

European Commission Budget Support in Serbia

Module 4. Design of EU Budget Support



Outline

1. THE EU CYCLE OF BS CONTRACTS

2. The Action Document

3. Design considerations

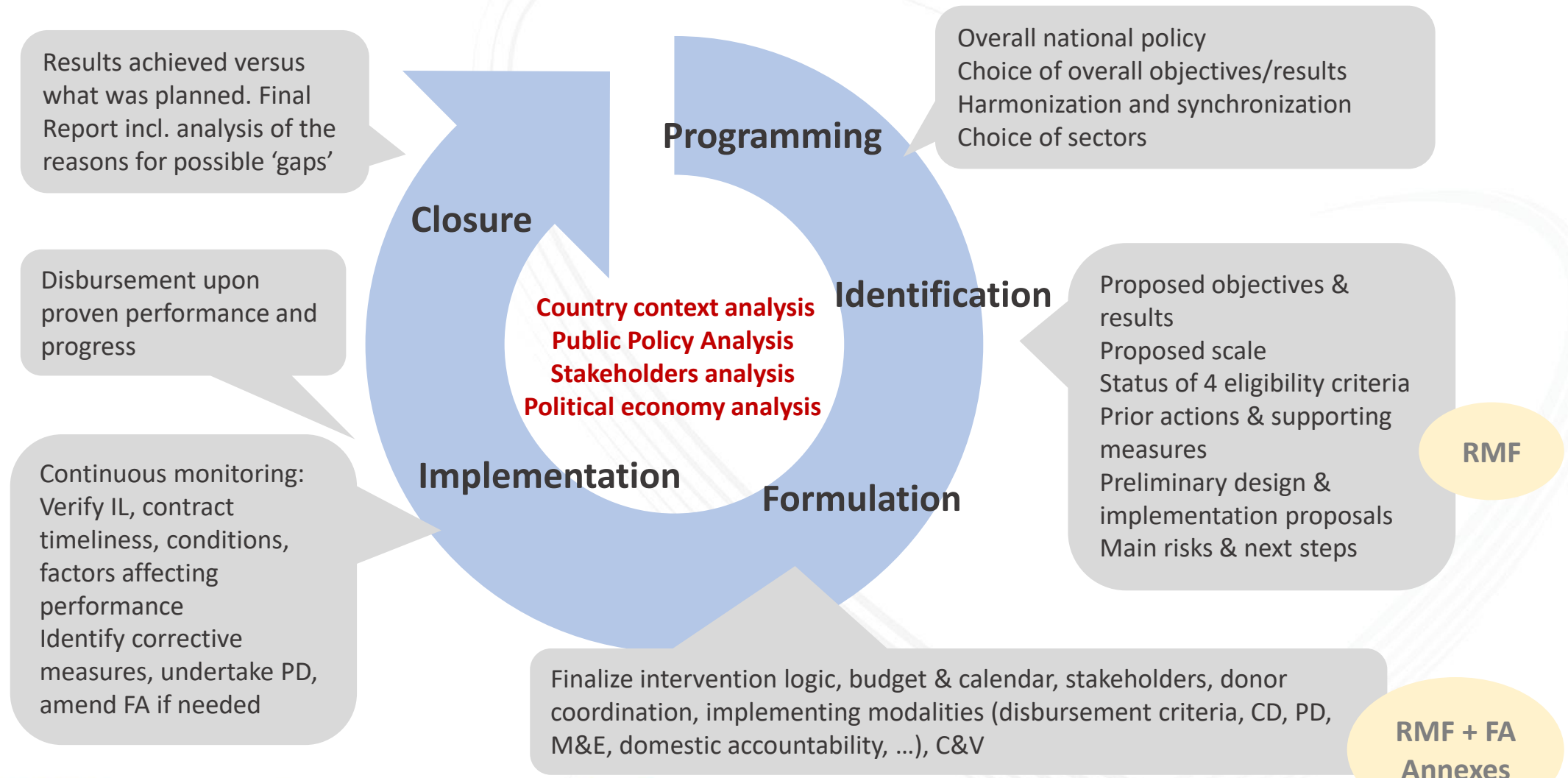
4. Fixed and variable tranches

5. Disbursement

6. Coordination and communication

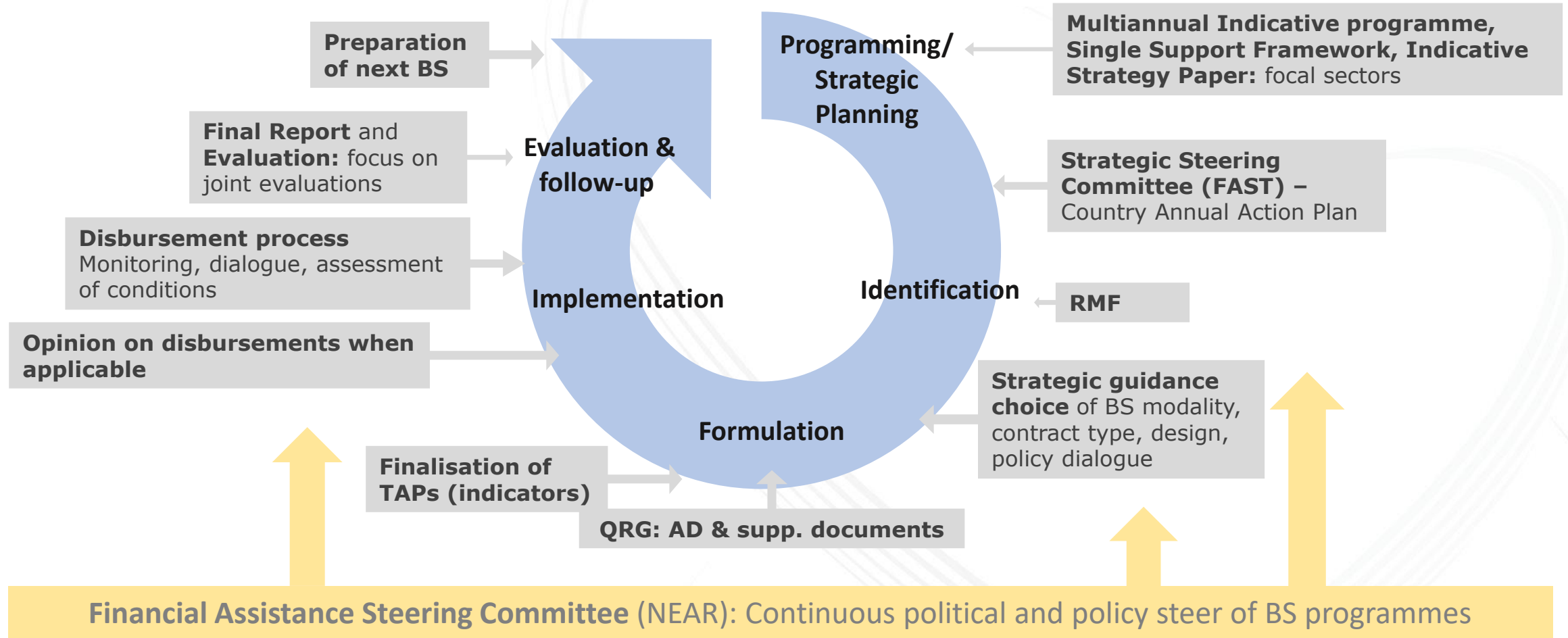
THE CONTEXT ANALYSIS AT THE CENTRE:

A CONTINUOUS AND ITERATIVE PROCESS



EU CYCLE OF OPERATIONS

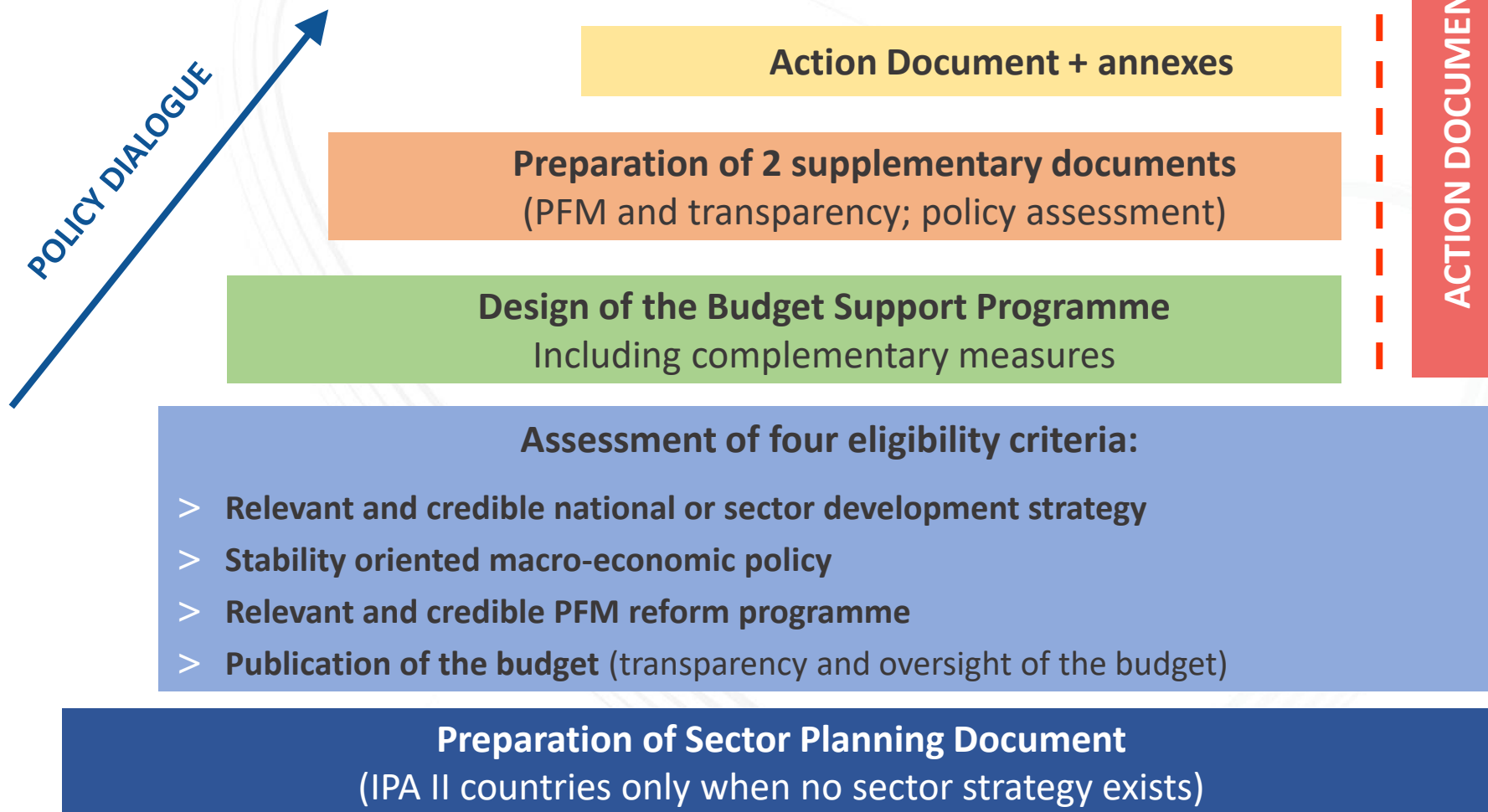
EU External Action Policy
Partner Government Policy



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BS PREPARATION PROCESS (simplification)



FROM AD TO FA: ANNEXES / TAPS

- The latest validated Risk Management Framework
 - Public Policy
 - Indicative list of indicators
 - Macro-economic stability
 - Public Finance Management
 - Budget transparency and oversight
- Annex 1: Performance indicators for disbursement
 - Annex 2: Disbursement arrangements and time table
 - Annex 3: Intervention Logic Table
 - Assessment of cross-cutting issues
 - Donor Matrix (optional)

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HOW MUCH BUDGET SUPPORT?

Decision to be based on broad qualitative assessment of:

- **Financing needs of the partner country** at national and sector level (MTFF/MTEF)
- **Commitment of partner country to allocate national budget resources in line with country national/sector reform strategy objective** and to follow standard national budget procedures
- **Effectiveness, value for money and impact of specific added value of BS**
- **Track record and absorption capacity of previous BS operations**
- **Results orientation** including monitoring system

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.

FUNDING ARRANGEMENTS

Additionality of funds:

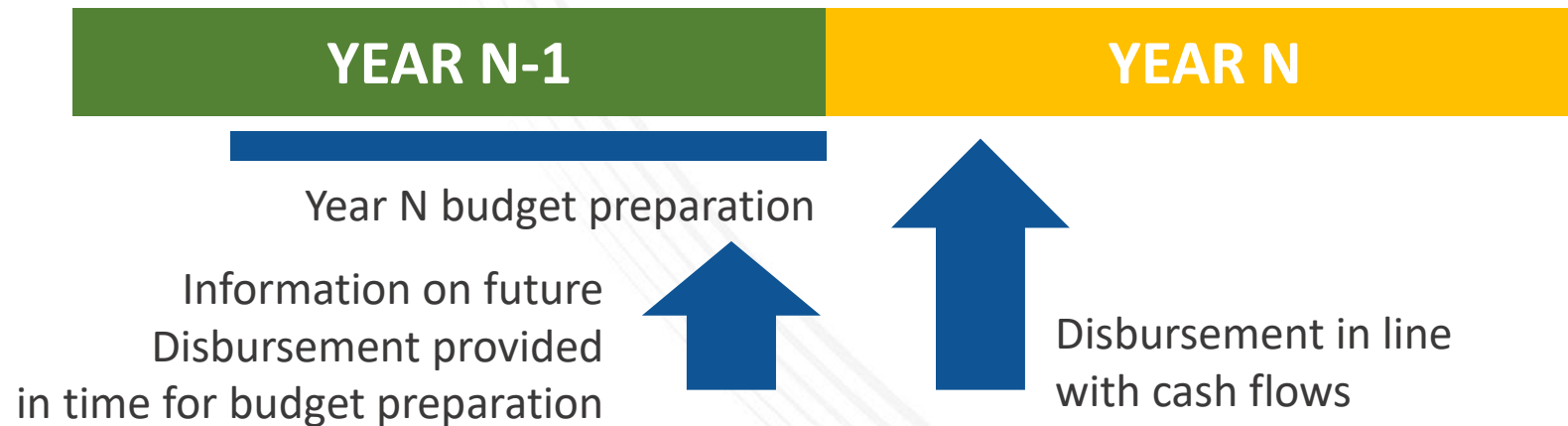
- All funds are additional to domestic revenues (the T, not the G)
- When considering additionality of BS:
 - Consider effects on the MTFF and strategic resource allocations according to overall policy priorities (also, or in particular at sector level)
 - Consider recurrent cost implications and sustainability.
- **Additionality \neq targeting**
- **No additionality at sector level but additional space at macro level: focus on dialogue, incentives and conditions on results**
- **Emphasis on effectiveness and efficiency of sector policies and expenditure**

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TIMING OF DISBURSEMENT AND DURATION: BS PREDICTABILITY

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



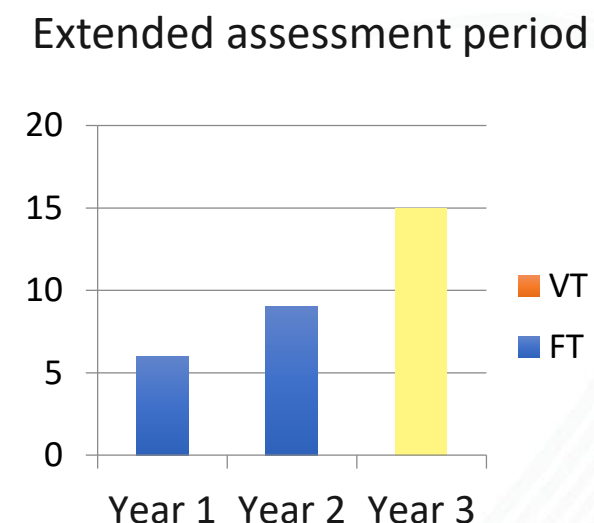
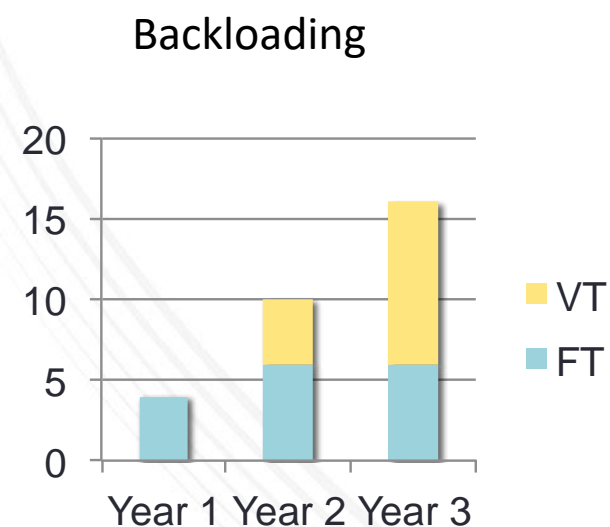
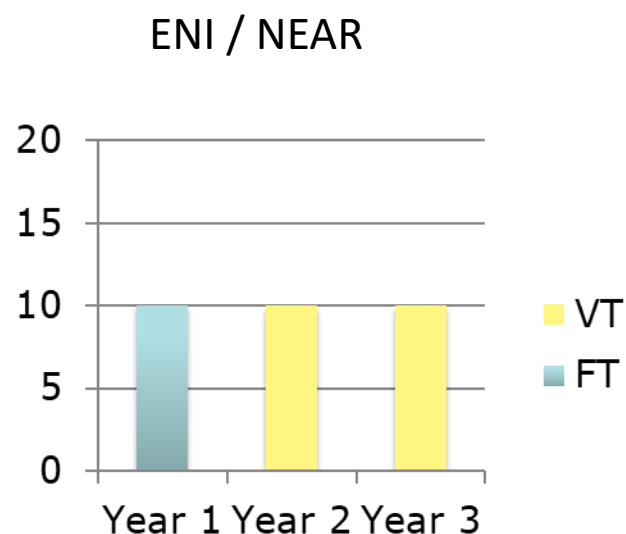
WHAT IS A FIXED TRANCHE (FT) AND WHAT IS A VARIABLE TRANCHE (VT)?

- **FT, disbursed if eligibility criteria are** (still) **met** (and possibly when pre-conditions are met)
- **VT disbursed if additional conditions pertaining** to agreed performance targets in agreed areas within agreed timeframe **are met**:
 - VT is based on a number of agreed performance indicators
 - Performance in year n-1 assessed in year n, determines the size of the VT in year n+1
 - Mostly no VT in first year of a BS contract, unless it is a successor contract.
- **% of VT that will be disbursed depends on the degree of satisfying disbursement conditions.**

Key EU principles:

- > Reward performance
- > Ensure predictability of disbursements
- > Respect budgetary and planning cycles of recipient

DISTRIBUTION OF TRANCHES OVER TIME



Methods

1. Assess individual indicators

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

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

3. Assess 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

CALCULATING THE VT DISBURSEMENT

STEP 1

- Evaluate the performance on each indicator and assign a score

Quotation system to be defined in the financing agreement

Preferred option:

0	negligible or no improvement
0,5	partial improvement
1	objective reached

Policy objective	Indicator	Evaluation	Score
Objective 1	Indicator 1	☹	0
	Indicator 2	☺	0,5
	Indicator 3	☺	0,5
Objective 2	Indicator 4	☹	0
	Indicator 5	☺	1

STEP 2

- Evaluate the overall performance to determine the amount to be disbursed

Current method:
Performance by indicator

Example 1 By INDICATOR	
Amount at stake	Decision
2 M€	0 M€
1 M€	0,5 M€
1 M€	0,5 M€
1 M€	0 M€
2 M€	2 M€

3,0 M€

Alternative methods :

Aggregate performance by group of indicators
(to be defined in the financing agreement)

< 35%	→ 0
35% < < 70%	→ 50%
> 70%	→ 100%

Example 2 By OBJECTIVE	
Amount at stake	Decision
4 M€	1/3 unsatisfying 0 M€
1 M€	0,5 M€

1,5 M€

Example 3 GLOBAL	
Amount at stake	Score / Decision
7 M€	2/5 35% < < 70% 3,5 M

3,5 M€

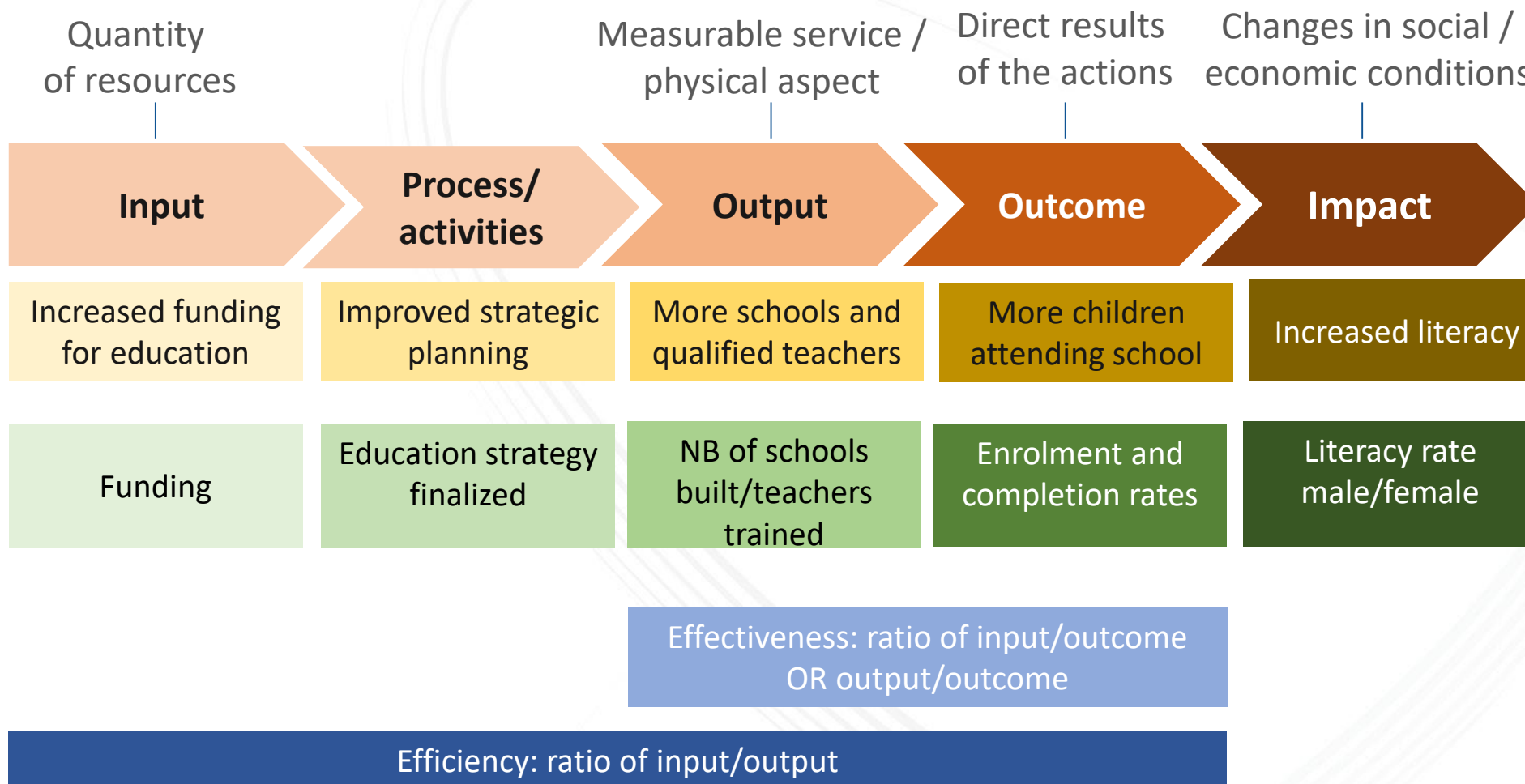
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VT DISBURSEMENT INDICATORS (1)

- Number of indicators : 3 – 10 (indicative)
- Select indicators over which (the sector) has a reasonable control: preference given to induced output or outcome indicators
- VT disbursement indicators and targets should be selected from the country's M&E matrix or from the sector M&E matrix and agreed upon during formulation phase
- If no M&E matrix exists, select according to policy priorities whilst ensuring coherence between contract objectives, problem diagnosed and selected indicators and targets
- Well defined indicators (**SMART**), which change annually, where timely information is available, for which sources are identified
- Indicators and targets may be disaggregated by gender, region or population group

WHICH INDICATORS FOR BUDGET SUPPORT?



VT DISBURSEMENT INDICATORS (2)

- Outcome indicators focusing on both quantity and quality are preferred
- Feasibility of using outcome indicators depends on time lag and M&E system (requires high quality statistical information system)
- Using input, process and output indicators may be appropriate

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)

EXAMPLES OF COMPLEMENTARY SUPPORT ACTIVITIES

- **Capacity development measures:** TA and other forms of capacity building, to strengthen public institutions or civil society organisations.
- **TA to support M&E of the EU contract;** or to support the design and implementation of a government-led visibility and communication strategy.
- **Strengthening of national statistical systems and monitoring frameworks** should be a critical component of policy dialogue and CD.

Plus:

- Promotion of the active engagement of all stakeholders in policy design, implementation and monitoring
- Integration of gender equality in planning, budgeting

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WHEN TO COORDINATE AND WITH WHOM?

Formulation

Coordinate with:

- > EU MS
- > External partners for assessment of eligibility criteria and for institutional support planning.
- > IMF for macro assessment
- > Government for design of programme and conditions. institutional support planning.

Implementation

Coordinate with:

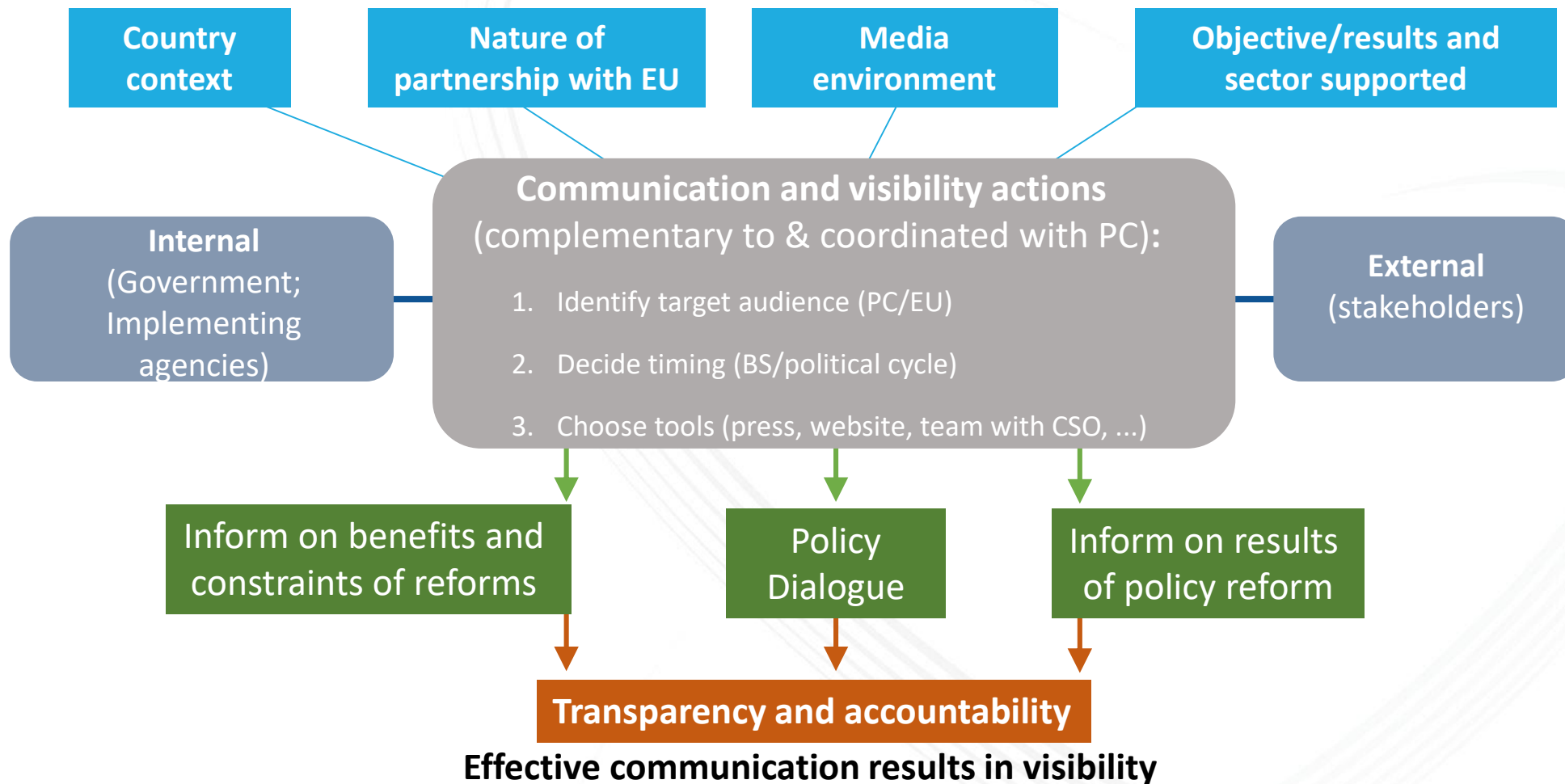
- > Government and external partners in policy review, M&E matrix review.
- > Government and cooperation partners for policy dialogue.
- > Government and external partners for communication.

Evaluation

Coordinate with:

- > Government and external partners providing BS for (joint) evaluations of BS

COMMUNICATION AND VISIBILITY



DON'T OVERLOAD BUDGET SUPPORT!

