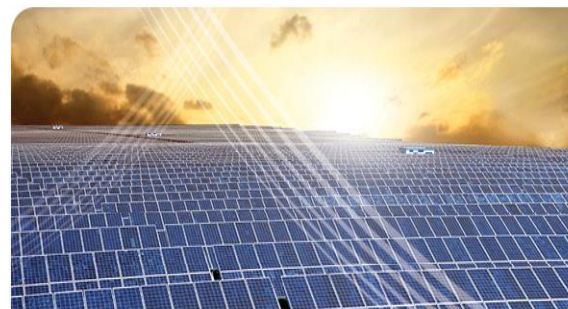


European Commission Budget Support in Serbia

Module 2: Policy, PFM, DRM and Transparency



Outline

1. **WHEN AND HOW TO ASSESS ELIGIBILITY**
2. Sector policy
3. Public finance management
4. Domestic revenue mobilisation
5. Transparency and oversight

What is eligibility and when

It is not a threshold: what matters is demonstrating progress, so change is key (dynamic approach)



- Eligibility has to be demonstrated before signing the SRC and paying the first fixed tranche
- Progress has to be demonstrated for every payment and for each criterion

EU Sector budget support's eligibility criteria

Four eligibility criteria need 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 are published
4. Existence of a credible and relevant sector strategy that is consistent with the EU accession strategy

For programme implementation

1. Maintenance of a credible and relevant programme to restore/maintain macro-economic stability
2. Satisfactory progress in the implementation of the PFM improvement programme
3. Satisfactory progress on the transparency and oversight roadmap
4. Satisfactory progress in the implementation of the sector strategy

Assessing Relevance and Credibility

Relevance

Relevant: must be responsive to needs and opportunities for the sector, key weaknesses must be addressed. Has to show linkages to cross-sectoral aspects and EU accession strategy

Credibility

Credible: quality of the planning process, extent to which it accounts for existing situation, capacity and financing needs, timing to implement. **Quality of the monitoring and performance framework.**

Outline

1. When and how to assess eligibility
2. **SECTOR POLICY**
3. Public finance management
4. Domestic revenue mobilisation
5. Transparency and oversight

RELEVANCE AND CREDIBILITY

- **RELEVANCE:** Extent to which key constraints and weaknesses are being addressed by the government's strategy to reach the objectives of the policy
- **CREDIBILITY:** Quality of the reform process regarding its realism, institutional arrangements, costing and financing, track record and political commitment to the reforms

For programme approval: A relevant and credible policy consistent with EU objectives (including accession).

During implementation: For each tranche disbursement, satisfactory progress in policy implementation (achieving the objectives) and continued relevance and credibility (and update if change in policy framework).

ANALYTICAL GRID

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

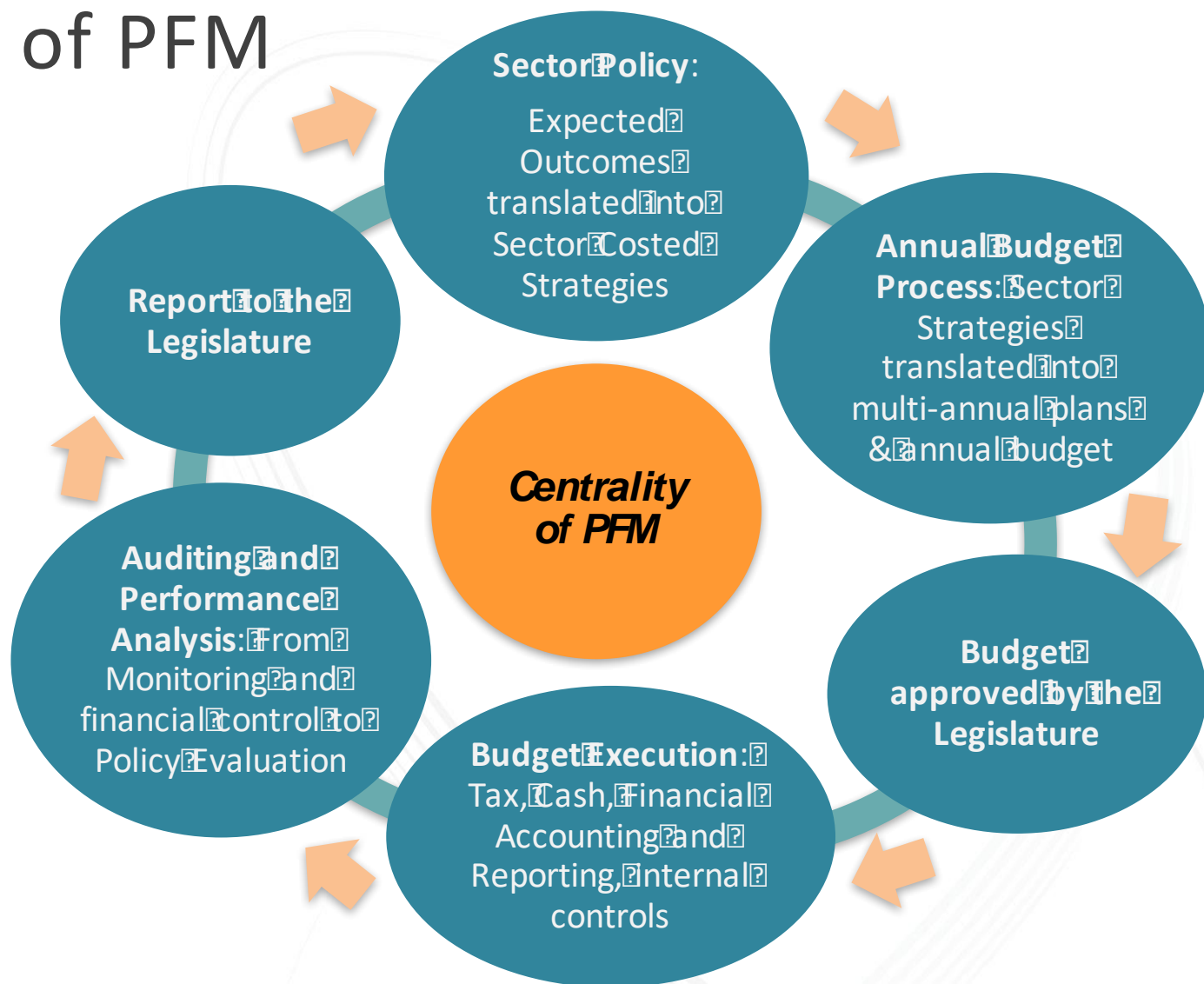
- > Past track record
- > Policy financing
- > Institutional capacities & ownership
- > Quality of data underpinning Policy

See Guidelines Annex 3

Outline

1. When and how to assess eligibility
2. Sector policy
3. **PUBLIC FINANCE MANAGEMENT**
4. Domestic revenue mobilisation
5. Transparency and oversight

Centrality of PFM



Public Finance Management Eligibility

For programme approval:

A relevant and credible programme to improve the PFM must be in place

During implementation:

For each tranche disbursement, satisfactory implementation of the PFM reform programme has to be demonstrated (progress compared to targets, direction of change). Relevance and credibility should be maintained

Focus of
assessment of PFM

Overall performance of PFM systems, with focus on sector specific weaknesses impeding efficient service delivery

Analytical Grid PFM

- Diagnostic of the PFM system: 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: norms, rules, procedures, due processes, honesty/probity, legitimacy, 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, fraud, institutional arrangements, institutional and financial resources, coordination, capacity strengthening needs, gender issues

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

See Guidelines Annex 5

Implications of PFM analysis at sector level

Generic
assessment of
PFM system
(see guidelines
annex 5)



Implications at
sector level



Strength and weaknesses of sector PFM, efficiency of sector policy planning, budgeting and execution:

- Sector policy costing
- Comprehensiveness of resource allocation framework
- Consistency of sector policy costs with MTEF and MTFF
- Consistency of sector financing system with legal framework and regulations for fiscal transfers to local governments
- Alignment of the sector policy decision with the budget cycle
- Sector specific aspects of financial management for services delivery

This “sector specific” PFM assessment should inform the overall PFM policy dialogue with the Government and complement the overall PFM assessment and monitoring

Outline

1. When and how to assess eligibility
2. Sector policy
3. Public finance management
4. **DOMESTIC REVENUE MOBILISATION**
5. Transparency and oversight

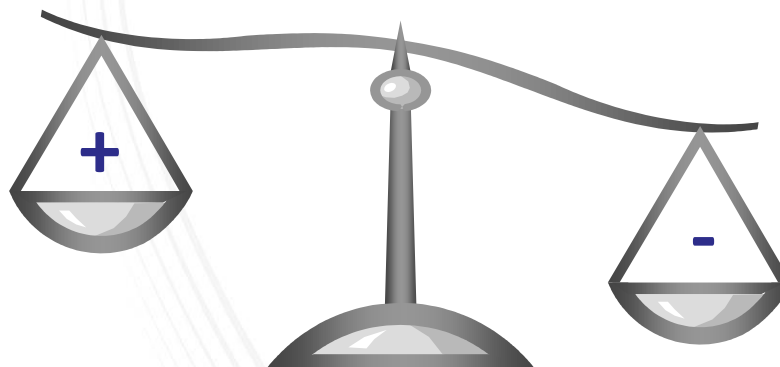
Importance of Domestic Revenue Mobilisation

Domestic resources: the single most important source of fiscal space, but...

Lower deficit

(increased financial sustainability)

More scope for implementation of reforms and inclusive growth



Tax burden

Risk of disincentive for economic operators when unclear

Key issues:

- How to increase fiscal space whilst protecting equity, transparency, fairness, efficiency and incentives?
- How to spread the tax burden (including informal sector)?
- How to use tax and non tax to protect natural resources and the environment (specific case of extractive industries)?

Transparency and oversight of the budget

For programme approval

‘Entry point met’? Publication of the Budget within the previous or current budget cycle (either Executive’s budget proposal or enacted budget)

During implementation

For each tranche disbursement, satisfactory progress (or no deterioration) in the production, public availability, timeliness of release of budget documents and comprehensiveness, quality, integrity and accuracy of information (‘entry point still met?’)

Focus of assessment of transparency and oversight

The six major budget documents: budget proposal, enacted budget, in-year reports, mid-year report, year-end report, audit report and other documents (citizens budgets or medium term budget framework)

Outline

1. When and how to assess eligibility
2. Sector policy
3. Public finance management
4. Domestic revenue mobilisation
5. **TRANSPARENCY AND OVERSIGHT**

Characteristics to assess for transparency and oversight

Availability, accessibility and timeliness. Key budget documents should be produced, made available and accessible to members of the public and release of budgetary information should be timely

Comprehensiveness. Budget documents should allow a complete picture of central government's fiscal forecasts, budget proposals and out-turn of the previous year

Quality, integrity, accuracy. Realism and reliability of budget data, accounting standards, data consistency, reconciliation with other data

NB: Relevance & role of oversight bodies is examined under the PFM eligibility criteria assessment (to avoid duplication)

See Guidelines Annex 6 for the detailed requirements

Transparency and oversight at sector level

- Quality, transparency, accuracy and timeliness of **budget reporting** on sector expenditures and public services delivery (including bookkeeping and financial reporting from specific administrative departments in charge of service delivery) to inform the preparation of in-year budget reports and annual financial statements
- Availability of information to the public and for **legislative scrutiny** on sector policy implementation
- **Government follow-up** (action plan) to address sector PFM weaknesses underlined during annual external audit

See Guidelines Annex 6 for the detailed requirements