementors, sector stakeholders, wider Government, donors, any other interested parties.

Snapshot assessment of statistical systems



To quickly produce a concise situation of the National Statistical System in the country

To assess the quality of official statistics and identify strengths and weaknesses of the NSS as a whole

To inform “statistics partners” to help designing fitted/efficient support programmes and evaluate their impacts

To help the NSS/NSO and their governing bodies to monitor the NSS development and performance

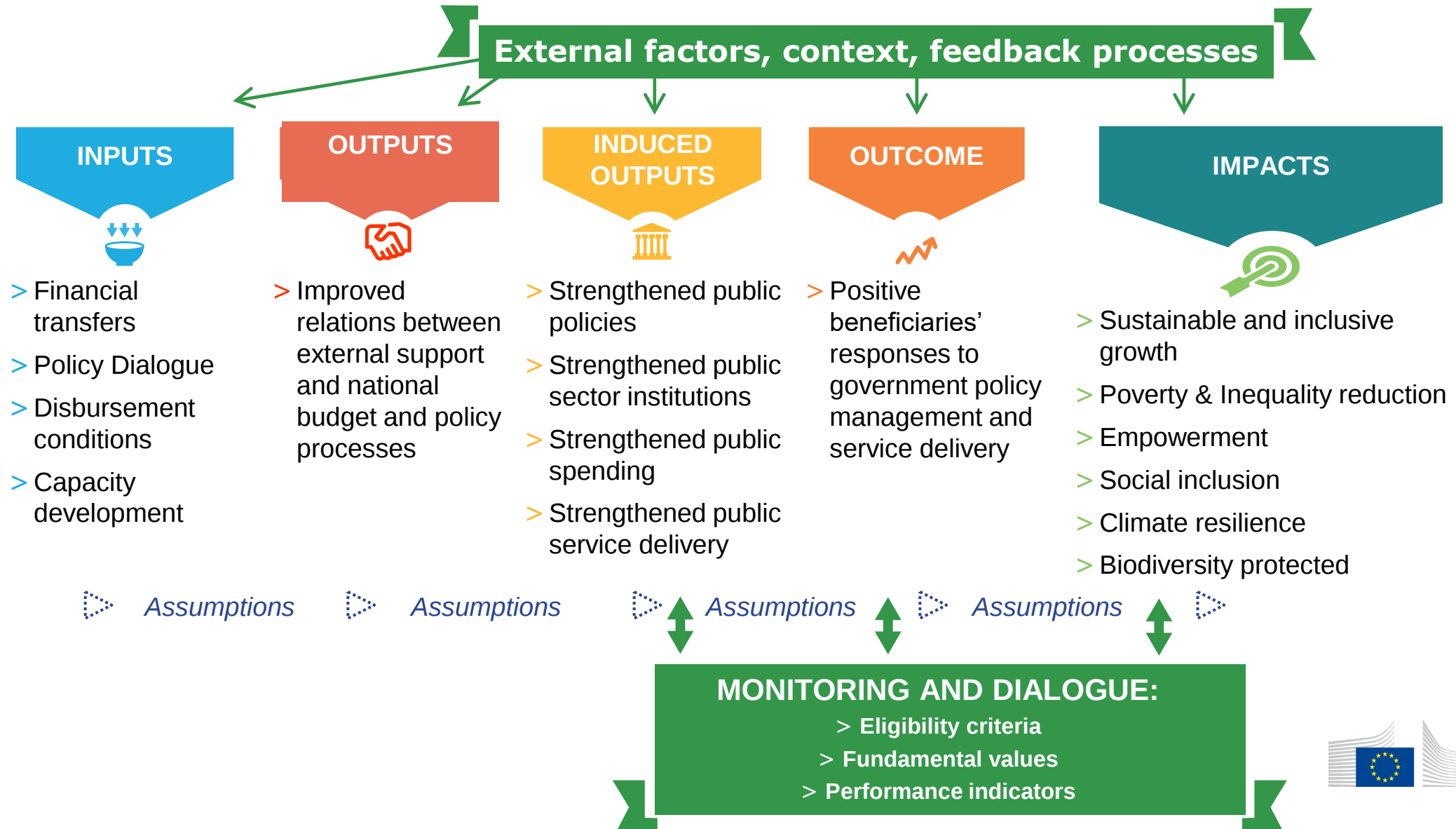
To serve as a first level assessment to a more in-depth NSS assessment (NSDS)

Developed with
Eurostat
([Link](#))

Updated version
in Spring 2023

Public good,
available for all

What is subject to monitoring?



Quiz time

How and when does the EU monitor?

Let's go to Menti!

Monitoring a Budget Support 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, TADAT, 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 Reform
- > Assessment of progress in transparency
- > Risk Management Framework (RMF+)
- > M&E systems

POLICY DIALOGUE

The landscape for monitoring and performance

Demand		Supply of information	
Users Parliament Supreme Audit Institution Civil Society Central Statistical Office Academia	M&E structures • Mandate • Responsibilities • Tools	Policy & Strategy Objectives, indicators, baselines & targets	Adequate capacity for M&E • Specialised human resources
	Data • Integrity • Collection (administrative, surveys, evaluations) • Storage & Dissemination • Access/Use		Culture of Monitoring and performance • Internal/external demand for it • Management use and remedial actions taken • Use by external stakeholders

Disbursement

Disbursement as expression of collaboration



Disbursement process



Requirements for disbursement

	What is assessed by the EU	Required from Government
Public policy	Continued credibility and relevance of the strategy Satisfactory progress in implementation	Report on strategy implementation and sector progress Highlights on areas of special interest Progress on agreed performance indicators <i>Challenges met & response provided</i>
Macro-economic stability	Stability oriented policies aimed at restoring key balances The country's vulnerability to external shocks	Report on annual macro-economic performance, incl. fiscal performance and DRM <i>Challenges met & response provided</i>
PFM and budget transparency	Progress in implementation of Public Finance Management reforms Satisfactory access to budget information Progress in Domestic Resource Mobilisation	Report on progress of Public Finance Management reform implementation, incl. Domestic resource mobilisation Report on budget transparency <i>Challenges met & response provided</i>

Illustration Fictiland : June 2025 assessment, Performance indicators

Indicator	Baseline	Year 2024		Weight	Maximum amount	Score
		Target	Actual			
Objective 1: Grid development						
1. PI1: Access	120500	155000	147000	10%	€1M	0.5
2. IP4: Renewable energy consumption	70000	95000	n.d.	10%	€1M	0
Objective 2: Sector governance						
3. IP6: Energy Information System	n.a.	yes	yes	20%	€2M	1
4. IP5: Recurrent Budget (%)	2.50%	2.50%	1.76%	10%	€1M	0
5. IP8: Electricity subsidy	68%	80%	68%	15%	€1.5M	0
6. IP9: Feed-in tariff	n.a.	yes	yes	10%	€1M	1
7. IP12: Solar development plan	n.a.	yes	yes	10%	€1M	1
Objective 3: Social protection						
8. IP10: Social assistance scheme	n.a.	yes	yes	15%	€1.5M	1

Calculating the Variable tranche

Standard method: Assess individual indicators:

- 0 = no progress;
- 0.5 = significant progress;
- 1 = target met

➤ Pro rata payment: aggregate the amounts for each indicator

Other methods possibles but more complex (check guidelines) –

Bottom-line: not unambiguous and fully understood by all sides

Illustration Fictiland : Calculation of tranche

Indicator	Weight	Maximum amount	Score	Method 1
Objective 1: Grid development				
1. PI1. Access	10%	€1M	0.5	€0.5M
2. IP4: Renewable energy consumption	10%	€1M	0	€0M
Objective 2: Sector governance				
3. IP6: Energy Information System	20%	€2M	1	€2M
4. IP5: Recurrent Budget (%)	10%	€1M	0	€0M
5. IP8: Electricity subsidy	15%	€1.5M	0	€0M
6. IP9: Feed-in tariff	10%	€1M	1	€1M
7. IP12: Solar development plan	10%	€1M	1	€1M
Objectif 3: Social protection				
8. IP10: Social assistance scheme	15%	€1.5M	1	€1.5M
TOTAL DISBURSEMENT				€ 6.0M

TOTAL to disburse : € 6 million out of a maximum of € 10 million

Exercise 7: Disbursement negotiation, June 2025

50' in groups
20' plenary feedback



A first year of budget support has passed. During 2024, you have kept close to the MoE and its various technical departments to monitor progress. You participated in the SWG with the other development partners and stakeholders. With the COVID-19 pandemic and its aftermath, policy plans could not be implemented as originally designed.

To support the Government in coping with the economic and fiscal consequences of the critical situation of Fictiland following the massive floods at end-2023, the EU already brought forward the payment of the 2025 fixed tranche. You are now sitting down with the authorities to discuss the disbursement of the 2025 variable tranche, which is based on the performance for 2024. Four out of the 8 indicators did not reach their 2024 targets, which were agreed in 2023....

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.

Disbursement report template

- > **Introduction:** Overview table disbursements so far. Significant changes observed with respect to eligibility criteria; main developments country/sector context; follow-up on key recommendations from previous assessment; changes to Risk Management Framework (incl. reputational risk); conclusion on the proposed disbursement.
- > **Review of the 4 eligibility criteria and policy dialogue**
- > **Annexes**
 - Government disbursement request
 - Delegation's PFM (including DRM) and Transparency Report (3 years validity)
 - Update PFM monitoring table (annually)
 - Latest validated RMF
 - Financing Agreement or latest amendment in force
 - Sources of verification (general conditions and variable tranche indicators)
 - In case last payment: Final Report

Which documents to insert / Hyperlink in a disbursement file

Partner Country Formal request from the Government

- > **Cover Letter**
- > **(i) Financial information form:** validity of bank account and Proof of transfer previous disbursement (exchange rate) (if not done before)
- > **(ii) Analysis and evidence** of continued eligibility and targets achieved for the indicators of the variable tranche
- > Calculation variable tranche and amount requested

EU Delegation

Template plus:

- > Government policy framework (if new)
- > Government policy implementation report and action plan
- > Aide Memoire of Joint Review (if applicable)
- > IMF reports; other macro-economic reports
- > PFM Diagnostic reports
- > Government PFM Reform progress report
- > Policy dialogue framework / plan (if applicable)



EUROPEAN
COURT
OF AUDITORS

Finally, data need to be verified!

The Commission should:

- a) review the underlying evidence supporting the performance data provided by partner countries in the disbursement request, unless it has already explicitly concluded that this data is reliable;
- b) when using external reviews, require in the terms of reference the verification of the reliability of key performance data provided by partner countries. Before disbursing the variable tranche, verify that the experts have complied with this requirement.

Source: ECA, Data quality in budget support: weaknesses in some indicators and in the verification of the payment for variable tranches, 2019

If things go wrong:

Gradual and proportional response

Change in Fundamental Values	Response
Stable or positively progressing situation	• Minor adaptations for fine-tuning if required
Concerns arising	• Mitigation measures to be proposed • Roadmap for improvement
Significant deterioration	• Report from EU Delegation to Geographic Director (support by INTPA / NEAR-ENEST/MENA, EEAS). • Next to SSC / FAST. Suggestions for precautionary measures (complementary actions?); delay in disbursement; reduction of BS
Extreme cases	• Suspension and if needed termination of the financing agreement • Possible re-allocation of resources to non-governmental activities

Questions and Answers

INTPA Unit E1

Rounding Up: relevant information?

- **On INTPA Internet:** https://ec.europa.eu/international-partnerships/budget-support_en
- **On INTPA Intranet:** Always refer to it (for templates, documents etc)
 - <https://myintracomm.ec.europa.eu/dg/intpa/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 - Training material available here

Training Evaluation Form

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