

European Commission Budget Support in Serbia

Module 6: Design and risk in the SRPC



ЕУ ППФ
ПОДРШКА ЕУ У ПРИПРЕМИ ПРОЈЕКТА
Перспектива Србије за одрживи развој

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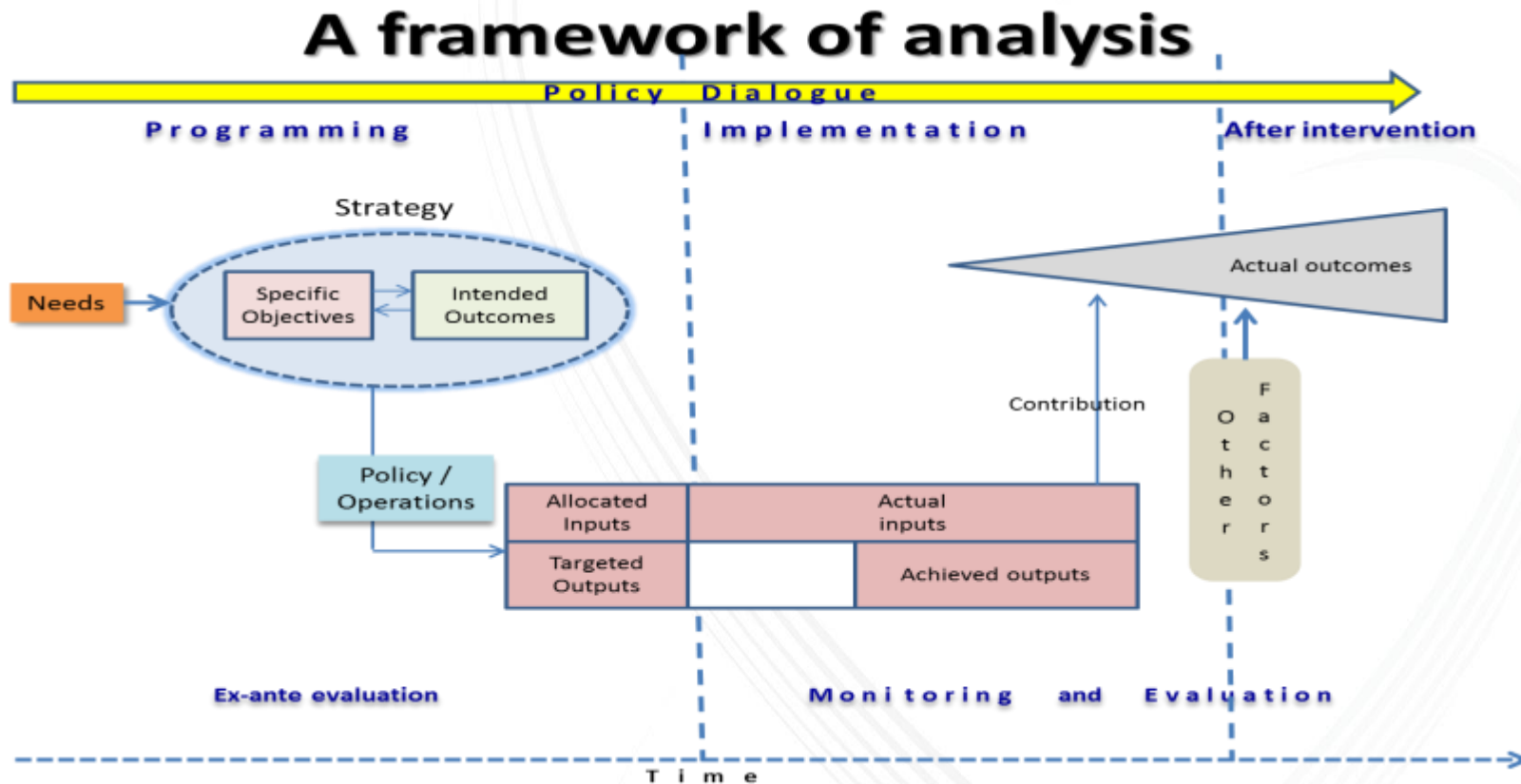


РЕПУБЛИКА СРБИЈА
МИНИСТАРСТВО ЗА ЕВРОПСКЕ ИНТЕГРАЦИЈЕ
МИНИСТАРСТВО ФИНАНСИЈА
Сектор за уговарање и финансирање програма
из средстава Европске уније

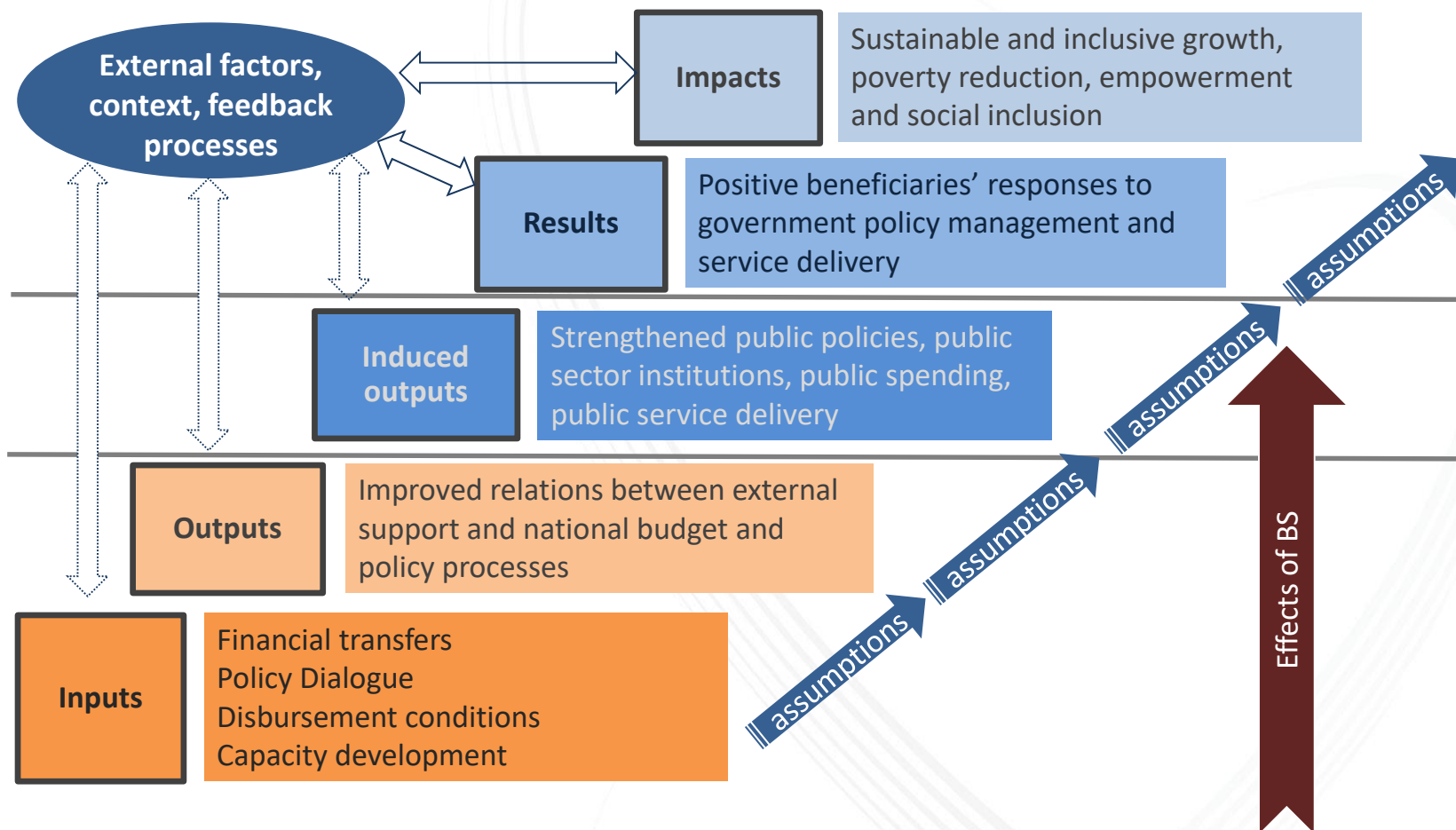


Пројекат финансира
Европска унија

THE DG NEAR FRAMEWORK OF ANALYSIS



BUDGET SUPPORT'S INTERVENTION LOGIC

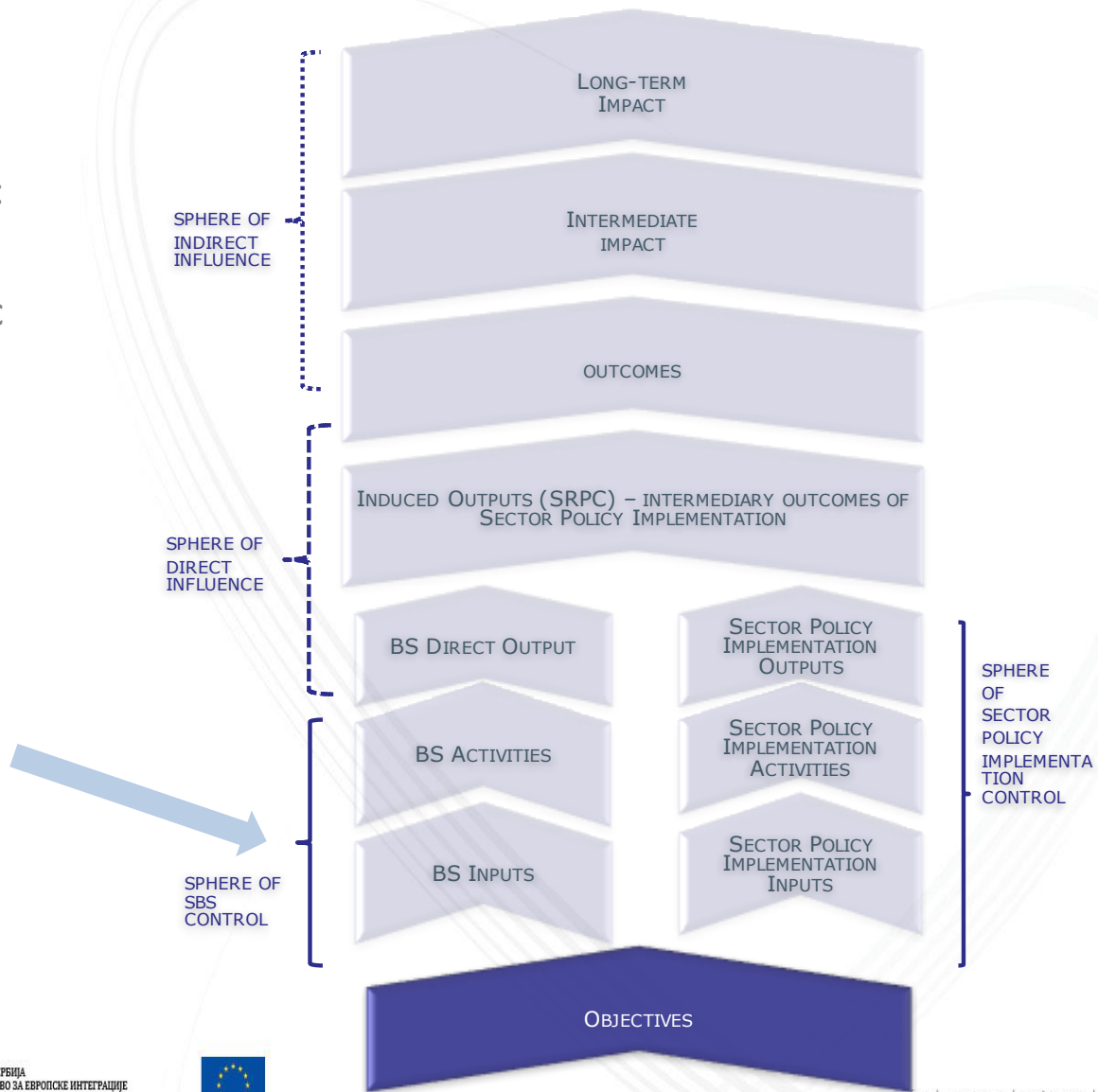


SRPC SUPPORTS THE SECTOR POLICY

- Same objectives
- Same intervention logic
- Same implementation mechanisms: the public sector

Inputs:

- Financial transfers
- Policy Dialogue
- Performance conditions
- Capacity development




MAIN FUNCTIONS OF THE RMF

RMF PROVIDES BASIS FOR DECISION MAKING PROCESS BY:

1. **(Annual) identifying of existing and probable threats (forward looking) risks** (risk level) linked to the provision of the SRPC (or cost of non-intervention)
2. **Identifying mitigating measures and risk responses** (risk strategy)
3. **Informing Budget Support policy dialogue**
4. **Monitoring the identified risk and mitigating measures** during implementation
5. **Identification of changes over time:** improvement / deterioration

RISK CATEGORIES AND DIMENSIONS

(USED IN BUDGET SUPPORT)

		Political Governance	Macro-economic	Developmental	PFM	Corruption and Fraud
Fundamental values	Human rights		Macroeconomic policy and financial sector	Public policy	Comprehensiveness of the budget	
	Democracy		Debt sustainability	Government effectiveness	Controls in budget execution	
	Rule of law		Vulnerability & Exogenous shocks	Investment Climate and Business Environment	Procurement	
	Insecurity and conflict				External audit	
		 Risks should be monitored				

Risk level	Systems and institutional structures in place	Impact in case of occurrence
Low	Are strong enough to make occurrence unlikely	Limited on objectives
Moderate	Should prevent occurrence but monitoring is necessary	Would delay attainment or partial achievement of the objectives
Substantial	Are not sufficiently robust to guard against key risks	Would disrupt the programme or the achievement of the objectives
High	Are too weak to prevent the occurrence of risk	Would result in a (quasi-) failure. Results will not be achieved

ANNUAL UPDATE RMF

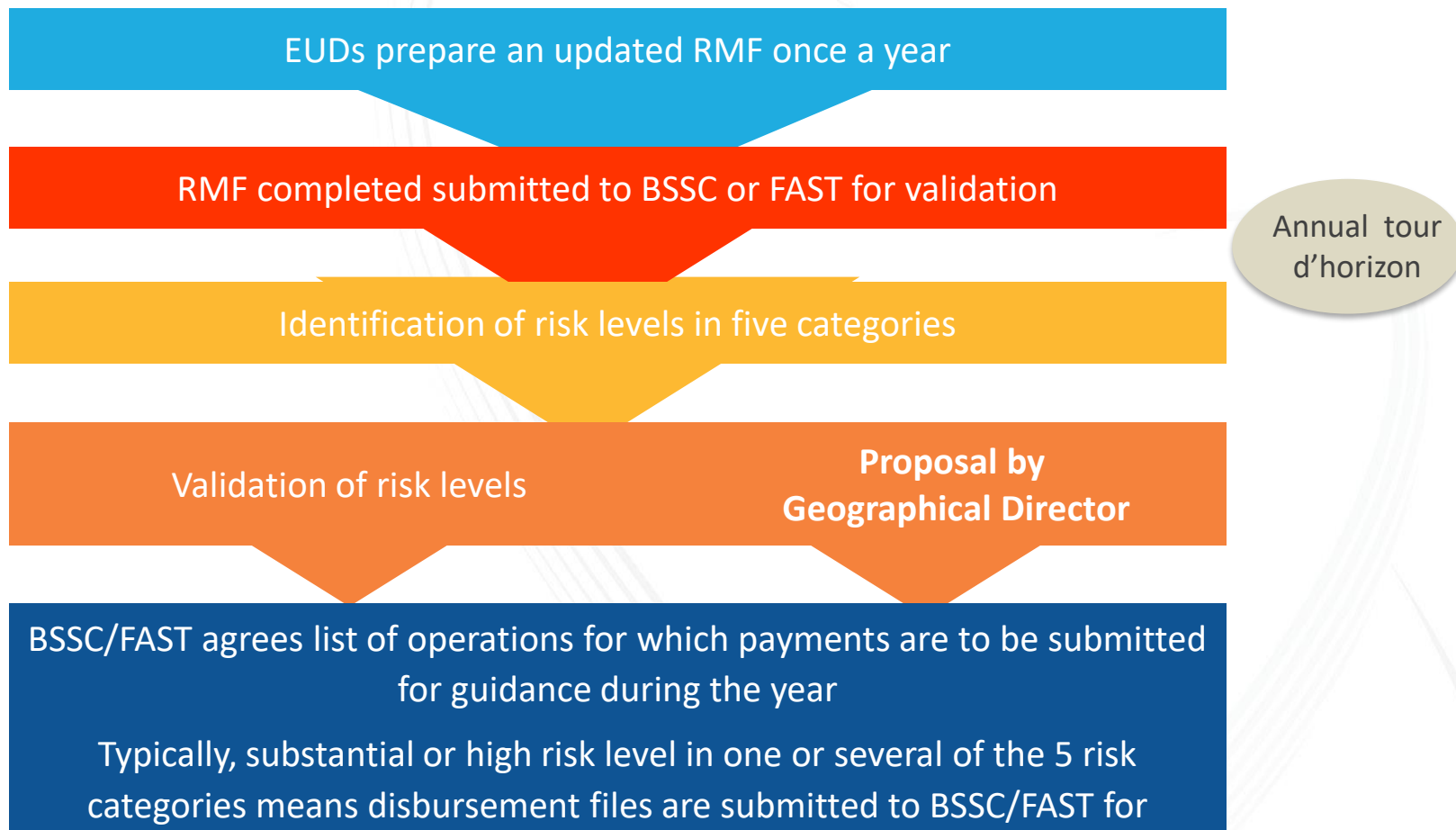
- End of year update: presentation Jan/Feb: one RMF for all BS operations
- Update during the year in case of change to substantial or high
- Joint (government, DPs) search for mitigation factors
- Mitigation activities can be performed by anyone (Government, DPs, EU)

At the end: decision about risk acceptance or risk avoidance

2019 : UPDATE

- Differentiation between risk level (structural weaknesses) and **risk outlook** (next 12 months)
- Further emphasis on **investment climate and business environment**: one new sub-category within *developmental risks* (2 new questions) + one new question within *political risks/rule of law* (legal framework) + one new question within *PFM risks* (public investment management)
- Sharper questions on **public policies, environmental/climate change, public administration reforms** (one new question) within *developmental risks*
- 2 questions on **macroeconomic policies** merged into one

IMPORTANCE OF THE RMF AND ROLE OF THE BSSC/FAST



RISK MITIGATION ACTIONS

Policy dialogue is the first response to an identified risk, allowing to:

- Take stock of partner country's policies and reforms
- Assess progress on both sides on the basis of different information, criteria and indicators and extensive discussion with the government
- Understand institutions' and change agents' internal dynamics and constraints

Other mitigation measures include:

- Further analyses and surveys (e.g. PEFA, PETS, PER...)
- Support country systems strengthening and reforms aiming for greater resilience to risks
- CB and TA when commitment to reform but lack of capacity
- Strengthen transparency and domestic (participative) oversight
- Budget support design features
- Proactive communication strategies (i.e. public acceptance of reforms)