

European Commission Budget Support in Serbia

Module 1: Core Concepts



Outline

1.WHAT IS BUDGET SUPPORT

2.Objectives

3.Intervention logic

4.Key components

5.Eligibility

6.Merits and challenges

THE INSTRUMENT FOR PRE-ACCESSION ASSISTANCE

Main principles of approach to IPA II (2014-2020)

- Move towards **sector approach**
- Concentrate support on the **sector priorities including the enlargement agenda**
- Support a clear **intervention logic** based on the achievement of a limited number of results, clear target setting and realistic milestones
- **Improved ownership and simplified delivery** of support
- Increased **coordination** with other donors
- **Cross-cutting issues well integrated**

RATIONALE FOR BS

Country- led

Owned policies and reforms

Promote internal accountability
to secure results for citizens

External Audit

Legislative Scrutiny

Support change inside the national processes

Policy-based budget
making

Quality of budget
implementation

(Aligned to current reforms for accession – PAR / PIFC)

Budgeting

Policies

Execution

Results

WHAT IS BUDGET SUPPORT?



EU APPROACH TO BUDGET SUPPORT

BS is a financial assistance modality:

- It is about **finance and incentives** to deliver more effective support to national and sector policies
- It is a means to **deliver better pre-accession assistance and achieving sustainable results**



Outline

1. What is budget support
2. OBJECTIVES
3. Intervention logic
4. Key components
5. Eligibility
6. Merits and challenges

EC RATIONAL : BUDGET SUPPORT TO ADDRESS 5 CHALLENGES

1. Improving PFM, macroeconomic stability, sustainable and inclusive growth and the fight against corruption and fraud
2. Promoting sector reforms and improving sector service delivery
3. State-building in fragile states, and addressing development challenges of SIDS and OCTs
4. Improving domestic revenue mobilisation (and reducing dependency on external funding or aid)
5. Promoting human rights, democratic values, peaceful societies, and gender equality

Com (2011) 638/2; Guidelines 2017

GENERAL OBJECTIVES OF EU BUDGET SUPPORT

1. **Eradication of poverty and reduction of inequality** (primary objective)
2. Promotion of **sustainable, inclusive economic growth** and job creation
3. Consolidation of **democracies and peaceful societies** and promotion of gender equality
4. Sectoral impacts (NEAR, IPA)

RELATED OBJECTIVES EU BUDGET SUPPORT

BS linked to private / public
investment climate

ENI: EU External Investment Plan

UNION EUROPÉENNE

PLAN D'INVESTISSEMENT EXTÉRIEUR DE L'UE

QU'EST-CE QUE LE PLAN D'INVESTISSEMENT EXTÉRIEUR?

L'ambitieux plan d'investissement extérieur de l'UE encouragera l'investissement dans les pays partenaires d'Afrique et du voisinage de l'Union. Il promouvra une croissance inclusive, la création d'emplois et le développement durable et s'attaquera ainsi à certaines des causes profondes de la migration irrégulière. Le plan d'investissement extérieur est adapté aux besoins spécifiques des pays partenaires et est bâti sur un modèle qui a très largement fait ses preuves dans l'UE, celui du «*plan d'investissement*», qui a déjà généré plus de 240 milliards d'EUR d'investissements.

Le plan d'investissement extérieur se concentrera sur un certain nombre de domaines d'investissement prioritaires, tels que: énergie renouvelable et connectivité durable; financement de micro, petites et moyennes entreprises (MPME); agriculture, entrepreneurs ruraux et agro-industrie durables; villes durables et numérisation pour le développement durable.

POURQUOI UN PLAN D'INVESTISSEMENT EXTÉRIEUR EST-IL NÉCESSAIRE?

L'instabilité et les conflits que connaissent l'Afrique et les pays du voisinage de l'UE ont été aggravés par la crise économique mondiale, qui a rendu difficile le financement d'investissements hautement nécessaires. L'instabilité et les conflits ont pour leur part exacerbé la crise migratoire en cours: les déplacements de personnes n'ont jamais été aussi importants en Afrique et dans les pays du voisinage de l'UE.

Ensemble, l'UE et ses États membres sont les premiers donateurs mondiaux d'aide au développement. Ils ont fourni pour 75,5 milliards d'EUR d'aide en 2016, soit près de 60 % de l'aide totale. Cela étant, la coopération au développement doit évoluer. L'assistance traditionnelle sous forme de dons demeure essentielle, mais il convient de la compléter par d'autres outils et sources de financement si l'on veut atteindre les cibles ambitieuses fixées dans les *objectifs de développement durable*. En 2015, la communauté internationale s'est mise d'accord sur un *programme d'action innovant sur le financement du développement*, qui appelle à la création de nouveaux partenariats, notamment pour mobiliser des ressources privées et mettre en place des modèles de financement innovants. Le plan d'investissement extérieur fait partie de la contribution de l'UE à ces engagements.

L'ENVIRONNEMENT DES ENTREPRISES ET LES INVESTISSEMENTS DANS LES PAYS FRAGILISÉS.

Depuis la crise financière de 2008, les investissements directs étrangers dans les pays en développement ont diminué, tout comme d'autres flux financiers privés.

Les pays fragilisés ne reçoivent que **6%** du total des investissements directs étrangers destinés aux pays en développement (2012). Dix pays riches en ressources concentrent pas moins de 72 % de ces investissements.

Créer une entreprise dans un pays africain fragilisé coûte trois fois plus cher que dans un pays africain «solide».

1

MAIN DRIVING FORCES OF BUDGET SUPPORT

Flow of funds effect:

- Effects of additional government spending
- Effects of pushing donor funds through the PFM system

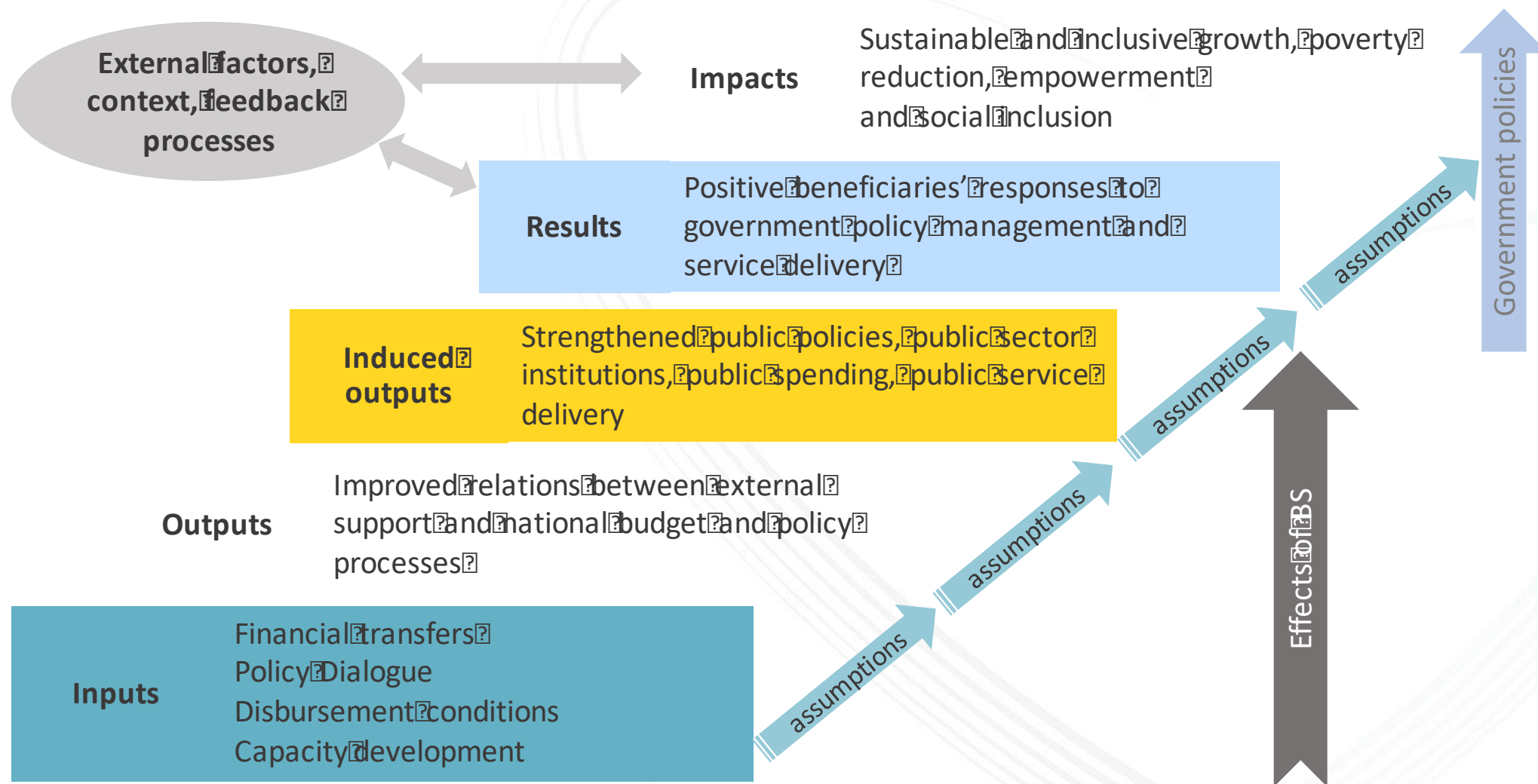
Policy and institutional effects, via:

- Policy dialogue
- Monitoring performance indicators
- Disbursement conditions, and
- Capacity development activities

Outline

1. What is budget support
2. Objectives
3. INTERVENTION LOGIC
4. Key components
5. Eligibility
6. Merits and challenges

BUDGET SUPPORT INTERVENTION LOGIC



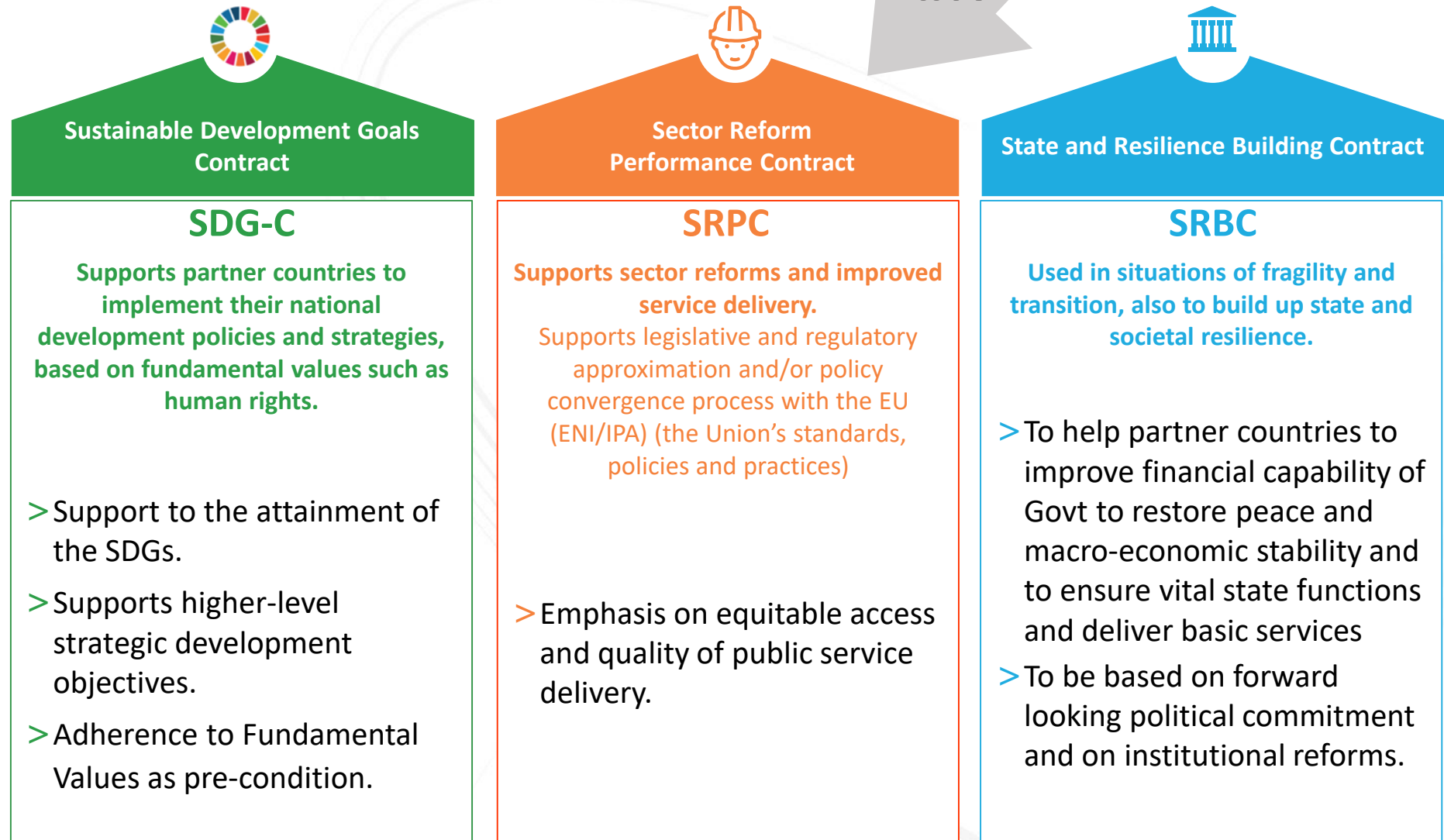
GOVERNMENT STRATEGY AND BUDGET SUPPORT

Government strategy			Budget Support	
Impacts	<ul style="list-style-type: none"> Sustainable and inclusive growth Poverty reduction Other areas (sector specific) 		same	
Outcomes	<ul style="list-style-type: none"> Positive responses by service users and economic actors to government policy management and service delivery 		same	
Outputs	<ul style="list-style-type: none"> Execution of the budget Monitoring of results Improved macro-economic management Improved public services, etc. 	Induced outputs	<ul style="list-style-type: none"> Improved macro-economic and budget management Improved availability and quality of public services Strengthened PFM and procurement systems Improved public policy formulation and execution Strengthened public sector institutions, etc. 	
Inputs	<ul style="list-style-type: none"> National and sector policies Budgetary resources Human resources Institutional structures Strategies and operational programmes 	Direct outputs	<ul style="list-style-type: none"> Increased fiscal space for discretionary spending Increased availability of funding for national/sector priorities Higher predictability of external funds disbursement Policy dialogue, conditionalities, TA and CB better coordinated and more conducive for government strategies Improved harmonisation and alignment Reduced transaction costs 	
		Inputs	<ul style="list-style-type: none"> Transfer of funds to the national Treasury Disbursement conditions Policy dialogue and performance indicators Capacity building and TA 	

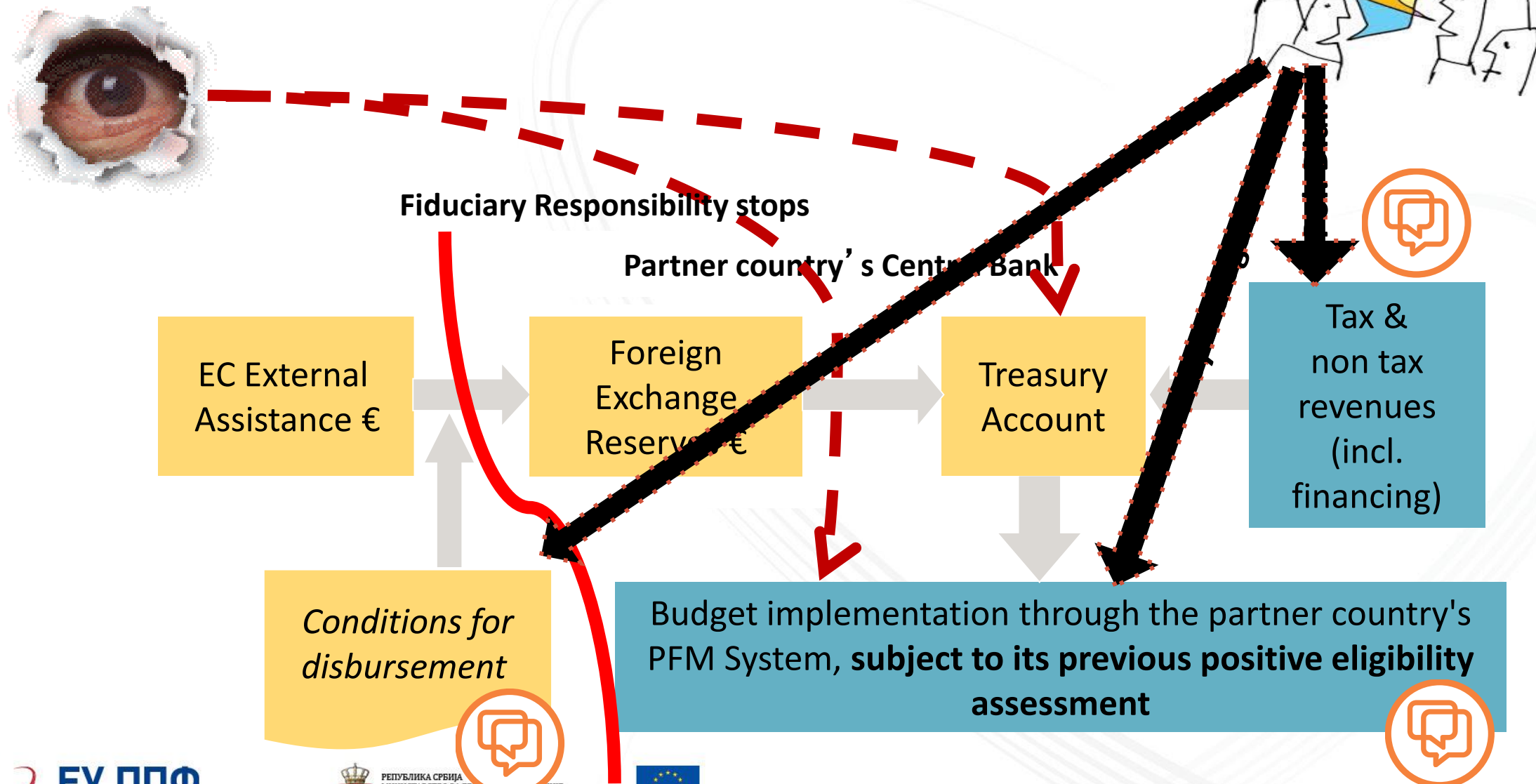
Outline

1. What is budget support
2. Objectives
3. Intervention logic
4. KEY COMPONENTS
5. Eligibility
6. Merits and challenges

TYPES OF CONTRACTS



FOCUS ON RESULTS

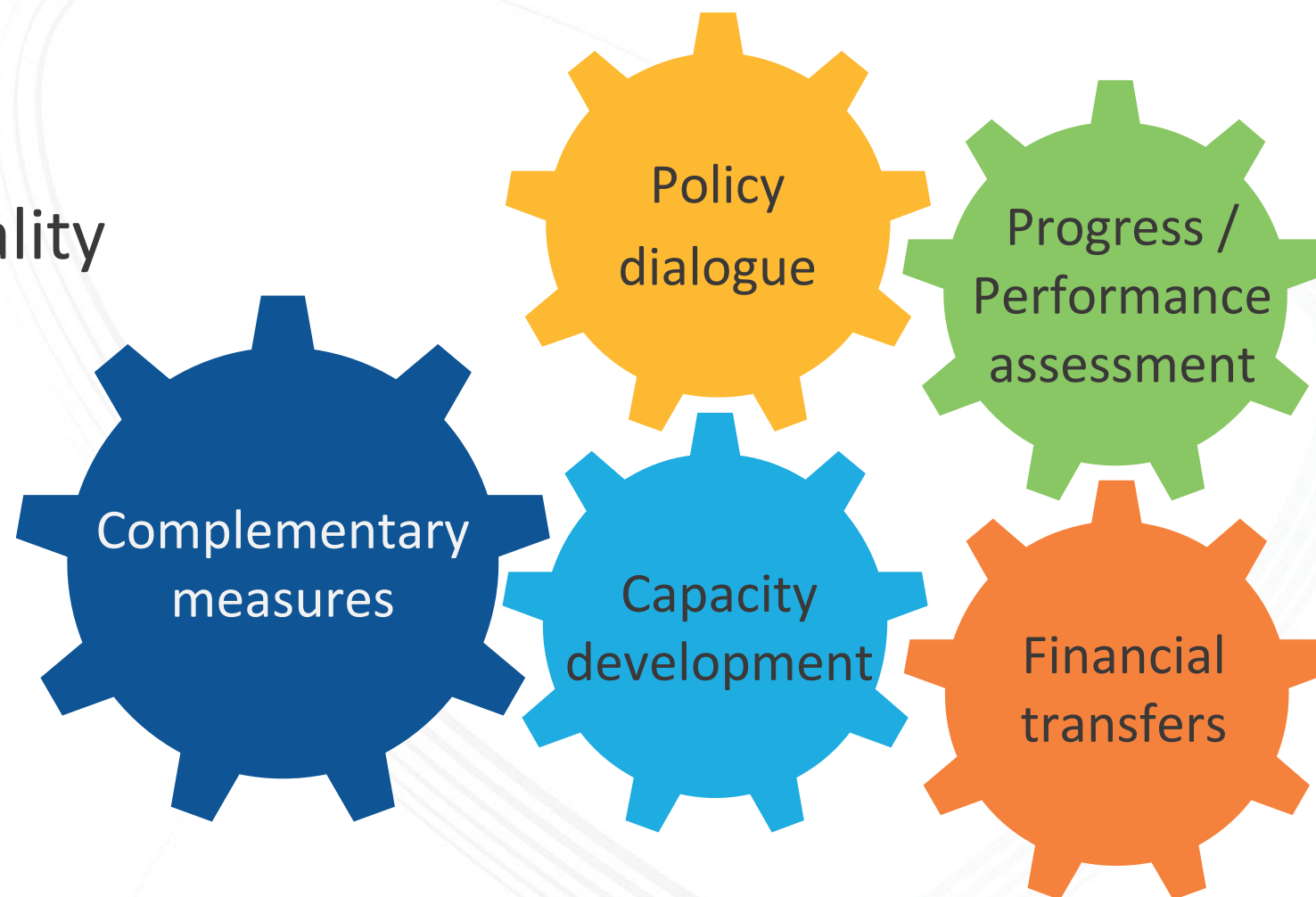


FUNGIBILITY



COMPLEMENTARY MEASURES

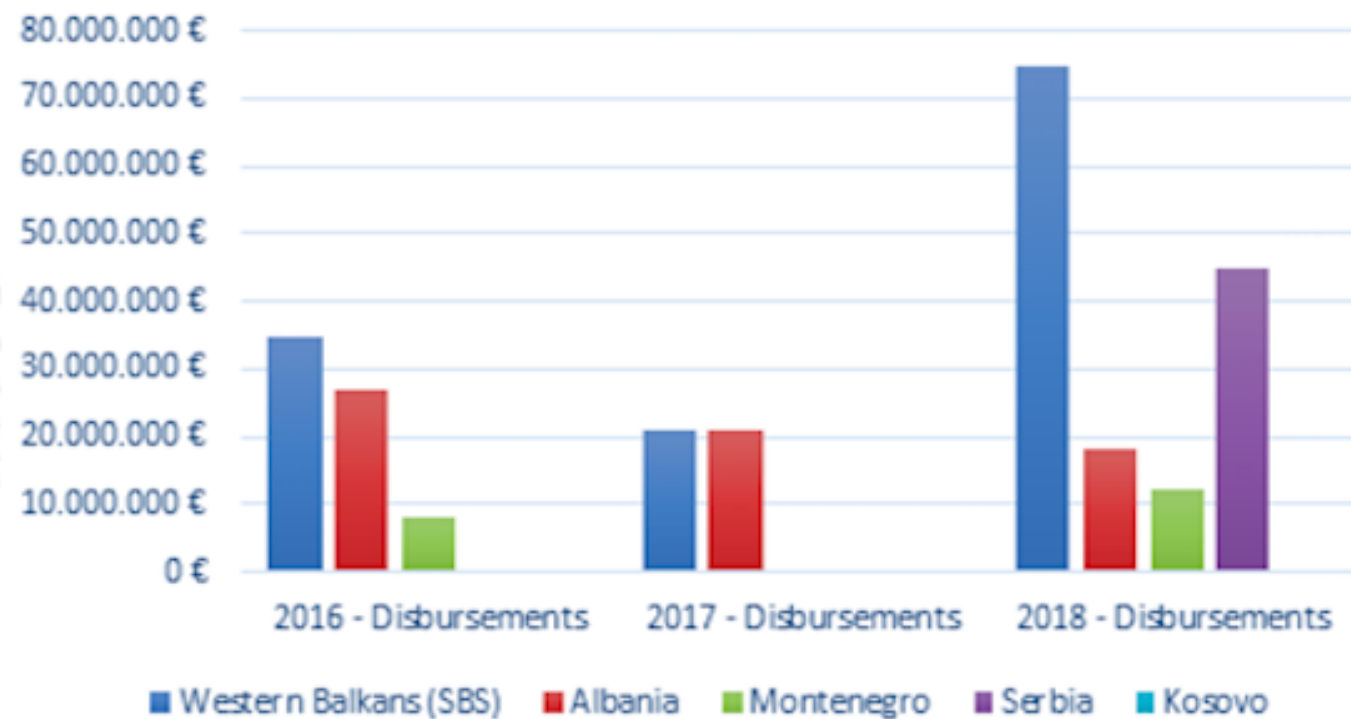
Usually project modality



Ongoing balance SRPC in the Western Balkans



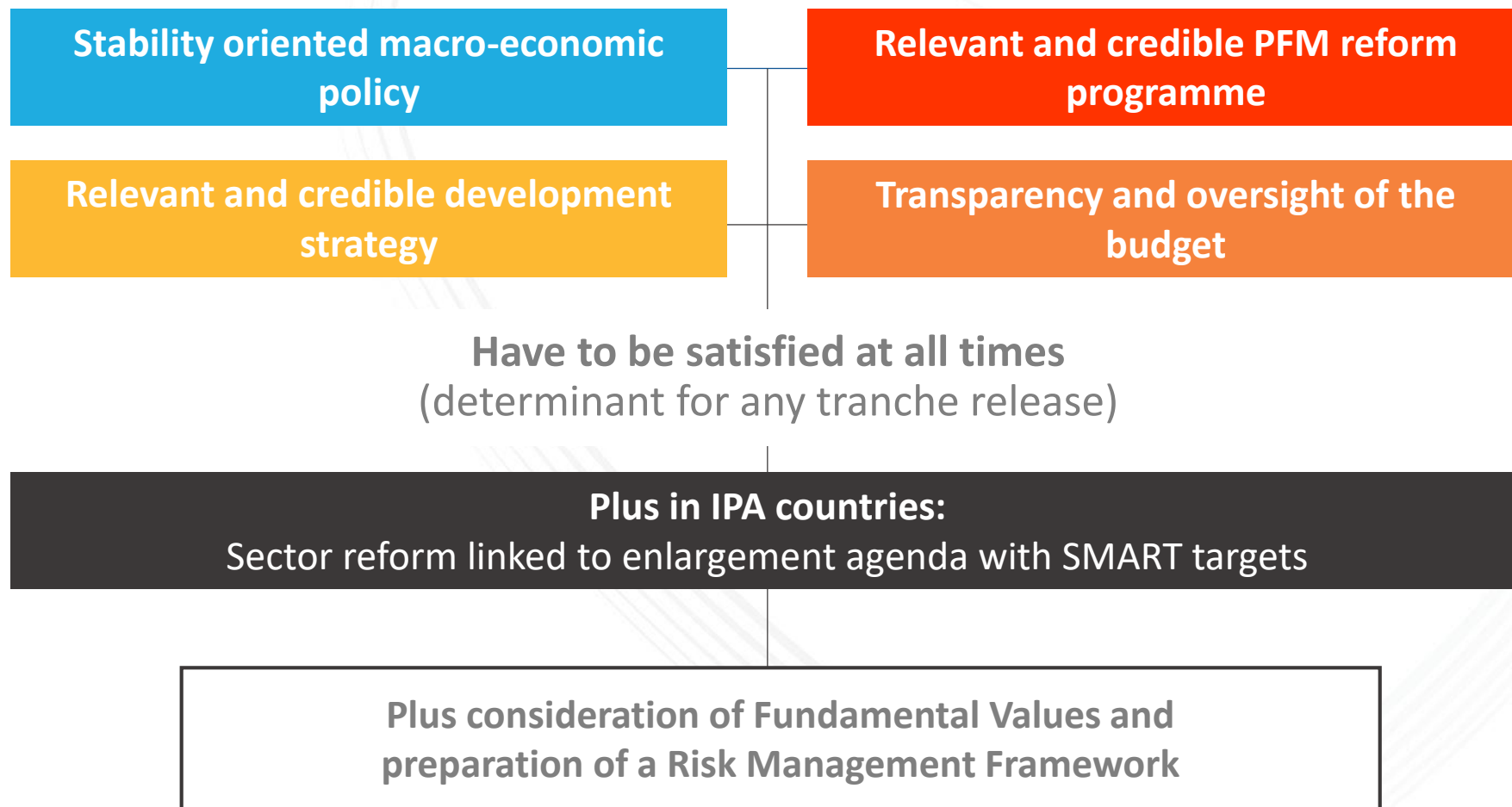
SBS disbursements in the Western Balkans



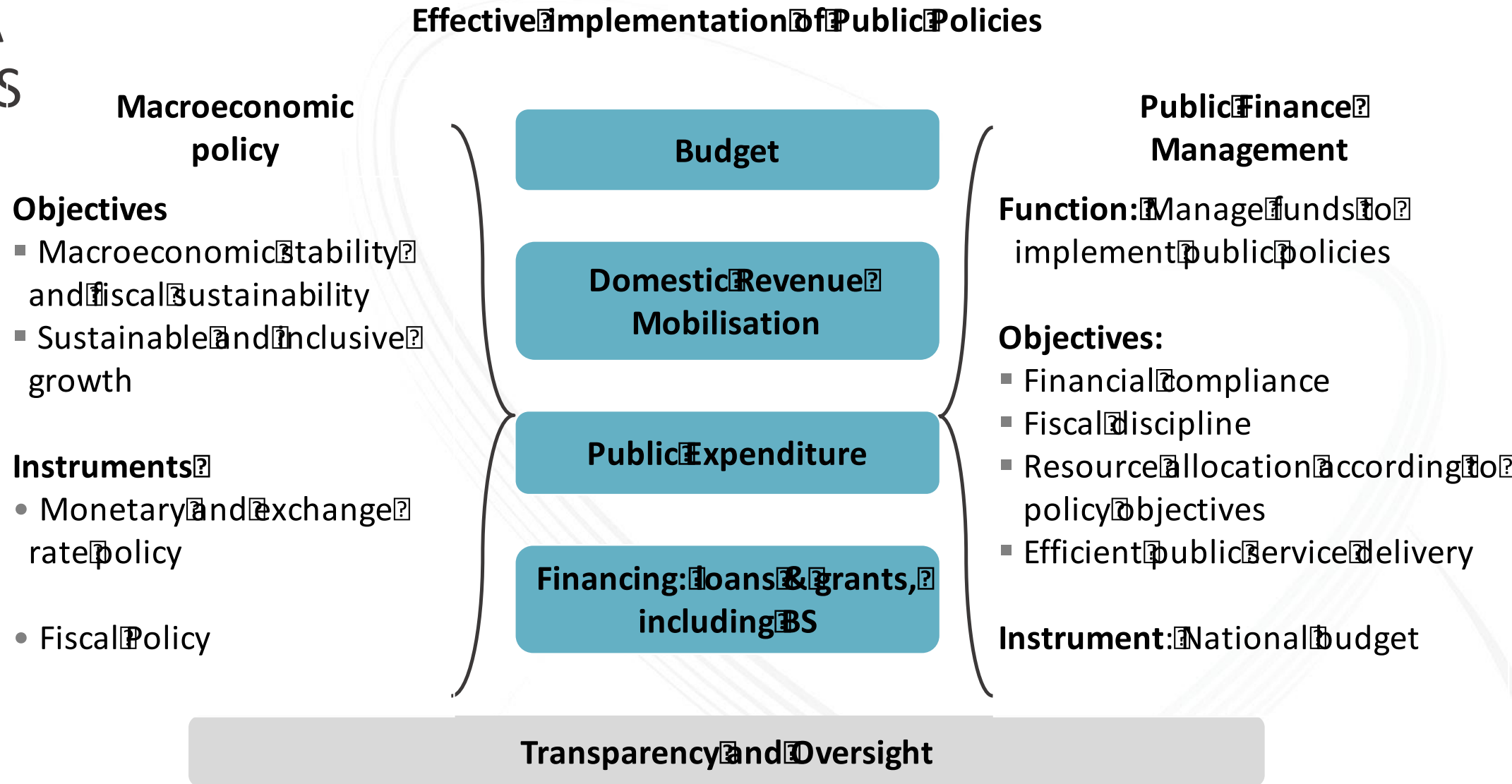
Outline

1. What is budget support
2. Objectives
3. Intervention logic
4. Key components
5. ELIGIBILITY
6. Merits and challenges

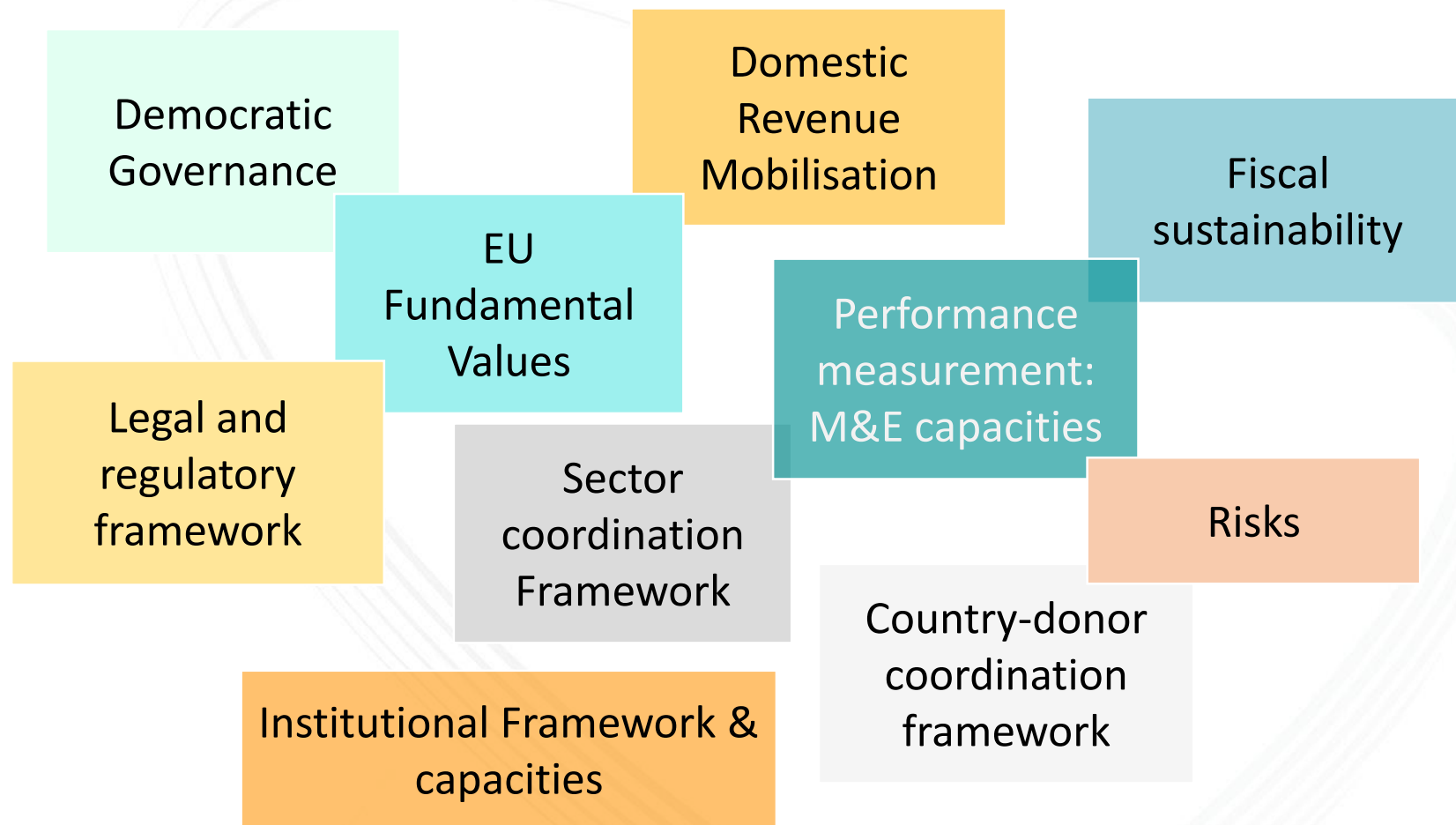
BUDGET SUPPORT'S ELIGIBILITY CRITERIA



ELIGIBILITY CRITERIA LINKAGES



OTHER CONSIDERATIONS



Outline

1. What is budget support

2. Objectives

3. Intervention logic

4. Key components

5. Eligibility

6. MERITS AND CHALLENGES

POTENTIAL BENEFITS OF BS FOR RECIPIENT COUNTRIES

Broader sector view,
focus on sector results
and monitoring of policy
outcomes

Increased coherence of
national and sector
policies and resource
allocation

Improved capacity
development: use BS and
Capacity Development towards
sector capacity, flexibility to use
BS as per National Sector
priorities

Fungibility provides
increased fiscal space

Increased
ownership/accountab
ility: greater
government control
over the allocation of
funds and selection
of projects

Efficiency gains
in terms of
reduced
transaction
costs

Strong incentive for
improved public finance
management, public
administration reforms and
sector reforms

Strengthened
national processes
of policy making,
strategy design etc.

Tighter interaction between political and policy
dialogues especially in pre-accession countries