



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)

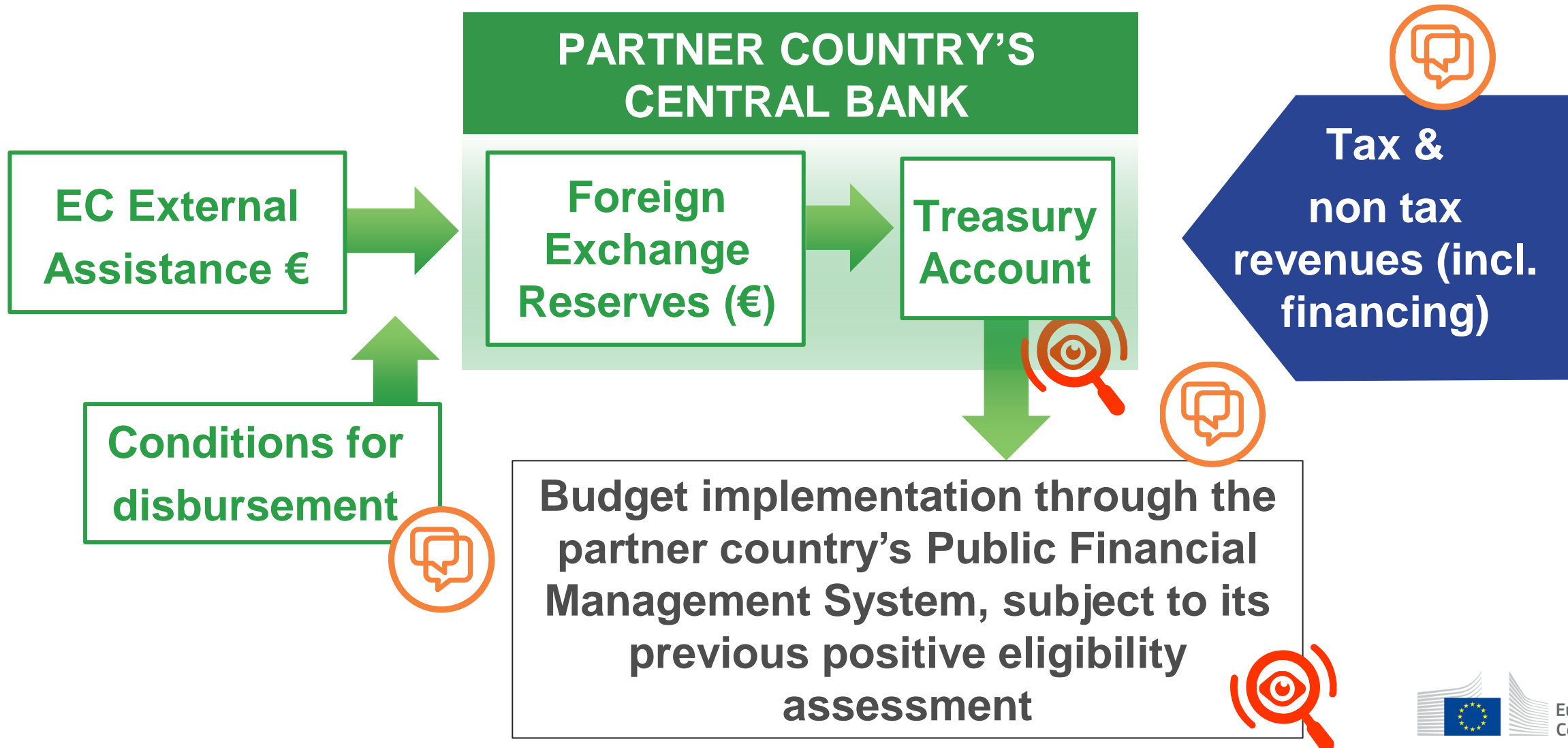
State and Resilience Building Contract (SRBC)

Sector Reform Performance Contract (SRPC)

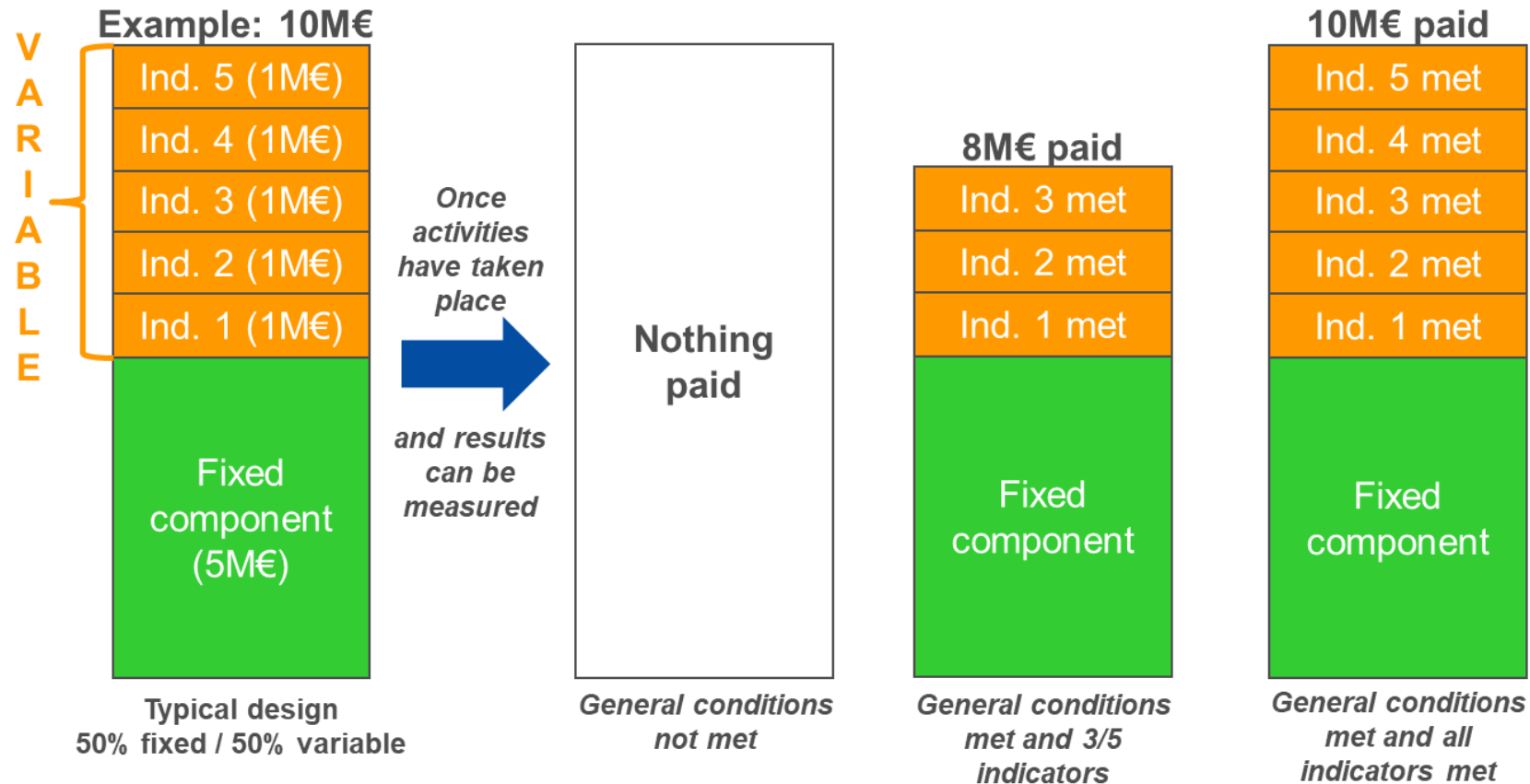
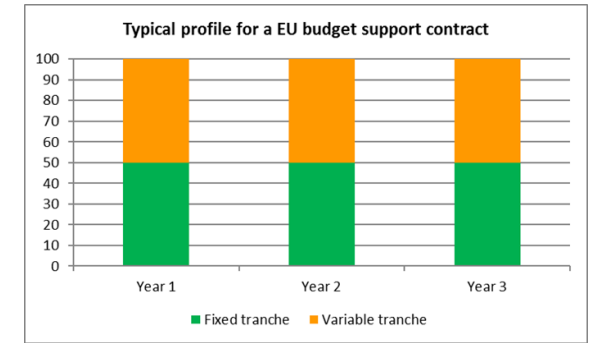


European
Commission

Flow of funds, policy dialogue and monitoring



A performance-based modality



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



Quiz time

What is policy dialogue?

Let's go to Menti!



*Policy dialogue is an ‘open and inclusive’
dialogue on development policies.*

Accra Agenda for Action (Section 13)



Tools and Methods Series
Guidelines N°7

Budget Support Guidelines

September 2017

International
Cooperation and



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

Quiz time

What is policy dialogue about?

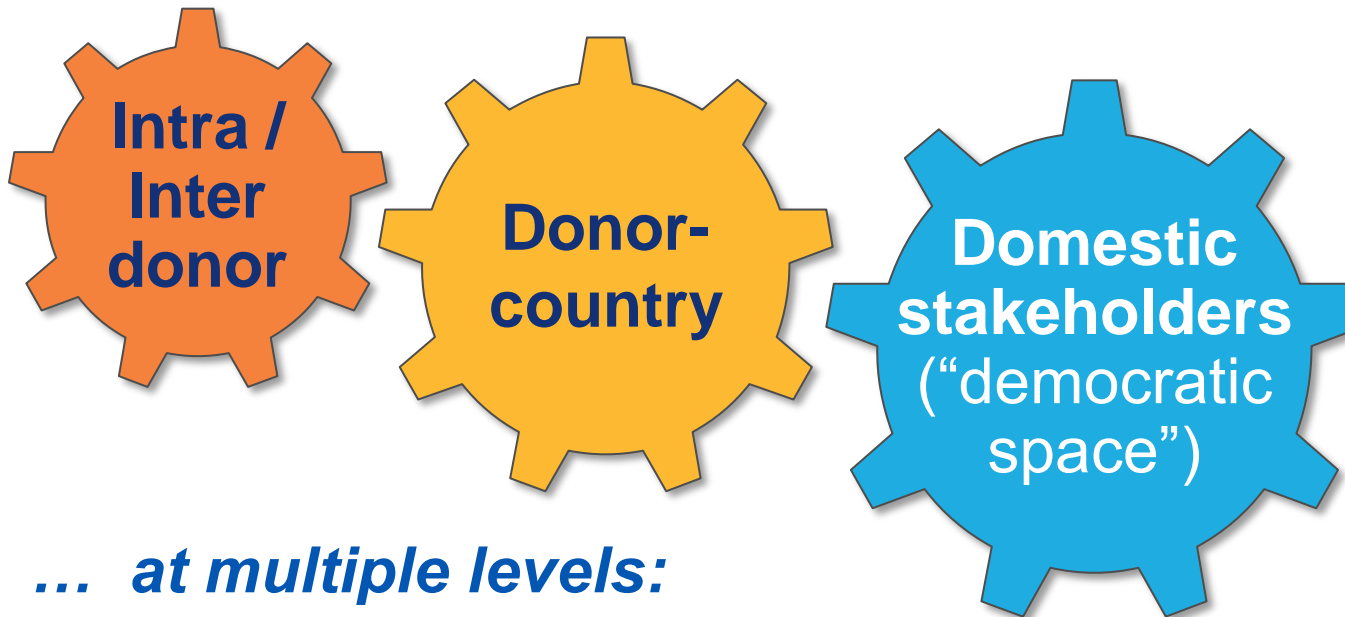
Let's go to Menti!

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

PD DPs DP – Gov Gov Democratic space CS « Out of the box »

Global
Regional
National
Sector
Sub-national
District
Municipal
Grassroots

... between:



... at multiple levels:

... and evolving over time !

“As long-term progress can only be driven by internal forces, an approach centred on political, and policy dialogue with all stakeholders will be pursued..”

Agenda for Change
(2011)

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

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

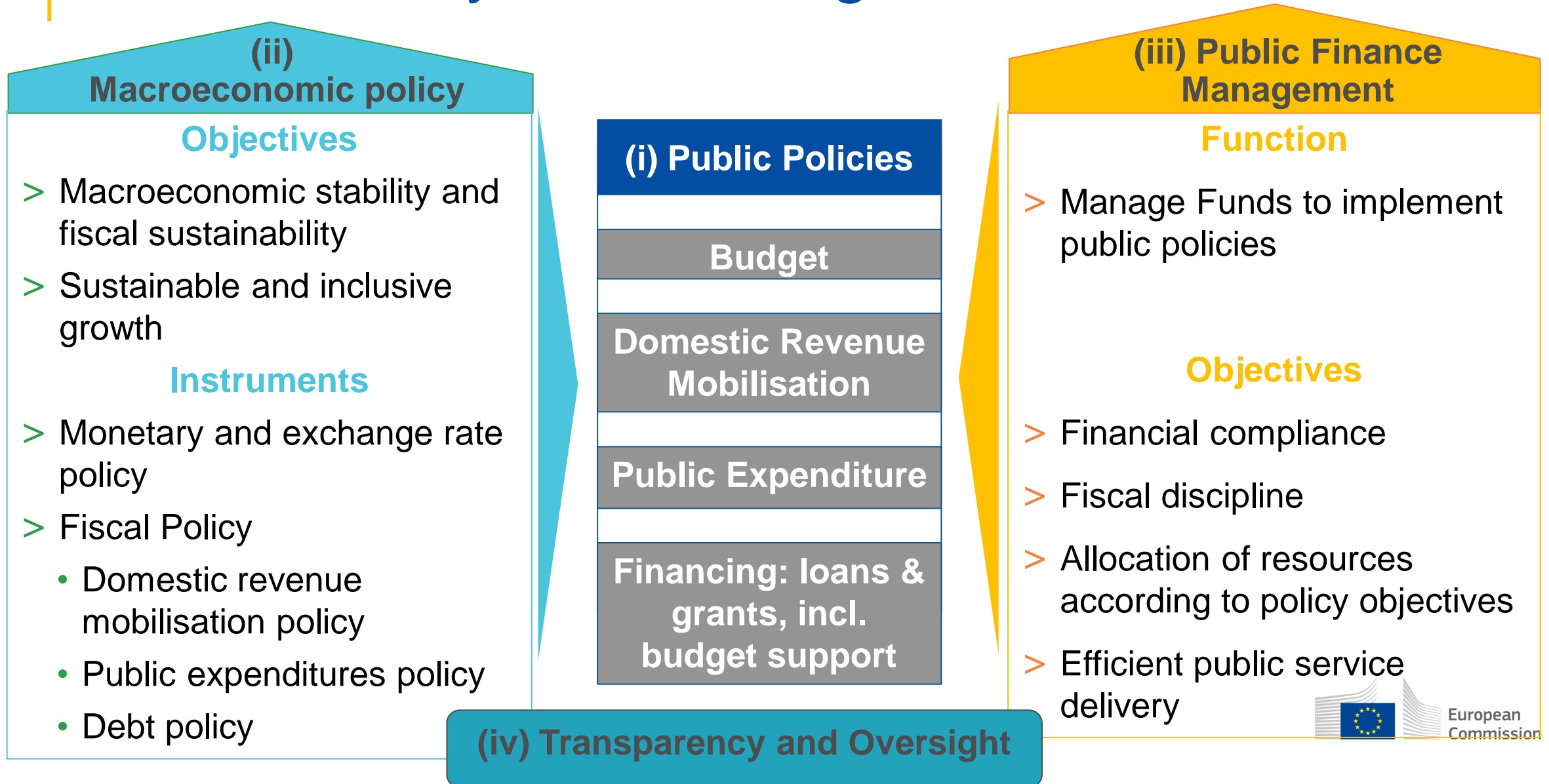
1. Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances

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.

The centrality of the budget



Improving PFM / DRM systems



COLLECT MORE

&

SPEND BETTER



| | |
|--|---|
| UN Tax Committee (UN) | EITI (WB) |
| Addis Tax Initiative (GIZ) | Extractive Global Programmatic Support (WB) |
| Base Erosion & Profit Shifting (OECD) | Natural Resource Wealth (IMF) |
| Revenue Statistics Initiative (OECD) | Revenue Mobilisation (IMF) |
| Global Forum info exchange on tax (OECD) | Tax administration TADAT (IMF) |

| | |
|---------------------------|---------------------------------|
| PEFA | Pan-African Fin. Gov. (GIZ) |
| Africa Fiscal Forum (IMF) | PFM Partnership Programme (IMF) |
| Regional TACs (IMF) | Civil society |

| |
|--------------------------------------|
| Debt Management Facility (WB) |
| Debt Management Systems (UNCTAD) |
| Public Invest. PIMA (IMF) |
| Procurement MAPS (WB/OECD) |
| Supreme Audit Institutions (INTOSAI) |

Twinning & Technical Assistance and Information Exchange instrument

Fictiland and sector context

- Fictiland a heavily 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)

Quiz time: Why is macro-economic stability important for budget support?

Let's go to Menti!

Macro-economic stability

- Ensures a favourable context for development – think about volatility!
 - Is essential for investments, 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 implement effectively stabilisation policies backed by political commitment

MACRO - ANALYTICAL GRID

- **Evolution of main macro-economic aggregates and potential sources of instability:** composition of GDP, sources of GDP growth, external balances, etc.
 - **Fiscal policies and aggregates:** overall revenue and expenditure levels, financing of the deficit, debt sustainability, etc.
 - **Monetary indicators and policies:** control of inflation, money growth, regulation of the banking sector, credit requirements, regulation of the financial market, etc.
 - **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?

Exercise 1: Macro-economic policy



Tables 1 (provided) show the issues of concern that have been analysed by the EU's macro-economist. With a view to ensure effectiveness of budget support and continued satisfaction of eligibility during programme implementation, 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)

Take the document provided, start by reading the context section, read sections 1 (context), 2 (macro analysis) and annex 1 (IMF table) and indicate in the pre-filled Tables 1 the missing elements.

Exercise 1. Table 1.1: Macro-economic assessment – Macro-economic aggregates

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

Tip: Read Section 2 and Annex 1 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 – Table 1.2. Macro-economic assessment – Macro-economic policies

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

Tip: Read Section 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

Any questions?

Quiz time: How about this first day?

Did you find the pace today:

- too slow, just right, too fast?

How about the level of difficulty:

- too easy, just challenging enough, too difficult?

How do you feel today?



OH-TOTORO



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 issues; climate resilience.

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

Exercise 2: Public Finance Management

30' in groups
20' plenary feedback



Table 2 shows the areas that should be analysed by the EU's PFM expert when assessing the country's eligibility to budget support. With a view to ensure effectiveness of budget support and continued satisfaction of eligibility during programme implementation, the PFM expert has identified a number of areas of concern.

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 document provided, read section 3 (PFM) and annex 2 (PEFA) and fill Tables 2.1 and 2.2.

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. | Budget planning, budget credibility, strategic allocation of resources are weak. Is this a technical or a political issue? Efficient use of resources? Public investment management in particular at subnational level (energy)? | | | |
| ② Respect of PFM principles: norms, rules, procedures, due processes, honesty/probity, legitimacy, transparency and accountability | Seems to be OK. PEFA Pls 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: 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-) Budget planning weak and institutional linkage between MOF and MOP not conducive to improvement (dual budgeting). Nothing 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:** *‘Entry point met’?* **Publication of the Budget** (either Executive’s budget proposal or enacted budget) within the previous or current budget cycle.
- **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 documents

Focus of 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).

Exercise 3: Budget transparency and external oversight

20' in groups
10' plenary feedback



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

Take the document provided, read section 4 (transparency and oversight) and annex 6 (OBI) and assess Table 3 (in plenary).

Exercise 3a – Budget transparency and external oversight assessment

| Issues | Issues identified | Support to capacity building | Point of Policy dialogue | Possible BS condition |
|--|--|---|--------------------------|--|
| 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) | Budget Proposal not published Needs coherent budget classification Scarce information at sector level | Budget classification underway. Option support i.e. through PFM Reform programme or twinning | Yes | In any case publication of Budget is pre condition |
| 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 serve as support to analysis Budget execution reporting formats not compatible to Enacted Budget Scarce information at sector level Audit report produced (late) but no tracking on recommendations | Option TA on accessibility of information (Website and the like) | Yes | See above |

Exercise 3b – Budget transparency and external oversight assessment

| Issues | Issues identified | Support to capacity building | Point of Policy dialogue | Possible BS condition |
|--|--|------------------------------|--------------------------|---|
| ③ Check on documents available: Budget proposal | Elaborated, but with flaws No details on previous expenditure No macro forecasting No risk analysis No info on debt Budget proposal not published | PFM Reform in place? | Yes | |
| Enacted budget | Yes but late | | Yes | Pre-condition |
| In-year reports (mid-year reports) | Yes, and available But no mid-year Budget Review | | Yes | |
| End-year report | Yes, and available Issue with reporting format No performance information | Option TA in ICT | Yes | |
| Audit report | Yes, but late and covers 60% of plan; low quality No report about follow-up of recommendations Political willingness oversight? | Option through TA INTOSAI | Yes | |
| Other (such as citizens' budgets) | Yes, produced in 2018 for the first time | Yes | Yes |  |

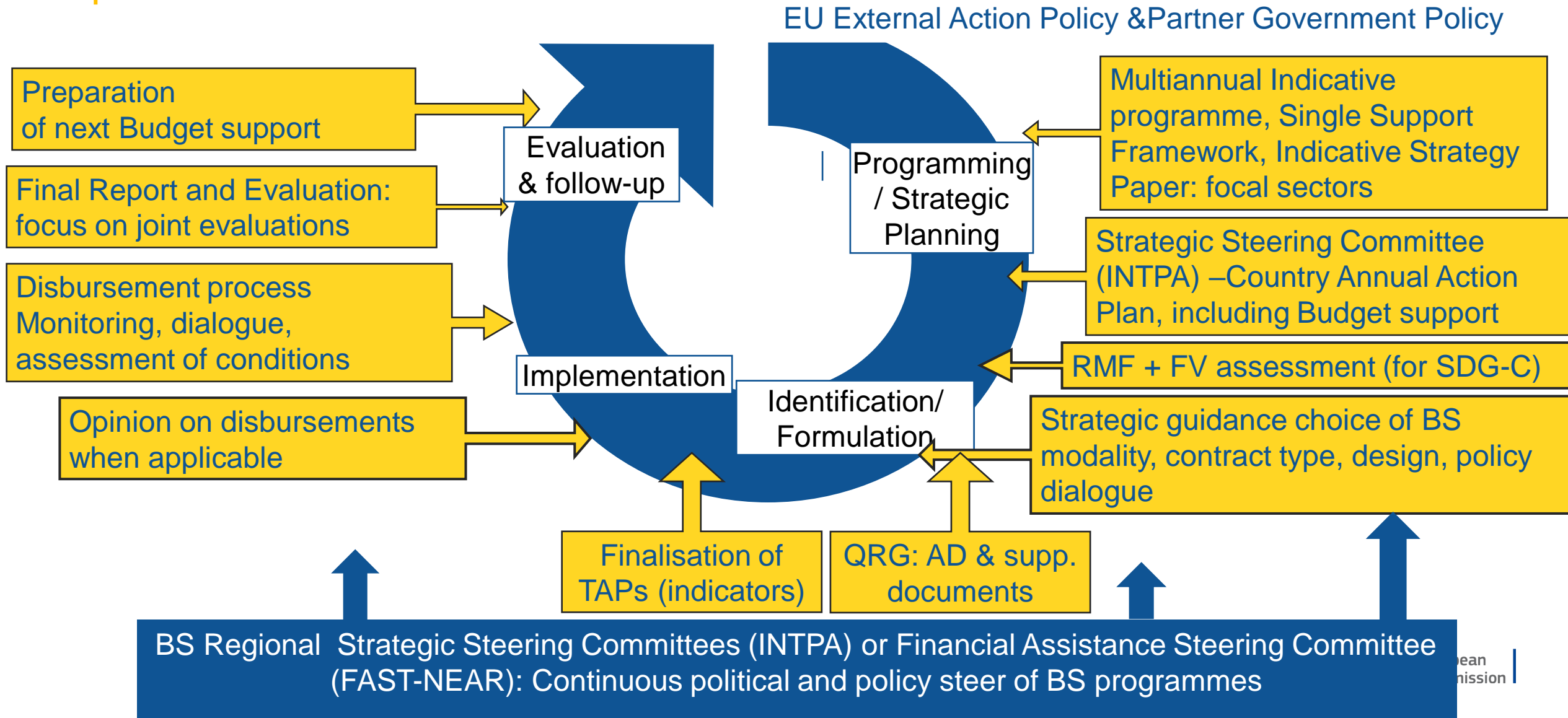


Budget Support

Core concepts: Choice of contracts and intervention logic

Online Sessions

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)



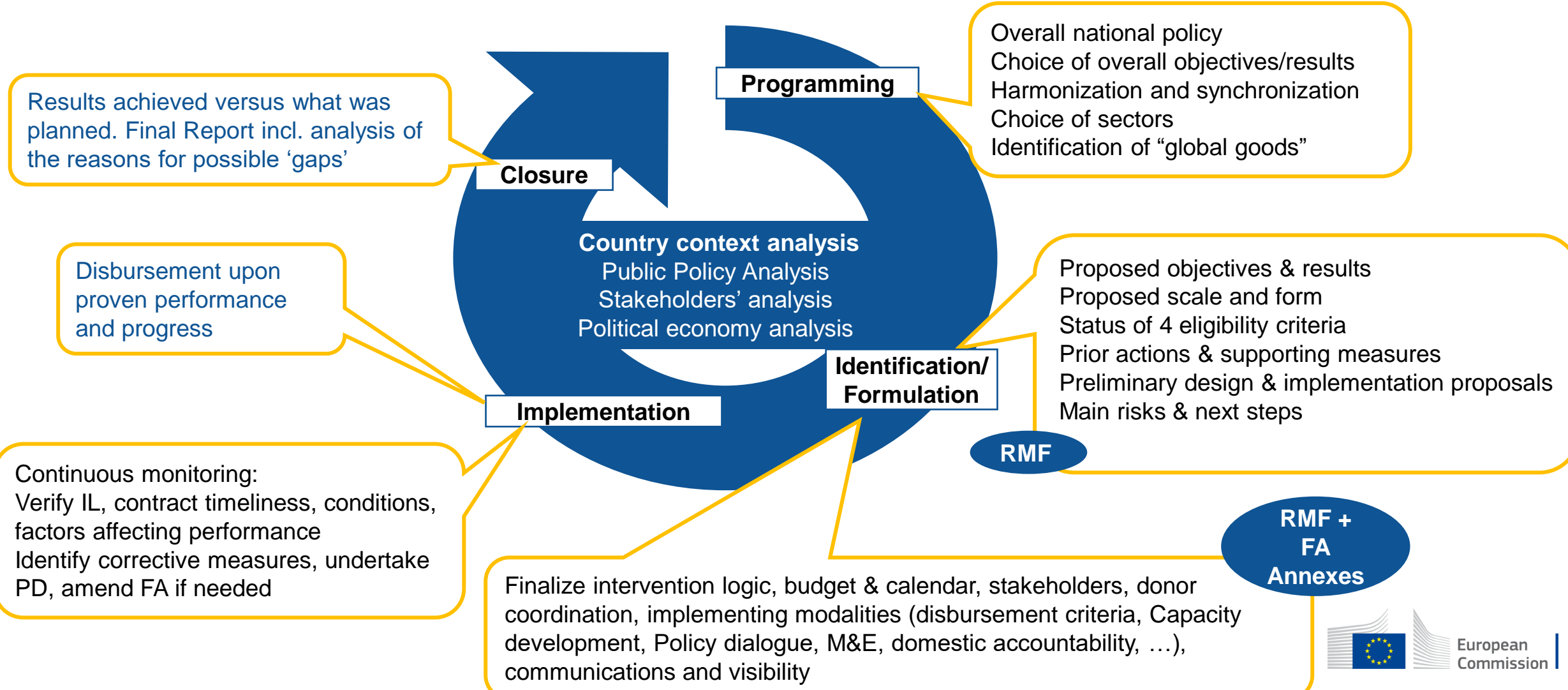
State and Resilience Building Contract

SRBC

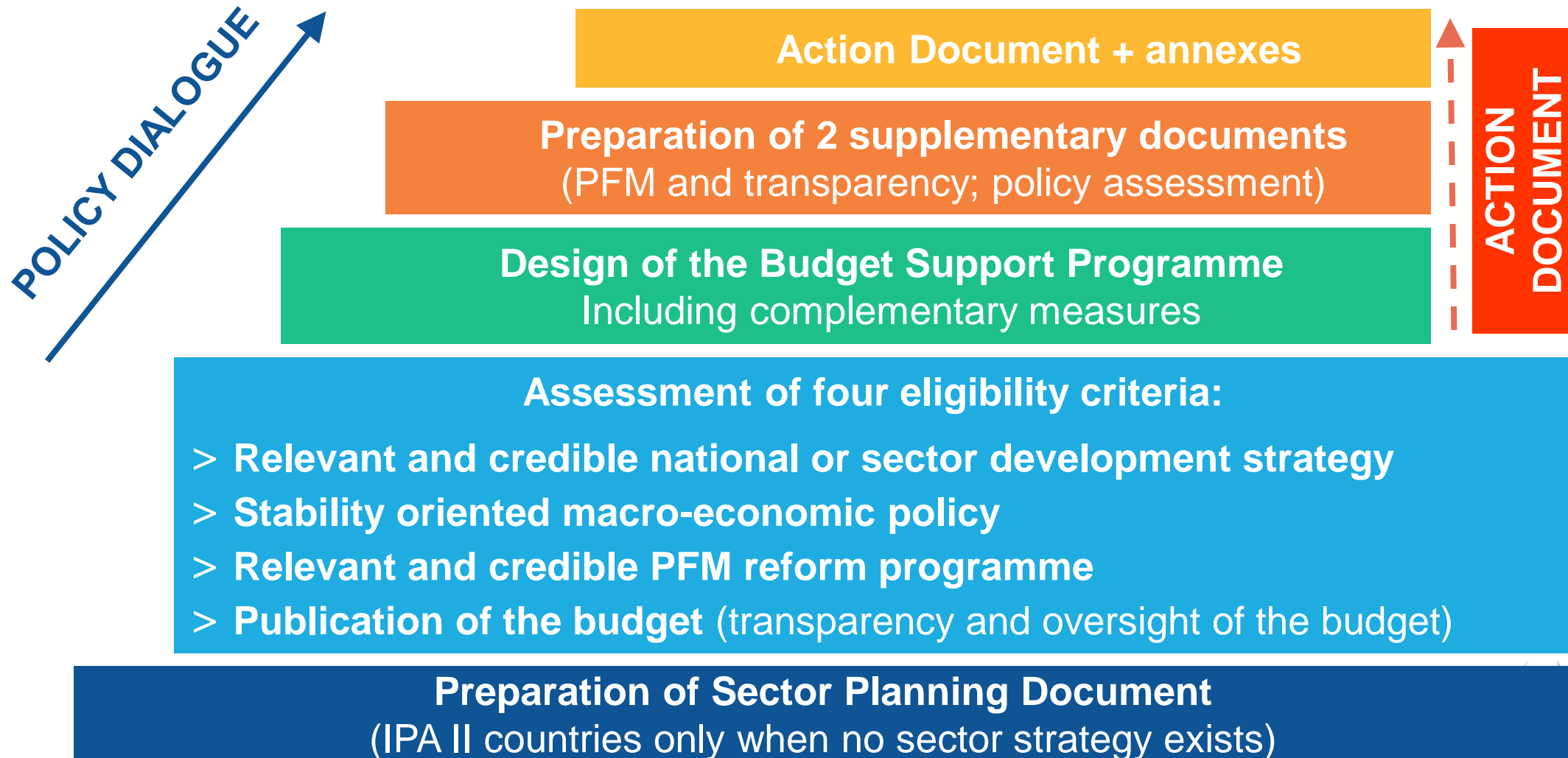
Country's commitment to Fundamental Values and/or political response to improve the situation should be taken into account as part of the RMF.

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

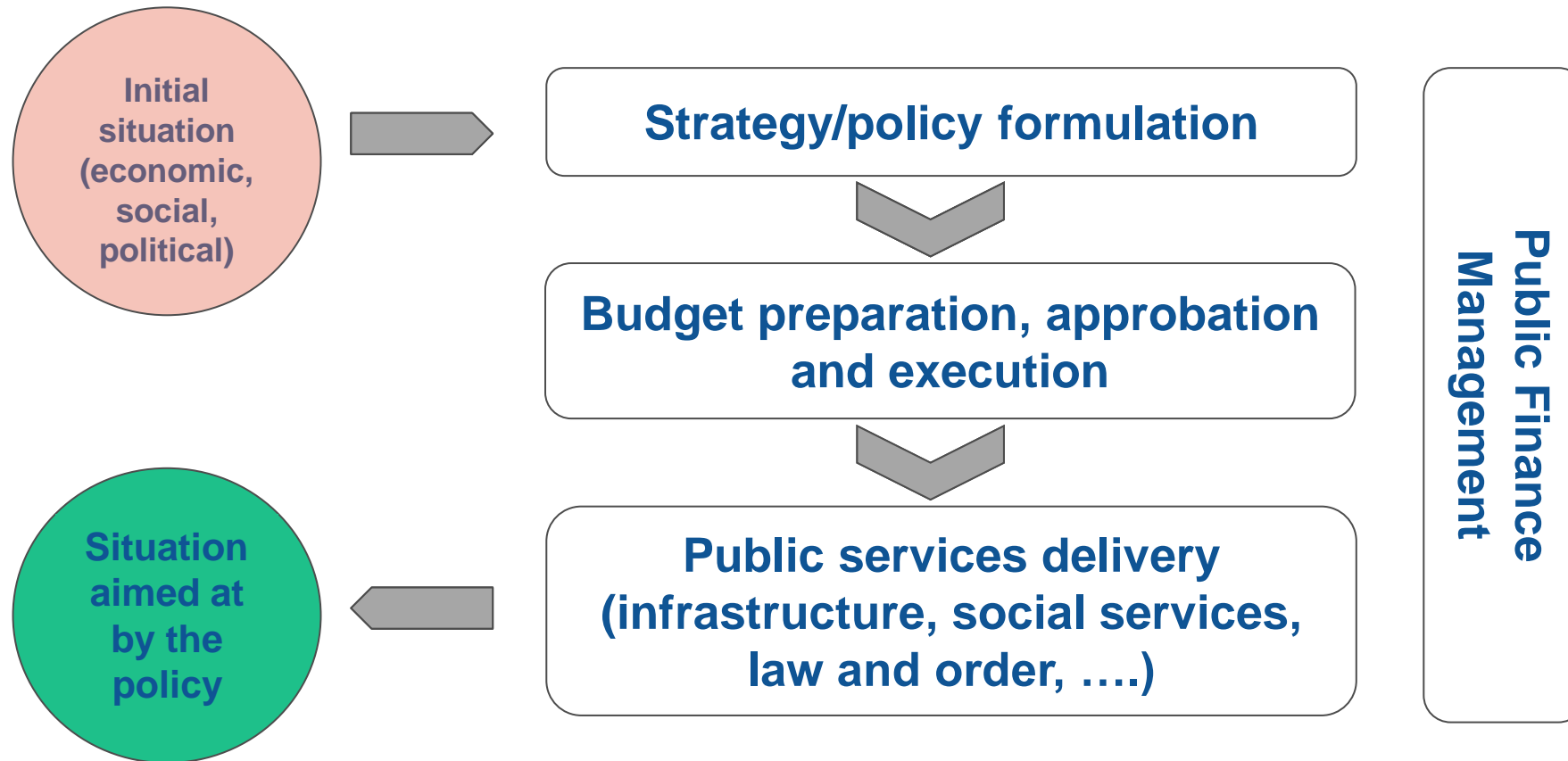
THE CONTEXT ANALYSIS AT THE CENTRE: A CONTINUOUS AND ITERATIVE PROCESS



BS PREPARATION PROCESS



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

50' in groups
20' plenary feedback



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 (sections 1 and 5). Similarly to the previous exercises, on the basis of 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, M&E system, coordination mechanisms (incl. with donors), coherence of policies, existing communication strategy | | | | |
| ② Policy relevance: 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) | | | | |

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 | | | | |
| ④ Other risk areas that require close monitoring | | | | |
| ⑤ Missing elements required for analysis and decision-making | | | | |

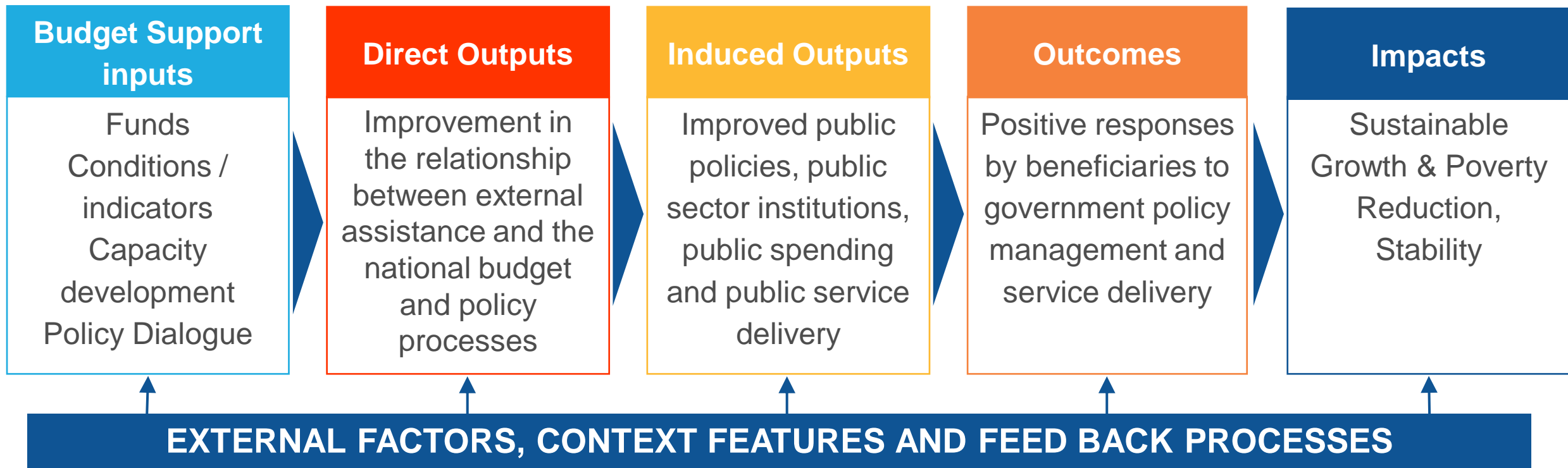
Tip: Read Section 1 (Sector context) and 5 of documents provided

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

Budget support Intervention Logic (OECD/DAC 2012)

GOVERNMENT POLICY & SPENDING ACTIONS (STRATEGY)

Inputs to Government policy & spending actions



EXERCISE 5: Intervention Logic

40' in groups
20' 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 to support the expansion of sustainable energy in rural areas. Budget support design can start.

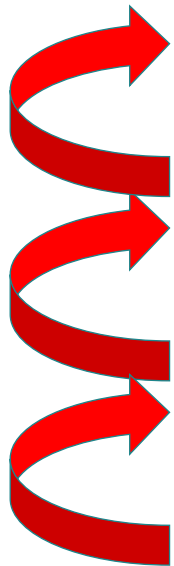
You are now tasked with preparing the Action document for the operation. As a first step, you will prepare the intervention logic of the operation, enabling you to clearly identify the expected contributions of budget support to the sector's objectives, understand the dynamics that will produce the expected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

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 | | | |



Quiz time: Budget support, eligibility criteria and intervention logic

Any questions?



Budget Support

Design and design simulation

Online Sessions


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
Govt 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 | 2022 baseline available 2025: +30% business 2025: Income :10% 2030: social indicators +5% |
| Outcome(s) Coverage of remote areas by off-grid electricity supply | <ul style="list-style-type: none"> rural, mountainous and island areas households' access to a reliable electricity supply Reduced hours of outages accountability in sector | 2018: 98% - | 2030: 100% Reporting Yearly basis on budget, extension of access, number of households |
| Induced Outputs Improved Governance of energy sector | <ul style="list-style-type: none"> 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 | 2018: no baseline | M&E by 2021 Data by 2021 Tariff revised each year MT Budget available 2022 |
| Direct outputs Funding of projects CB in PFM, project management, data collection Studies in electricity tariffs | <ul style="list-style-type: none"> Nb of projects funded by ECF Nb of projects funded by Provinces Nb 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  |

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. | 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

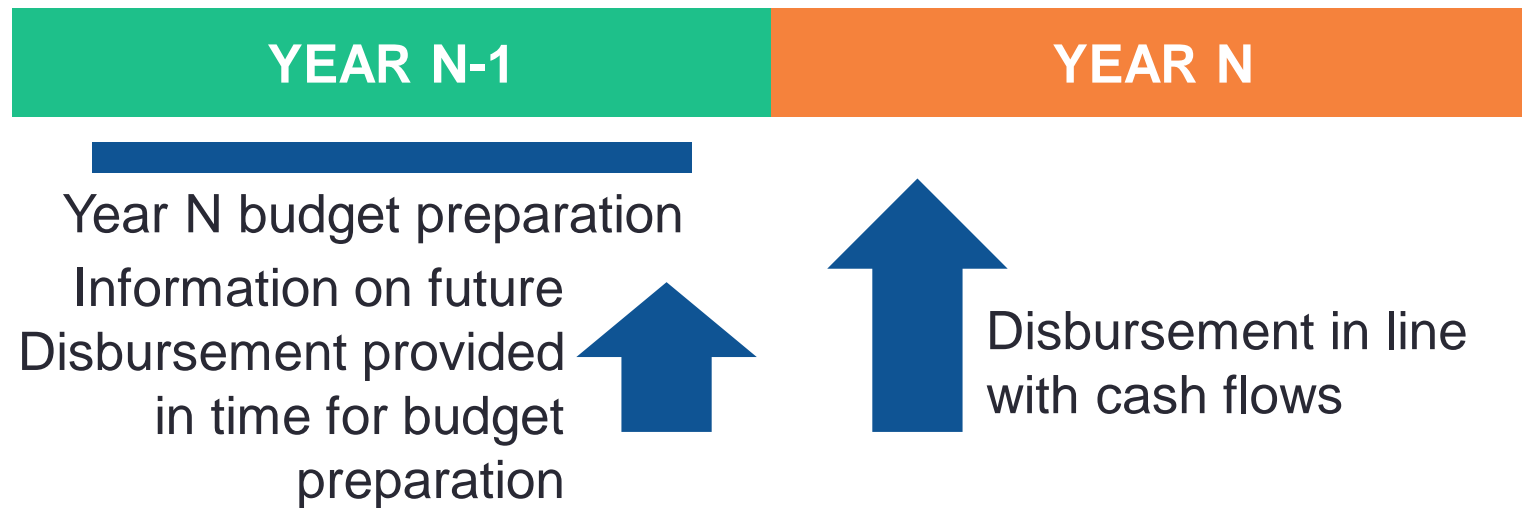
FUNDING ARRANGEMENTS

Additionality of funds:

- All funds are additional to domestic revenues
- When considering additionality of BS:
 - Consider effects on the Medium Term Fiscal Framework 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



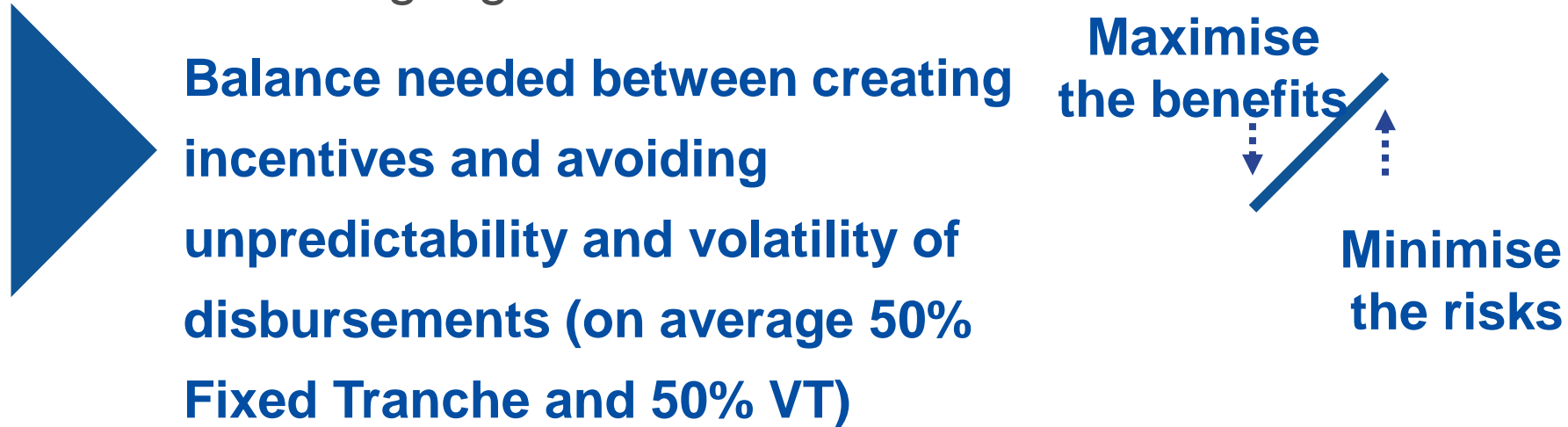
Predictability in the medium term: duration of contract:

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

- **No floating tranches**

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.



- > Countries with good track record and low risk profile can get contracts with longer duration and low VT share. BS in NEAR countries may have 0% FT after year 1.

Illustration of funding profile: Energy SRPC in Fictiland

SRPC to the Energy sector of Fictiland of a maximum of €80 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 | 20 | Q3 | 20 | Q2 | 15 | Q2 | 55 |
| Variable tranche | | Q3 | 10 | Q2 | 15 | Q2 | 25 |
| Total BS | 20 | | 30 | | 30 | | 80 |
| CSA | 4 | Q4 | | | | | 4 |

Maximum total
amount €80m

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

EXERCISE 7: Identify Complementary support activities

25' in groups
15' plenary feedback



Your initial assessments revealed areas of considerable institutional weaknesses, which 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. This led you to allocate € 20 million from the total budget support to complementary support activities.

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 €20 million CSA envelop.

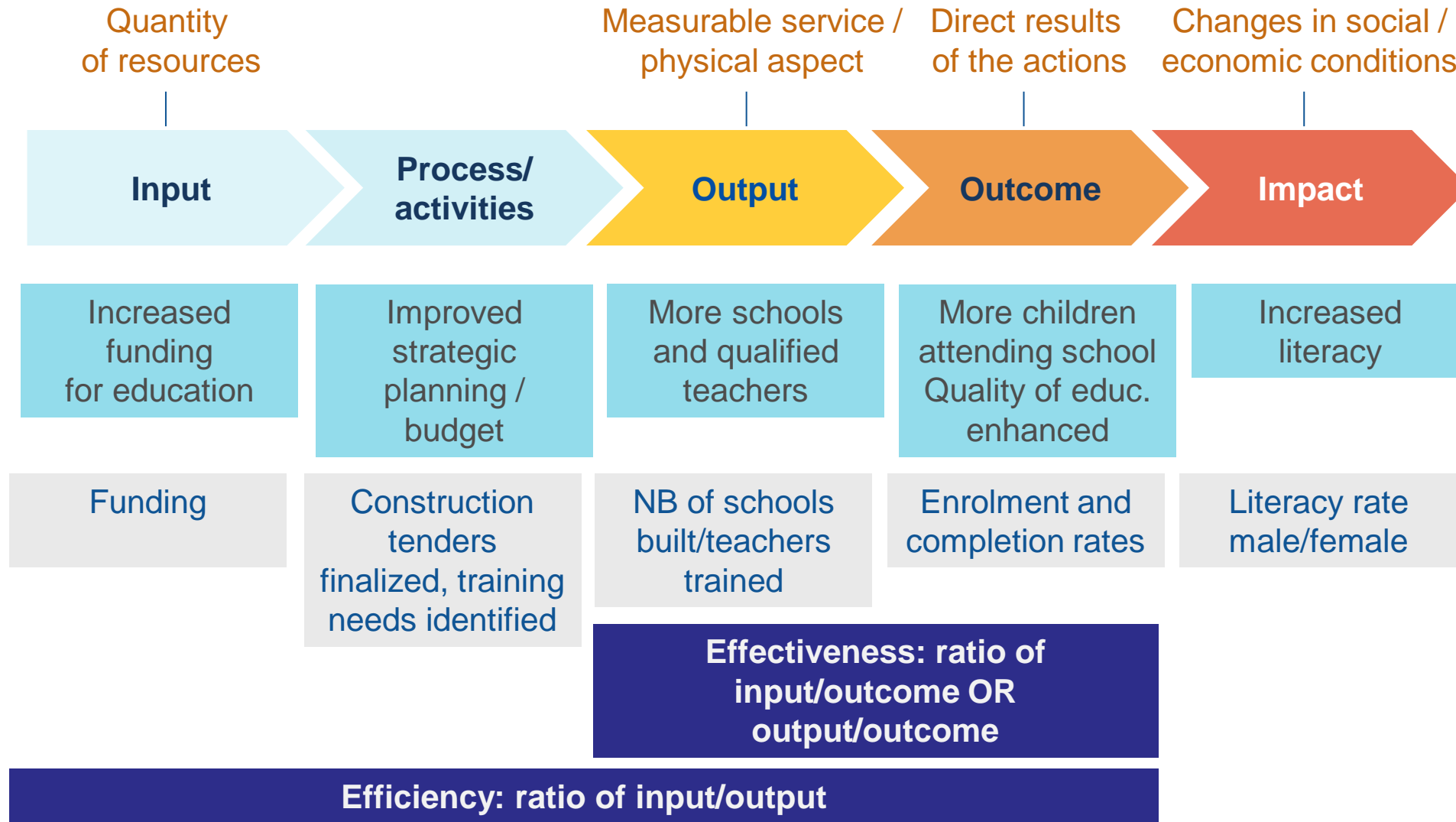


Do not forget to have a look at what other development partners already provide.

Prioritise! Be realistic!

Tip: Read Section 7 (M&E) and Annex 3 in your background document.
No specific chapter or annex in the Guidelines, but see a paragraph on p15

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, including progress towards the sustainable development goals. Only 13 % of the 248 indicators we reviewed measured outcomes or impacts in the supported sectors (...). The use of outcome indicators would enable the Commission to better measure longer-term results in the supported sectors, including progress towards achieving the SDGs.



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



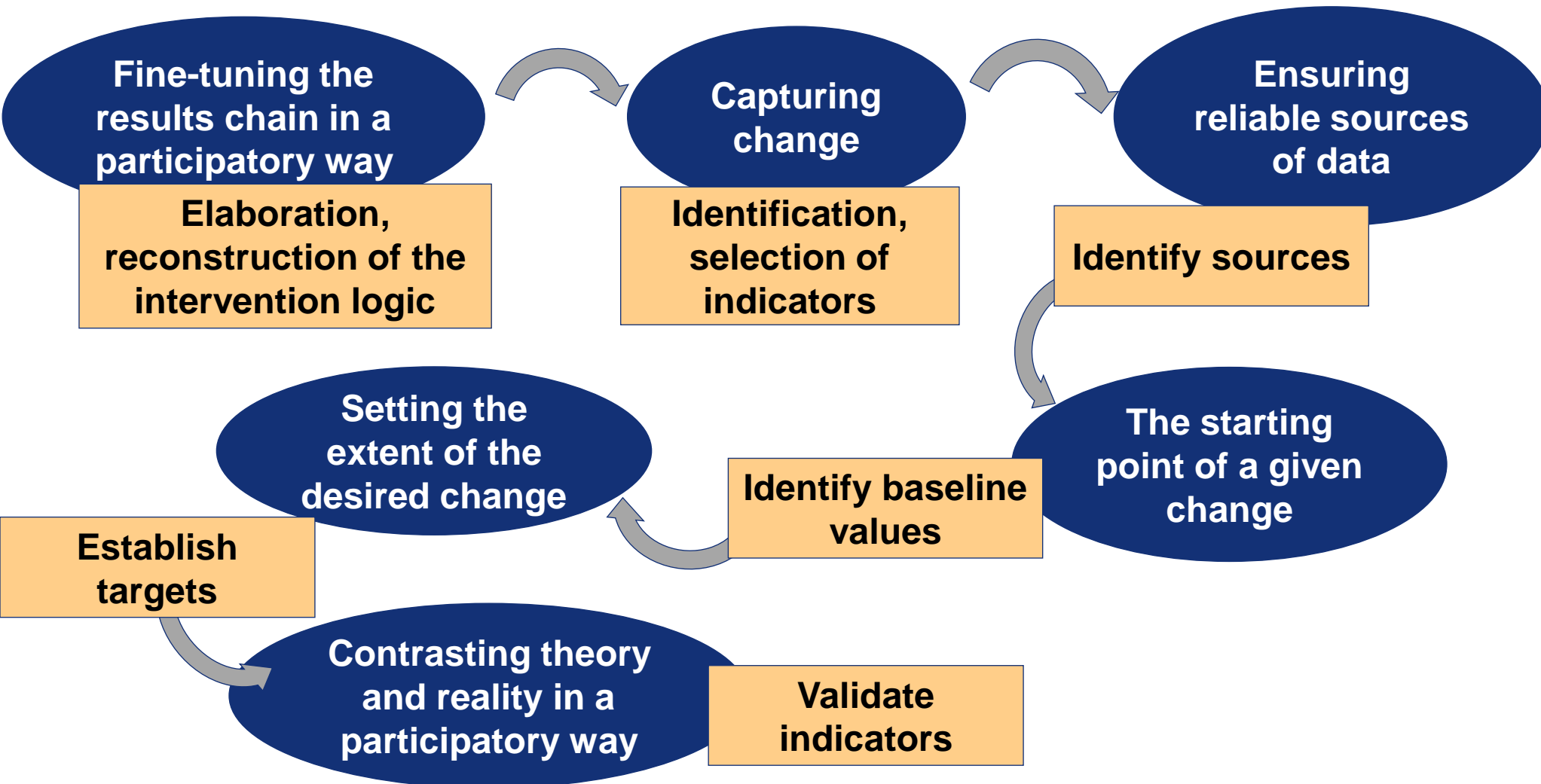
More than one third of the indicators were vaguely defined or had incorrect baselines, or none at all. This allowed for different interpretations as to whether targets had been achieved, making the analysis of the disbursement requests more complex and less objective. (...) Particular attention should be paid to:

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



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Practical steps in defining, verifying and using indicators



Don't forget: Establishing robust M&E arrangements is necessary to use indicators. Pay attention to the design of data collection systems and quality

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) |

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.

EXERCISE 8: Agreement on Performance Indicators

40' 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 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).

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.

Please list for each of the indicators assigned to your group, the arguments in favour and/or against retaining each of the 12 indicators, using the 10 aspects to assess indicators and the information required to be produced in the documentation sheets. Finalise with a list of 8 indicators that you believe are suitable to be used for variable tranche disbursement triggers.

Tip: Read Sections 7 (M&E) and 8 in your background document.

Consult annex 8 in the Guidelines, in particular the ten aspects to consider when assessing performance indicators and the indicator documentation sheet (p139)

Funding profile (for information)

SRPC to the Energy sector of Fictiland of a maximum of €80 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 | 20 | Q3 | 20 | Q2 | 15 | Q2 | 55 |
| Variable tranche | | Q3 | 10 | Q2 | 15 | Q2 | 25 |
| Total BS | 20 | | 30 | | 30 | | 80 |
| CSA | 4 | Q4 | | | | | 4 |

Maximum total
amount €80m

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!



Quiz time

Let's go to Menti!

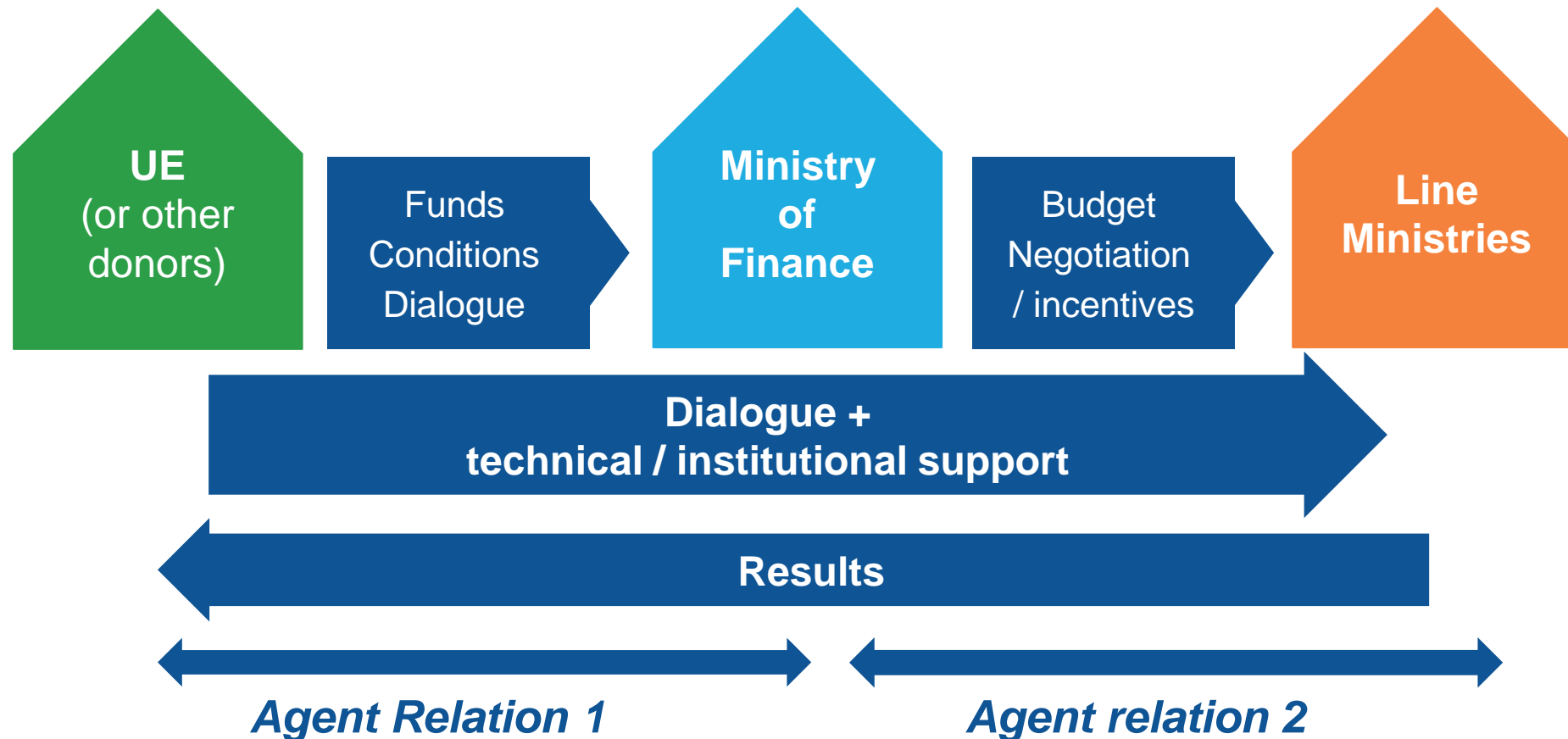


Budget Support

Monitoring and disbursement and implementation simulation

Online Sessions

THE PRINCIPAL - AGENT RELATIONSHIP



Monitoring

DISBURSEMENT AS EXPRESSION OF COLLABORATION



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.

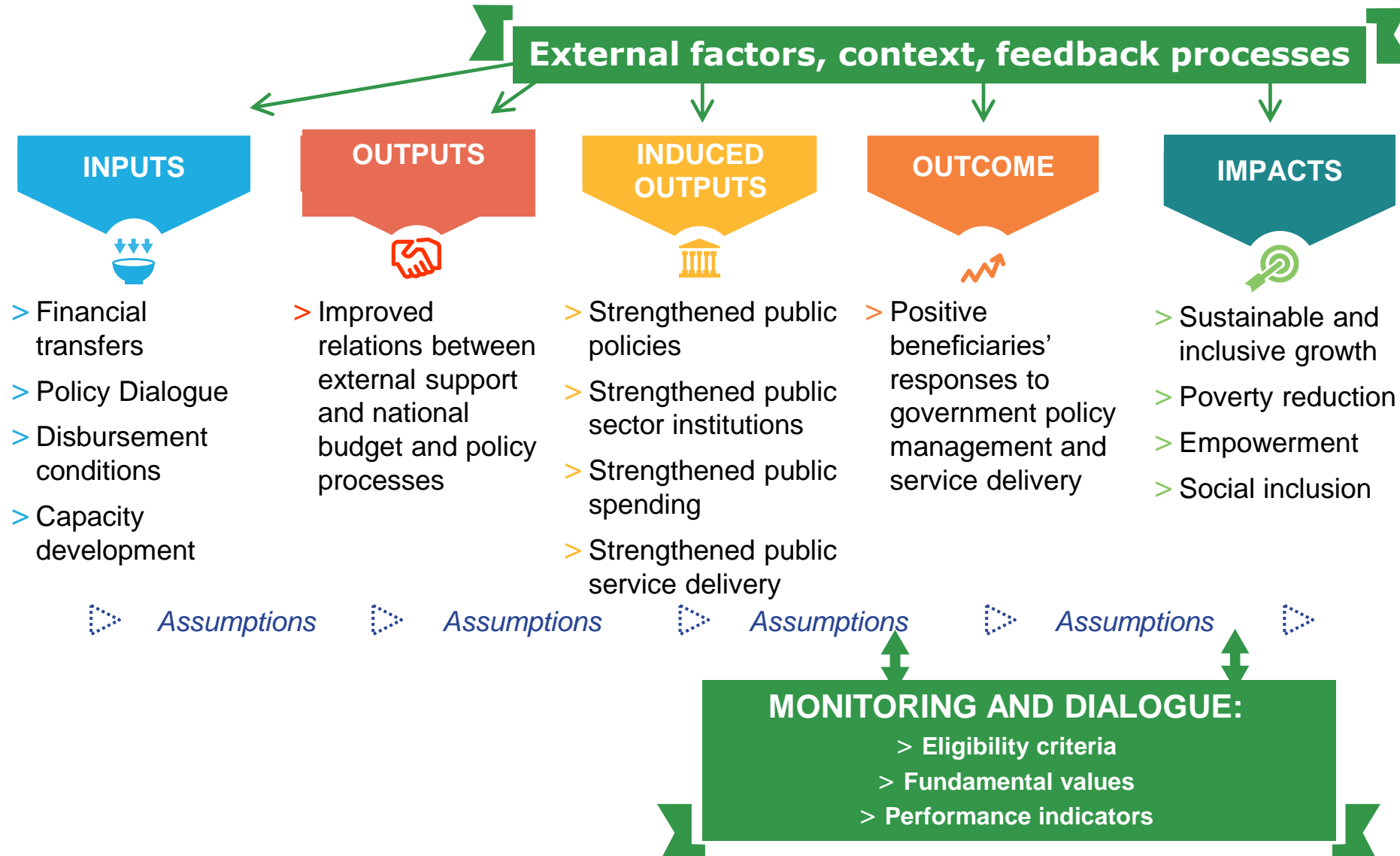
The role of performance indicators

1. Planning – what does the policy wish to achieve?
2. Monitoring – how is the policy performing?
3. Review – what did the policy achieve?
4. Evaluation – did the policy make an impact?
5. Justification for bids for resources
6. A basis for accountability
7. A basis for demonstrating value for money
8. Focusing people's attention on what is important
9. Flag up problems to be addressed

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, 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
- > 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 <ul style="list-style-type: none"> • Mandate • Responsibilities • Tools | Adequate capacity for M&E <ul style="list-style-type: none"> • Specialised human resources |
| | Data <ul style="list-style-type: none"> • Integrity • Collection (administrative, surveys, evaluations) • Storage & Dissemination • Access/Use | <div data-bbox="1103 704 1773 958"> Policy & Strategy Objectives, indicators, baselines & targets </div> Culture of Monitoring and performance <ul style="list-style-type: none"> • Internal/external demand for it • Management use and remedial actions taken • Use by external stakeholders |

Quiz time

Let's go to Menti!

Disbursement

DISBURSEMENT PROCESS

Partner country

Request for tranche release & engage in dialogue with EUD

EU Delegation

Engage in dialogue with national authorities, analyse tranche release request, assess tranche release and prepare a disbursement file.
Submit clear recommendation

INTPA

Country Cooperation Teams (CCTs) make decisions on operations and payments, potentially involving discussion by the geographic Strategic Steering Committee (SSC)
The SSC formally approves (or not) the operation and payment

EU Delegation

HOD provides authorising officer visa and letter with key messages to be taken up in dialogue
Verification of payments (incl. exchange rate verification)

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> |

Please take a 15 min break

Exercise 9: June 2022, Performance indicators

| Indicator | Base-line | Year 2021 | | Weight | Maximum Amount | Score | Actual amount |
|--------------------------------------|-----------|-----------|--------|--------|----------------|-------|---------------|
| | value | Target | Actual | | | | |
| Objective 1: Grid development | | | | | | | |
| 1. PI 1. Grid access | 120500 | 155000 | 147000 | 10% | € 1 M | 0.5 | € 0.5 M |
| 2. PI 4 Renewable energy consumption | 70000 | 95000 | n/a | 10% | € 1 M | 0 | € 0 M |
| Objective 2: Sector governance | | | | | | | |
| 4. PI 6 Energy Information System | n/a | Yes | Yes | 20% | € 2 M | 1 | € 2 M |
| 3. PI 5 Recurrent budget % | 2.50% | 2.50% | 1.76 | 10% | € 1 M | 0 | € 0 M |
| 5. PI 8 Electricity subsidy | 68% | 80% | 68% | 15% | € 1.5 M | 0 | € 0 M |
| 6. PI 9 Feed-in Tariff | n/a | Yes | Yes | 10% | € 1 M | 1 | € 1 M |
| 8. PI 12 Solar development plan | n/a | Yes | Yes | 10% | € 1 M | 1 | € 1 M |
| Objective 3: Social protection | | | | | | | |
| 7. PI 10 Social assistance scheme | n/a | Yes | Yes | 15% | € 1.5 M | 1 | € 1.5 M |

TOTAL TO BE DISBURSED: € 6 million out of a maximum of € 10 million

Calculating the Variable tranche 1/2

- Method 1: Assess individual indicators:
 - 0 = no progress; 0.5 = significant progress; 1 = target met
 - Pro rata payment: aggregate amounts for each indicator

- Method 2: Assess aggregated performance of indicators by policy objective:
 - 0 = unsatisfactory (aggregated score below 35% of maximum); 0.5 = satisfactory (score 36-70%); 1 = strong (71-100%)
 - Pro rata payment: 0 → no disbursement, 0.5 → 50% disbursement; 1 → full disbursement

Calculating the variable tranche 2/2

- Method 3: Asses all indicators together for overall performance with total score:
 - below 30% of maximum= unsatisfactory → no disbursement;
 - 31%-45% = limited → disbursement 35%;
 - 46-75% = satisfactory → disbursement 65%; and
 - 76-100% = strong → full disbursement.
- In principle undisbursed funds will not be recycled to next tranches (decommitted or used for complementary support actions)
- In exceptional cases, an indicator can be neutralised or waived and the amount can be reallocated to the other indicators or to the next year and/or reassessed following year if positive trend

Illustration of scoring methods

| Indicator | Weight | Maximum Amount | Score | Actual amount | | |
|--------------------------------------|--------|----------------|-------|---------------|--|--|
| | | | | Option 1 | Option 2 | Option 3 |
| Objective 1: Grid development | | | | | Score 25% <i>Unsatisfactory</i> € 0 M | Overall score 4.5/10 <i>Limited</i> € 6.5 M |
| 1. PI 1. Grid access | 10% | € 1 M | 0.5 | € 0.5 M | | |
| 2. PI 4 Renewable energy consumption | 10% | € 1 M | 0 | € 0 M | | |
| Objective 2: Sector governance | | | | | Score 60% <i>Satisfactory</i> € 3.25 M | |
| 4. PI 6 Energy Information System | 20% | € 2 M | 1 | € 2 M | | |
| 3. PI 5 Recurrent budget % | 10% | € 1 M | 0 | € 0 M | | |
| 5. PI 8 Electricity subsidy | 15% | € 1.5 M | 0 | € 0 M | | |
| 6. PI 9 Feed-in Tariff | 10% | € 1 M | 1 | € 1 M | | |
| 8. PI 12 Solar development plan | 10% | € 1 M | 1 | € 1 M | | |
| Objective 3: Social protection | | | | | Score 100% <i>Strong</i> € 1.5 M | |
| 7. PI 10 Social assistance scheme | 15% | € 1.5 M | 1 | € 1.5 M | | |
| TOTAL DISBURSEMENT | | | | € 6 M | € 4.75 M | € 6.5 M |

EXERCISE 9: Disbursement negotiation, June 2022



A first year of budget support has passed. During 2021, 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, policy plans could not be implemented as originally 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 2022 fixed tranche. You are now sitting down with the authorities to discuss the disbursement of the 2022 variable tranche, which is based on the performance for 2021. Four out of the 8 indicators did not reach their agreed targets in 2021....

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.

Please take a 15 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 Risk Management Framework 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



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

Questions and Answers

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

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