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Budget support
Experience in Ukraine

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What’s budget support?

**Budget support** is a form of international financial assistance when aid money is poured directly into a target country's national budget.

It’s one of the instruments that are used to turn agreed ENPI priorities into concrete actions on the ground.

The main objective of the EC budget support is to assist policies aimed at poverty reduction, economic growth, and economic and social reforms.

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Forms of budget support

General budget support (GBS)
- representing a transfer to the national treasury in support of a national development or reform policy and strategy

Sectoral budget support (SBS)
- representing a transfer to the national treasury in support of a sector programme policy and strategy

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Eligibility Criteria

• A well-defined national policy and strategy for economic growth is in place or under implementation.
• A stability-oriented macroeconomic policy is in place or under implementation, with a positive effect on such indicators as inflation, foreign debt, and the exchange rate.
• A credible and relevant programme to improve public financial management is in place or under implementation.

For SBS: sectoral strategy is in place or under implementation

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Why EC encourages BS?

It is assumed by EC that BS among other:

- increases ownership by partner country
- promotes harmonisation by donors and encourages alignment with government priorities and programmes;
- reduces transaction costs
- strengthens partner’s institutions and builds capacity;

BUT: BS is as vulnerable to corruption as any budget expenditures - no specific anti-corruption mechanisms is in place

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General budget support

GBS contributes to national development policy and strategy.

Cross-cutting issues to be addressed:

• Human rights
• Gender issues
• Good governance
• Environment

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Types of BS

- Direct (norm)
- Indirect
- Targeted
- Untargeted (norm)

Types of transhes
- Fixed
- Variable

Conditional
- Specific conditions (performance indicators in Annex to Financing Agreement)
- General condition (eligibility criteria)

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Budget support preparation

• Assessment of country’s eligibility criteria

• Identification mission from DG Relex (identify what sector to allocate BS)

• Optional: TA to meet some criteria (for ex. development of sector strategy for SBS)

• Preparation of Financing Agreement (FA), including design of performance indicators

• Signing FA and setting Joint- Monitoring Group

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• From 2007
• Form: sectoral
  2007 – energy sector (EUR 82 Million)  
  (to support Energy Strategy of Ukraine up to 2030)  
  2008 – energy efficiency  
  2009 – transport (EUR 65 million), environment (EUR 35 million)

• Type: direct, untargeted

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- BS 2007 supports highly controversial Energy Strategy of Ukraine (focus on gas\oil transport and power sector)

- To fulfill eligibility criteria for BS 2009 Transport Strategy and National Strategy on Environmental Policy have to be developed by the end of Dec 2010

- Progress indicators design is a closed process – indicators can become public only after FA is signed

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Positive experience:
- Development of National Strategy on Environmental Policy was revived and public consultation was conducted
- Close cooperation between EC Delegation and environmental NGOs (MAMA-86, NECU, Ukrainian Ecological League) was established to improve the draft Strategy

Negative experience:
- Transport Strategy was developed without wide public consultation (although with EC’s technical support)
- In EC Delegation in Ukraine there is lack of understanding of the importance of consultations with civil society
- NECU was included into Delegation’s NGO contact list but has not received any information/invitation on consultation during 2009-2010

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Thanks for your attention!

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