

ANNEXE I

1. IDENTIFICATION

Pays/Intitulé/numéro	BURUNDI/Avenant N°2 au Programme d'Appui Budgétaire pour la Relance Economique (PABRE) Numéro CRIS: FED/2008/020-921		
Coût total	Contribution UE : 15.000.000 EUR (-730.000 EUR pour correction liée au FLEX 2009, année d'application 2008) ¹ (montant total du programme d'ABG de 76.600.000 EUR)		
Méthode d'assistance / Mode de gestion	Appui budgétaire général – Gestion centralisée		
Code CAD	51010	Secteur	Appui budgétaire

2. MOTIF ET CONTEXTE NATIONAL

L'objet du présent avenant est d'augmenter le plafond financier de la Convention de financement du Programme d'Appui Budgétaire pour la Relance Economique d'un montant de 14.270.000 EUR.

Afin de répondre à la crise économique et financière internationale, la Communication "Aider les pays en développement à surmonter la crise" (COM 2009-160 final) prévoit notamment la création d'un nouveau mécanisme, le FLEX Vulnérabilité. La raison d'être, les critères d'éligibilité et les modalités de ce mécanisme sont précisés dans la Décision de la Commission "concernant une augmentation de l'affectation des ressources destinées à couvrir des besoins imprévus au titre du 10^{ème} Fonds européen de développement, en vue d'aider les pays ACP les plus touchés à faire face aux conséquences de la crise mondiale, et créant un mécanisme FLEX *ad hoc* relatif à la vulnérabilité" (C(2009)6135). A cet effet, l'instrument du FLEX Vulnérabilité est doté d'un montant de 500.000.000 EUR issus de la réserve des programmes indicatifs nationaux et régionaux du 10^{ème} FED.

C'est dans ce contexte que l'Ordonnateur National de la République du Burundi a formulé une requête datant du 8 mars 2010 sollicitant l'octroi d'un appui exceptionnel pour atténuer l'impact de la crise. Le Burundi est considéré éligible au FLEX Vulnérabilité sur base d'un certain nombre de critères portant sur la vulnérabilité économique, sociale et politique face à la crise, la persistance de déficits de financement budgétaire, la capacité de l'UE à fournir un appui décisif et la capacité d'absorption du pays (cf. article 2 de la Décision C(2009)6135) et il est proposé de lui allouer un montant de 15.000.000 EUR. Cette proposition a donc pour objectif d'octroyer en 2010 un montant additionnel de 14.270.000 EUR (soit 15.000.000 moins 730.000 EUR) au programme d'appui budgétaire général en cours (10^{ème} FED), qui sera financé par l'enveloppe B du 10^{ème} FED.

¹ Le montant qu'il est proposé d'ajouter à la Convention de financement correspond donc au montant du VFLEX 2010 auquel est soustrait le montant du FLEX 2009, année d'application 2008 (soit 15.000.000 - 730.000 = 14.270.000 EUR). Les 730.000 EUR n'ont pas été décaissés car il est ensuite apparu que le Burundi n'était pas éligible à l'instrument FLEX en 2009 (à la lumière des statistiques définitives).

L'objectif des fonds supplémentaires du VFLEX 2010 (15.000.000 EUR) est de fournir un soutien financier au gouvernement de la République du Burundi pour combler une grande partie du déficit financier de l'année fiscale 2010 dû à l'impact de la crise financière globale.

Les 15.000.000 EUR du VFLEX 2010 augmentent la partie appui budgétaire du programme PABRE et l'appui sera fourni sous la forme d'une tranche fixe additionnelle de 15.000.000 EUR.

2.1. Contexte national et politique et stratégie nationales

2.1.1. Situation économique et sociale et analyse de la pauvreté

Le Burundi est un pays en situation de fragilité et, d'après l'indice de développement humain (IDH), un des pays les moins développés du monde (174^{ème} rang sur 182 en 2009). Le Burundi est fortement exposé au ralentissement de la conjoncture mondiale depuis 2008, aggravant de fait les risques sociaux dans un environnement déjà très affaibli.

La crise financière internationale a touché le Burundi en 2009 par la baisse des cours du café dans la première moitié de l'année, et la baisse des transferts de fonds de l'étranger et de l'investissement direct étranger, comme le confirme le FMI (3^{ème} Revue de la Facilité Elargie de Crédit).

En vertu de ce qui figure dans la 3^{ème} Revue de la Facilité Elargie de Crédit (FEC) du FMI, le Burundi devrait voir le déficit public hors dons (base caisse) s'aggraver de 26,4% du PIB en 2008 à 29,8% en 2010.

Ce niveau de déficit public s'explique principalement par 2 facteurs:

i) une croissance économique encore faible en 2010, à 3,9% du PIB selon les estimations du FMI (comparés aux 4,5% obtenus en 2008). Cette croissance économique inférieure au niveau d'avant la crise limite l'impact positif sur les finances publiques de l'introduction de la TVA depuis juillet 2009 au Burundi, ce qui explique que le taux de recettes propres de l'Etat devrait se retrouver seulement au niveau de 2008 (18,5% du PIB selon les estimations du FMI, soit une réduction d'environ 1% du PIB comparé au niveau projeté d'avant la crise de 19,4% du PIB).

ii) des efforts accrus en matière de dépenses pro-pauvres (augmentation du ratio de 15,1% du PIB en 2008 à 18,6% en 2010). Ces efforts s'illustrent selon le gouvernement (cf. la requête V-Flex) par la construction de 3634 nouvelles salles de classe dans le primaire et 920 salles de classe dans le secondaire ainsi que par le recrutement de 6794 nouveaux enseignants dont 3500 dans le primaire. Il faut également souligner le fait que les secteurs prioritaires (santé, éducation, agriculture et justice) sont les seuls où la dépense salariale devrait augmenter entre 2009 et 2010 (de 0,3 points de PIB, voir page 9 de la 3^{ème} Revue FEC).

D'après le FMI (3^{ème} Revue FEC), le déficit public dons compris (base caisse) devrait s'élever en 2010 à 4% du PIB. Etant donné que le Burundi est encore à un niveau très élevé d'endettement (relativement à sa faible capacité de remboursement), il est peu envisageable et même peu souhaitable que ce déficit soit compensé par des financements externes non concessionnels.

Dans sa requête du 8 mars le gouvernement démontre l'éligibilité du Burundi et requiert 24.500.000 EUR au titre de l'allocation du FLEX Vulnérabilité en évoquant un besoin résiduel de financement lié à l'impact de la crise économique et financière actuelle de l'ordre de 2,3% du PIB. Compte tenu des informations de la Délégation de l'Union européenne, on peut chiffrer le besoin résiduel réel de financement lié à la crise à 1,7% du PIB.

L'UE propose de combler une grande partie du besoin de financement lié à la crise par un décaissement au titre du FLEX Vulnérabilité de 15.000.000 EUR (soit 1,4% du PIB ou 25 milliards de francs burundais (BIF)), ce qui correspond à 61% du montant requis par le gouvernement.

En termes de modalités, l'appui budgétaire global étant directement crédité sur le compte du Trésor public burundais, celui-ci permet de combler rapidement une large partie du gap envisagé dans les finances publiques à la fin de l'exercice 2010.

2.1.2. Développement national/politique et stratégie de coopération

En septembre 2006, le Cadre Stratégique de Lutte contre la Pauvreté (CSLP) a été adopté par le Gouvernement dans le cadre d'un processus participatif. Établi dans le contexte d'un pays sortant d'une longue guerre civile, le CSLP a pour objet d'affermir la stabilité politique, de consolider la paix et de réduire la pauvreté au moyen d'une croissance équitable, durable et accélérée. Le CSLP repose sur quatre axes stratégiques : (i) Améliorer la gouvernance et la sécurité, (ii) Parvenir à une croissance équitable et durable, (iii) Perfectionner le capital humain en améliorant la qualité des services sociaux, et (iv) Intensifier la lutte contre le VIH/sida. Actuellement, le gouvernement est en train d'élaborer un CSLP II pour la période de 2011 à 2015.

2.1.3. Flex Vulnérabilité 2009

Le Burundi a bénéficié en 2009 d'une tranche fixe supplémentaire d'appui budgétaire au titre du FLEX Vulnérabilité 2009 d'un équivalent de 13.600.000 EUR. Le compte du Trésor a été crédité le 23/12/2009 avec un montant de 23,7 milliards BIF. Pour protéger les dépenses prioritaires et à cause du retard et de la non réalisation de certains décaissements d'appuis budgétaires prévus pour 2009, le Burundi a augmenté en 2009 l'endettement intérieur de l'Etat par des avances de la Banque Centrale (BRB) pour un total de 62,3 milliards BIF (soit environ 33,8 millions d'EUR) puis a utilisé le FLEX Vulnérabilité 2009 pour apurer une partie de ces avances.

2.2. Eligibilité à l'appui budgétaire

Dans la cadre du Document de Stratégie Pays du 10^{ème} FED et du Programme d'Action Annuel 2008, le Burundi bénéficie actuellement d'un appui budgétaire de l'UE. La Convention de Financement du PABRE a été signée le 11 mars 2009. Le Burundi répond aux différents critères d'éligibilité à l'appui budgétaire. Les conditions générales sont évaluées avant tout décaissement.

2.2.1. Développement national et politique et stratégie de coopération

Le 1^{er} CSLP est en place et en cours de mise en œuvre au Burundi.

2.2.2. Situation macro-économique

En dépit des développements économiques défavorables décrits dans la section 2.1., le Gouvernement du Burundi répond à la crise en menant une politique fiscale adaptée soutenue par les bailleurs de fonds, en adaptant la planification des dépenses publiques ainsi qu'en ayant, dans la mesure du possible, recours au financement domestique. Les efforts du pays pour maintenir la stabilité macro-économique ont été confirmés par la 3^{ème} revue de la Facilité Elargie de Crédit du FMI. La conclusion de la 3^{ème} revue a permis le décaissement de 6,6 millions de DTS (environ 10,1 millions de dollars US, soit environ 14,1 millions d'EUR) au titre de la FEC.

2.2.3. Gestion des Finances publiques

Le gouvernement fait preuve d'une volonté réelle de réformes dans le domaine de la gestion des finances publiques, comme l'a prouvé l'adoption de la Stratégie Nationale de Gestion des Finances publiques et son plan d'actions pour 2009-2011 par le Conseil des Ministres le 7 mai 2009. La mise en œuvre du plan d'action a été lancée en février 2010. Les autres réformes majeures dans le domaine des finances publiques incluent: l'institution d'une TVA, l'application du tarif extérieur commun de la CEA en juillet 2009 et la finalisation d'un nouveau Règlement Général de Gestion des Budgets Publics qui permettra la mise en pratique des innovations apportées par la Loi Organique des Finances de décembre 2008 (meilleure délimitation des rôles dans l'exécution de la dépense, budgets d'affectation spéciale, budgets programmes et ordonnancement de la dépense par les ministères techniques à partir de 2014).

2.3. Politiques sectorielles

Le présent programme d'appui budgétaire aura un impact direct sur la politique de santé et de l'éducation, en confirmant les engagements du gouvernement sur la gratuité des soins pour les enfants de moins de 5 ans et les femmes enceintes, ainsi que la gratuité de la scolarité (repas inclus) dans le primaire.

2.4. Enseignements tirés

La crise des prix des produits pétroliers et alimentaires et la crise financière actuelle ont démontré que les dépenses essentielles ("*core spending*") doivent être soutenues pendant les périodes de crise si l'on veut sauvegarder les acquis obtenus en termes de développement et atteindre les objectifs fixés à long terme (cf. Analyse de la Banque Mondiale, rapport de mars 2009 du FMI, etc).

2.5. Actions complémentaires

Le Burundi a bénéficié d'un montant de 6.370.000 EUR pour lutter contre les effets de la crise alimentaire et de l'augmentation du prix des matières premières. Ce montant a été ajouté au programme précédent d'appui budgétaire, le PASME, sous forme d'une tranche supplémentaire, qui a été décaissée en décembre 2009.

Le Burundi a également bénéficié d'un montant de 13.600.000 EUR dans le cadre du Flex Vulnérabilité 2009.

Par ailleurs, en 2009, le Burundi a bénéficié d'un soutien de l'UE au travers du programme régional "RISM" (*Regional Integration Support Mechanism*) afin de compenser les pertes de recettes liées à l'adhésion du Burundi à l'union douanière de l'EAC. Les pertes de recettes en 2009 ont été estimées à 5.000.000 EUR. Un premier paiement de 4.400.000 EUR a été versé par le COMESA sous forme d'appui budgétaire en 2009. Le reliquat de 600.000 EUR va être décaissé pendant le premier semestre 2010 (avec les 1.200.000 EUR qui représentent 65% des pertes prévus pour la période janvier-juin 2010).

Dans le cadre du *Crisis Response Window*, la Banque Mondiale a approuvé 16,9 millions \$ pour le Burundi. Le montant contribuera aux projets en cours ayant pour but d'atténuer la crise énergétique au Burundi.

2.6. Coordination des bailleurs de fonds

La Commission, en étroite coordination avec les organisations internationales et notamment le FMI et la Banque Mondiale, a analysé l'impact de la crise économique et financière internationale sur les Etats ACP. Il en ressort que cette crise peut négativement affecter la

stabilité macro-économique ainsi que les progrès réalisés dans l'atteinte des objectifs du millénaire dans de nombreux pays.

Afin de s'assurer que les appuis des bailleurs de fonds produisent leurs meilleurs effets au profit des pays affectés, il est essentiel de promouvoir une approche coordonnée tout au long du processus du FLEX Vulnérabilité entre la Commission, le FMI, la Banque Mondiale, les Etats Membres et la BAD.

La Cellule d'Appui du Cadre de Partenariat, qui est rattachée au Cabinet du Ministre en charge des Finances et qui est financée par l'UE dans le cadre de l'appui institutionnel du PABRE, est l'organe technique principal de facilitation et de mise en œuvre de la Stratégie de Gestion des Finances Publiques. La Cellule d'Appui suit aussi la mise en œuvre des programmes d'appui budgétaire et assure une coordination efficace des bailleurs de fonds par l'organisation des réunions mensuelles (dites réunions du comité technique). Les participants réguliers aux réunions du comité technique sont: la Commission Européenne, le FMI, la Banque Mondiale, les Pays-Bas, la France, la Belgique, la CTB, DFID, le Secrétariat Permanent du Comité National de Coordination des Aides (SP/CNCA) et le Secrétariat Permanent de suivi des Réformes Economiques et Sociales (SP/REFES).

En plus de ce forum, les bailleurs d'appui budgétaire (notamment l'UE, la Banque Mondiale et le BAD), se sont engagés à renforcer leurs efforts de coordination à travers l'organisation de missions conjointes dans le domaine de l'appui budgétaire. Ces missions pourraient permettre dans un futur proche l'élaboration d'indicateurs de décaissement harmonisés ainsi qu'une réponse commune en cas de choc externe.

3. DESCRIPTION

3.1. Objectifs

L'objectif général de cet avenant est de soutenir davantage la mise en œuvre des politiques budgétaires et macro-économiques menées par le Gouvernement du Burundi pour atténuer l'impact de la crise.

L'objectif spécifique des fonds du VFLEX 2010 est de fournir un soutien financier au gouvernement de la République du Burundi pour compenser plus de la moitié du besoin de financement dû à l'impact de la crise financière globale au Burundi.

3.2. Résultats escomptés et principales activités

Le résultat attendu est de réduire l'impact négatif de la crise sur un pays vulnérable sur le plan économique et social ainsi que de contribuer à préserver sa stabilité macro-économique. Concrètement, et alors que les gaps de financements budgétaires vont potentiellement s'accroître, l'intervention de l'Union permettra de réduire substantiellement ces gaps budgétaires afin de protéger les dépenses sociales essentielles.

3.3. Parties prenantes

Les parties prenantes côté bénéficiaire sont les suivantes : la 2^{ème} Vice-présidence, le Ministère des Finances, le Ministère du Plan et de la Reconstruction, la Banque de la République du Burundi (Banque Centrale), le SP/CNCA, le SP/REFES et la Cellule d'Appui du Cadre de Partenariat.

Les parties prenantes côté bailleurs sont les suivantes: le FMI, la Banque Mondiale, la BAD, les Pays-Bas, la Norvège, la France, la Belgique, la CTB et DFID.

3.4. Risques et hypothèses

La réussite de ce programme d'appui budgétaire est exposée au risques suivants : (i) une dégradation du contexte politique et sécuritaire liée notamment aux élections 2010 qui affaiblirait l'appareil étatique et donc les autorités en charge de l'exécution du budget; (ii) une baisse substantielle des appuis budgétaires généraux des bilatéraux et des IFIs suite à des irrégularités confirmées dans le déroulement des scrutins et aux violations des droits de l'Homme pouvant en découler; (iii) une reprise à la hausse des cours d'hydrocarbures (pétrole principalement) qui ne serait pas accompagnée par une hausse des cours des produits agricoles (thé et café), créant ainsi une tension forte sur le taux de change, la balance des paiements et les réserves en devises.

3.5. Questions transversales

La bonne gouvernance économique est particulièrement visée dans le programme PABRE d'appui budgétaire. La composante d'appui institutionnel du PABRE comprend un appui à la Cour des Comptes afin de renforcer les capacités de contrôle externe du Burundi. Il est également prévu, sur cette même composante, une étude sur l'ensemble des institutions de contrôle externe et interne, qui devra permettre un dialogue approfondi entre bailleurs et bénéficiaires sur les réformes à entreprendre. Enfin, le programme Bonne Gouvernance 9^{ème} FED continue à appuyer les capacités de l'Inspection Générale de l'Etat, en matière de formations pour les auditeurs.

4. QUESTIONS DE MISE EN ŒUVRE

4.1. Budget et calendrier

Le présent avenant augmente la composante d'appui budgétaire du PABRE qui passe de 59.330.000 EUR à 73.600.000 EUR. Le profil de décaissements révisé du PABRE est présenté dans le tableau ci-dessous.

PABRE - Profil de décaissement (en EUR)

	2009	2010	2011	Total	Part
Tranche fixe	11.000.000	10.000.000	9.000.000	30.000.000	40,7%
Tranche fixe enveloppe B FLEX vulnérabilité	13.600.000	15.000.000	-	28.600.000	39,0%
Tranche variable (max.)	4.000.000	5.000.000	6.000.000	15.000.000	20,3%
Total appui budgétaire	28.600.000	30.000.000	15.000.000	73.600.000	100%
Appui Institutionnel (AI)				2.700.000	
Évaluation de l'AI				225.000	
Audit de l'AI				75.000	
TOTAL PROGRAMME				76.600.000	

4.2. Modalités de l'appui budgétaire

L'action consiste en un appui budgétaire direct et non ciblé, conformément aux modalités agréées par la décision portant création du FLEX Vulnérabilité.

4.3. Procédure de passation de marchés et de subvention

Les dispositions du PABRE à ce sujet ne sont pas modifiées.

4.4. Suivi de l'exécution et des critères de décaissement

Le décaissement de cette tranche fixe additionnelle sera guidé par les dispositions de la convention de financement du PABRE.

4.5. Communication et visibilité

L'action bénéficiera d'une couverture médiatique car elle vient en supplément des tranches déjà prévues par le PABRE ce qui est justifié par des circonstances particulières.

ANNEX II

1. IDENTIFICATION

Country/Title/Number	LIBERIA - Budget Support for Macroeconomic Stabilisation (BSMS) Rider 1 to the Financing Agreement CRIS number FED/2009/021-455 (EG)		
Total cost	EU Contribution : EUR 12.500.000 (Revised value of BSMS : EUR 32.700.000)		
Aid method / Management mode	General budget support / centralised management		
DAC-code	51010	Sector	General Budget Support

2. RATIONALE AND COUNTRY CONTEXT

The purpose of the present amendment is:

- (1) to provide for an additional 2010 fixed tranche of EUR 12.500.000 and increase the amount of the budget support component of the programme accordingly.

In reaction to the international economic and financial crisis, the Communication *Supporting development countries in coping with the crisis* (COM 2009-160 final) foresees inter alia the creation of the Vulnerability FLEX mechanism. The Commission Decision concerning an increase in allocation of resources for unforeseen needs from the 10th EDF to support the most vulnerable and least resilient ACP countries in coping with the impact of the global financial crisis by setting up an ad hoc Vulnerability FLEX mechanism (Decision COM 2009/6135) details its rationale, eligibility criteria and modalities. The Vulnerability FLEX mechanism has set aside an amount of EUR 500.000.000 from the reserve of the national and regional indicative programmes under the 10th EDF for the purpose at hand.

In this context, the Government of LIBERIA has requested on March 12, 2010 an exceptional additional support to mitigate the impact of the crisis. LIBERIA is considered eligible under Vulnerability FLEX on the basis of a limited set of economic and social vulnerability criteria, the nature of the residual financing gap and the capacity of the EC to quickly provide meaningful support. This proposal aims at providing in 2010 an additional tranche of EUR 12.500.000 within the current general budget support programme (10th EDF), to be financed from the B-envelope of the 10th EDF.

2.1. Country Context and National Policy and Strategy

2.1.1. Economic and social situation and poverty analysis

- *Vulnerability assessment*: Liberian economy presents a high economic, social or political vulnerability in the 2009 and 2010 fiscal years and a residual fiscal financing gap in those years. The analysis was based on IMF's latest fiscal table of March 2010 and the historical data are based on the December 2009 Third PRGF (now ECF) Review. In March 2009, the IMF ranked Liberia with a high risk of vulnerability to the global crisis².

Debt financing: the GoL is focused on meeting the triggers for HIPC Completion Point by the end of the 2009/10 fiscal year. The Government has limited capacity to borrow in 2010/11 to finance PRS priority expenditure. Borrowing will be limited to 3% of GDP given the Debt Sustainability

² The implications of the global Financial crisis for low-income countries, IMF, March 2009.

Analysis. A domestic Treasury bill market is scheduled to be launched with a view to using short-term domestic securities issuance for in-year cash management purposes for 1% GDP but this is a high case scenario.

Revenue measures: the GoL is exploring a variety of means to raise more revenue domestically, as part of the tax modernization and reform program. These administrative and policy-related revenue raising measures include strengthening of tax administration and enforcement, the migration to a value-added tax, and an increase in the nominal consumption tax rate on high-end items. They are, however, subject to several implementation risks, including those related to achieving legislative approval.

Prioritization of expenditure: the Project Budget FY2010/11 ceilings have been set to focus expenditure on key PRS expenditure, which were each set a ceiling equivalent to 60% of their Core Budget ceiling while all other expenditure' ceilings were set at 30% of the Core Budget ceiling. Attention was focused on five main PRS sectors: Agriculture, Education, Health, Public Works and Water & Sanitation.

In response to the global food price crisis, the Government of Liberia implemented an import duty waiver on rice, the nation's staple food. The estimated revenue loss to government of this measure is \$8.7 million, equivalent to 0.9 per cent of projected GDP in 2010/11. In order to reduce the impact of the crisis on the most vulnerable in society, the Government implemented pro-poor measures designed to reduce the tax burden on the lowest paid such as the waiver on personal income tax for those earning less than \$100 a month. The estimated impact of this measure was a revenue loss to government of \$1.5 million, equivalent to 0.2 per cent of projected GDP in 2010/11. Added to this is a US\$ 21.1 million projected loss relating to delayed payments from China Union relating to the Western Cluster, bringing the total projected revenue loss to US\$ 31.3 million, or 3.3 per cent of projected GDP in 2010/11.

VFLEX support could contribute to guarantee highest priority PRS spending entities, accounting for \$118.7 million of planned expenditure. The additional financial support will also secure labour intensive public construction projects that would provide a clear route to delivering jobs to Liberian youth, itself contributing to political stability in Liberia's fragile post-conflict society.

Description of the impact of the crisis:

Liberia is a Fragile State, so it is important to stress that as a consequence of lower growth and lower revenue expenditures have already been reduced. Growth is still positive, though far weaker than foreseen (it fell from 7.1% in 2008 to an estimated 5% in 2009), thereby increasing social risks in an already very weak environment. It is also important to stress the direct social cost for the population of lower remittances from the Liberian diaspora,

- Poverty: Liberia has a GDP per capita of 500USD and ranks 169 (0.442) at UNDP's HDI³ out of 182 countries with data, and the impact of the global crisis may cause a setback.

The country has not been a beneficiary under the 2009 VFLEX.

2.1.2. National Development/ Cooperation Policy and Strategy

Liberia completed its first full PRSP in March 2008 that sets out the government's priority agenda for the three year period April 2008 to June 2011. The four pillars of the PRSP are (i) Security, (ii) Economic revitalization, (iii) Governance & Rule of law, (iv) Infrastructure & basic services. The cost of its implementation has been estimated at around \$ 1.5 billion with initial donor contributions estimated at \$300 to 400 million. The annual evaluation report on the PRS was published in March 2010.

³ http://hdrstats.undp.org/en/countries/country_fact_sheets/cty_fs_LBR.html

2.2. Eligibility for budget support and Vulnerability FLEX.

In the framework of the Country Strategy Paper of the 10th EDF and the 2008 Annual Action Plan, LIBERIA is currently benefiting from EC budget support. The financing agreement of this programme was signed on April 8, 2010.

On the basis of the analysis in Section 2.1.1, LIBERIA is deemed to be eligible for Vulnerability FLEX, since it meets the vulnerability criteria, the residual gap financing criteria, the critical impact criteria and the absorption capacity.

- Vulnerability criteria to the V-FLEX: Since 2007/08 revenue is increasing, but in 2010/11 it will be lower than initially forecast. Foreign revenues are still low, even though somewhat improved, meeting the V-FLEX vulnerability criteria. The fiscal deficit excluding grants is increasing, meeting also this criterion.

Government revenue: in the years immediately after the conflict ended, the taxed share of the economy was extremely small. The Government has focused its efforts on increasing that share through, for example, tax sensitization programmes. As such, as the taxed share of economic activity has increased from its very low base, government revenue as a share of GDP has risen. However, this should not be taken as evidence that the crisis has not impacted Liberia's public finances, since in the absence of the crisis the increase would have been greater. The level of government expenditure in 2007/08, prior to the global economic crisis, was already very low and wholly inadequate to meet the country's wide-ranging social and economic needs.

Foreign reserves: international reserves were boosted by the allocation (IMF) of SDR 103 million in August 2009, which have been used to boost reserves. This allocation is estimated by the IMF to have raised gross official reserves from 0.5 to 2.1 months of goods and services imports, but the IMF forecasts the ratio will decline slightly in 2010 and 2011 to 1.8 months' cover.

Fiscal deficit: The impact of the global financial and economic crisis on Liberia's economy and revenues on the underlying fiscal position excluding grants has been severe. From a position close to balance in 2007/08, the fiscal balance excluding grants deteriorated to a deficit of 4.4 per cent of GDP in 2008/09. The latest forecast shows the deficit excluding grants narrowing slightly to 2.1 per cent of GDP in 2009/10. This is largely thanks to significant expenditure streamlining currently being implemented. The latest forecast for 2010/11, which compares the *Budget Framework Paper* expenditure plans with the latest revenue forecast, shows a projected deficit of 9.5 per cent of GDP excluding grants.

The deficit criterion is therefore met on the basis that the forecast deficit excluding grants is 10% GDP higher than the level of the pre-crisis year (2007/08 where the comparative figure was +0.5% GDP).

- Residual financing gap & critical impact:

As Liberia is currently operating on a cash-based balanced budget, there can be strictly speaking no fiscal gap as total expenditures must be equivalent to total revenues. The chosen methodology to estimate the fiscal gap consists in comparing the latest revenue forecasts from the IMF (dated March 2010) with the expenditure plan set out in the January 2010 Budget Framework Paper (BFP) for FY 10/11. This methodology was approved by the IMF. The Delegation also received the assurance from the IMF that the BFP was consistent at the moment of its elaboration, and can hence be considered as a valuable comparison basis for estimating the evolution of the fiscal space.

On the revenue side, the drop from a provision of 350.7 million US\$ in the BFP to 317.5 million US\$ in the latest IMF forecast (i.e. 33.2 million US\$) is consistent with the analysis of the impact of the crisis on revenue, outlined in the eligibility criteria analysis. The FY 10/11 tax revenue loss is also boosted on account of other factors including slower GDP growth and reduction of corporate taxes.

On the expenditure side, the government revised its ambitions by lowering total expenditures from 350.7 million US\$ in the BFP to 317.5 million US\$, which, however, represent 24 per cent more than expenditures during FY 09/10. During the IMF mission in February 2010, the Government expressed its desire to avoid further downward revision to total expenditures; this was agreed with the IMF. This position is motivated by the fact that the effect of the global financial crisis on revenues in FY 08/09 and FY 09/10, combined with the commitment to a cash-based balanced budget, have imposed drastic expenditure cuts during this period. It is reasonable to consider that the amount of postponed expenditure equals the revenue loss analysis mentioned above, i.e. in excess of 30 million US\$. Overall funding for PRS delivery has also been constrained as some donors/NGOs involved in the provision of off-budget support have had to scale down their activities due to the financial crisis.

Taking forecasted grants for FY 10/11 into consideration, the overall estimated fiscal gap identified by the IMF and agreed with the Government amounts to 33.9 million US\$. The GoL' request is for 50%, 17MUSD, or EUR 12.500.000 (1.35). This is based also upon the assumption that HIPC completion point is met before end 2010. A EUR 12.500.000 contribution would meet the critical impact criteria of the V-FLEX. At the current stage, if not financed the remaining gaps will lead to cuts in spending, very possibly in the social sectors.

- Absorption capacity: In the framework of the Country Strategy Paper of the 10th EDF and the 2008 Annual Action Plan, LIBERIA is currently benefiting from EC budget support. V-FLEX would consist of an additional fixed tranche for 2010/11 to secure public spending. Therefore, the criterion is met.

2.2.1. National Development or Cooperation Policy and Strategy

The LIBERIA PRSP is in place and under implementation. The 1st annual report was submitted to the IDA and IMF in April 2010. The PRS implementation has been slower than expected but nevertheless satisfactory, given the ambition and scope PRS objectives and the challenging external economic situation during the first year of implementation.

2.2.2. Macroeconomic situation

The Liberian economy is emerging from a series of setbacks mostly rooted in the global economic downturn, which considerably delay the post conflict recovery. External investment is reviving particularly in ore mining and agriculture. Commercial logging activity has begun and the production of rubber, Liberia's main export, has stabilized while international prices have strengthened. Activity in construction and communications has been buoyant. Accordingly, it is anticipated that economic output will increase at a faster pace in 2010 than 2009, with growth estimated at 6%. Performance under the IMF's supported economic programme has been strong. Despite this optimistic scenario, budget aid remains crucial for the country's exit to the crisis.

Despite the negative economic developments described under section 2.1., the Government of LIBERIA is responding to the crisis by establishing an appropriate fiscal policy supported by donors (i.e. increased access to the IMF facilities, frontloaded budget support of the WB), by revising expenditure planning, and keen to use domestic and external financing when possible. The efforts of the country to maintain a stable macroeconomic situation have been confirmed by the latest IMF mission; the 4th ECF review will be submitted to the board 23rd June. HIPC completion point would also be submitted to IMF / IDA boards in June 2010⁴.

2.2.3. Public Financial Management

The WB-led PEMFAR/PEFA exercise was carried out in late 2007. Over the past three years, Liberia has strengthened public expenditure management and financial transparency, and made

⁴ <http://www.imf.org/external/np/sec/pr/2010/pr10157.htm>

considerable efforts in the area of revenue mobilisation leading to a significant increase in government revenues (+40% from FY 2006/07 to FY 2007/08). The PFM Act, passed in December 2009, sets out the foundations for credibility, accountability and transparency in budgetary management to guide and regulate public finances in Liberia in the years ahead. Key requirements around which capacity building efforts and PFM reform efforts can be effectively mobilized are in place. The first implementation status report of the PFM Act was circulated in January 2010 and the second has been drafted. All PFM targets set by the IMF for 2009 were met, albeit with delays. This covered notably: adoption of a regulation for a new comprehensive PFM Act (Dec. 2009), external audit of the central government's accounts for FY 2007/08 completed by the General Auditing Commission and submitted to the legislature (March 2009), regulations and guidelines under the public procurement and concessions act approved by Cabinet and issued (Dec 2009), full balance of payments statistics for 2008 completed and published (met in time), national accounts establishment survey completed (re-launched in Dec 2009 and completed in April 2010), and adoption of accounting standards for the government and a comprehensive chart of accounts (January 2010). Ultra basic elements are in place.

The authorities developed a PFM Action Plan PFM with donor support which is spelled out in the IMF programme and is to be implemented with technical assistance from the EC, IMF, World Bank and other multilateral and bilateral donors. The GoL is also working towards finalising a Common Assessment Framework.

Procurement is an area of particular weakness identified in the PEMFAR/PEFA exercise and has major implications for the State Owned Enterprise (SOE) sector (which amounts to around 25% of GDP and half the public sector). Following the adoption of the procurement Law the accompanying regulations and manuals are under preparation. A particular issue in this respect is the coverage of the SOEs in the PFM strategy, where SOE as a substantial source of off-budget revenue are in many cases still not well regulated.

The adoption of PFM and Public Procurement regulations is an important step in this regard, and would allow for further improvements in budget preparation and implementation and a more efficient allocation of government resources to achieve Liberia's poverty reduction goals. Taking into account the confirmed positive trend in PFM reforms since 2006 and the actions set for the future, and the solid TA from GEMAP and IMF, the PFM criteria of eligibility can be assessed positively in the framework of a country in situation of fragility.

The corruption issue, an endemic problem of many countries in situation of fragility is being addressed inter alia by the country's active and performing General Audit Commission (GAC), which regularly audits the key ministries and the State Owned Enterprises. an integral part of every audit report is recommendation on improved management, which should ultimately result in the prevention of waste and abuse an increased transparency. The GAC assists the National Legislature to provide effective oversight of the Government. It reviews and analyse the National Budget and draft laws. Lastly and very importantly, the GAC generates public debate on corruption and puts into limelight important state matters as National Budget. Its recommendation are moreover taken into account in the policy dialogue conducted around the implementation of budget support operations.

2.3. Sector Policies (where appropriate)

This budget support policy is linked to other ongoing and planned projects in the sector of Education, Health and PFM (through the reinforcement of the capacity of the General Auditing Commission). For the elaboration of FY 2010/11 budget attention was focused on five main PRS sectors: Agriculture, Education, Health, Public Works and Water & Sanitation.

2.4. Lessons learnt

In the context of the food and oil price crisis and the current financial crisis, it has been demonstrated that core spending needs to be sustained during periods of crisis, if current development gains are to be preserved and long term development goals achieved.

2.5. Complementary actions

The EU increased the B-envelope of Liberia by EUR 4.140.000 to help tackle the impact of soaring food prices. The interventions foreseen by the government in response to the crisis were mentioned above. In the same line, the WB has provided extraordinary budget aid and the AfDB has anticipated its disbursement of budget aid so funds have arrived in due time.

2.6. Donor coordination

The Commission, in close cooperation with international organisations and notably the IMF and the World Bank, has assessed the impact of the global financial and economic crisis on the ACP States, concluding that the crisis may adversely affect macro-economic stability and progress towards achieving the millennium development goals in many of the countries.

A coordinated approach of the Commission with the IMF, World Bank, Member States and the AfDB where relevant is essential throughout the Vulnerability FLEX process to ensure that the response results in the maximum benefit to affected countries.

3. DESCRIPTION

3.1. Objectives

The overall objective of the present rider is to further support the implementation of macro economic and fiscal policy driven by the Government of LIBERIA to mitigate the impact of the crisis on the country. The European Commission short term support provided through the Vulnerability FLEX will be critical in order to close or reduce significantly the residual fiscal financing gap with a view to maintaining priority expenditures in 2010, especially as they relate to social spending..

3.2. Expected results and main activities

The expected result is to reduce the negative impact of the crisis on a country facing economic and social vulnerability risks and contribute to its macroeconomic stability. Concretely, and against a background of potentially growing fiscal financing gaps, the Commission intervention will close or notably reduce these budgetary gaps in order to protect core social expenditures.

3.3. Stakeholders

The main stakeholders of GBS/PFM will be the GoL and primarily the MoF. Performance indicators will address budget execution by ministries of Health and Education, in accordance with the GoL's policy agenda. Attention was focused on five main PRS sectors: Agriculture, Education, Health, Public Works and Water & Sanitation.

3.4. Risks and assumptions

Political stability is a key assumption.

Regarding eligibility to BS, the government's commitment, at the highest level, to the implementation of the PRS can not be questioned. The PRS implementation may however suffer from a weak institutional and financial capacity, to be reinforced with the support of the international community. Maintaining a stable overall macroeconomic framework in line with IMF programme (ECF "on-track") is a realistic assumption for the implementation of the

programme. The risk related to the macroeconomic framework would be a long-lasting impact of the financial crisis which will slow down the growth rate, further delay FDI and remittances and possibly diminish the level of aid flows. Commitment to PFM reform is there. Mobilization of technical support is very critical to improve the system in implementing new regulations. The presidential and parliamentary elections due to be held in October 2011 will be a strong factor affecting political stability.

3.5. Crosscutting issues

The EC budget support should generate positive results at political, economic and social levels. In particular, the project should improve good governance practices by fostering transparency and accountability in the use of public funds. It will also contribute to improved budget positions of the Health and Education sectors.

4. IMPLEMENTATION ISSUES

4.1. Budget and calendar

In addition to the EUR 19.000.000 originally provided under the BSMS, the present amendment will increase the budget support component by EUR 12.500.000 to EUR 31.500.000. The revised disbursement profile of BSMS financing agreement is presented in the table below.

BSMS financial design (in EUR)

	2009/2010	2010/2011	Total
Fixed tranche	7.000.000	7.000.000	14.000.000
Fixed tranche – B envelope Vulnerability Flex		12.500.000	12.500.000
Variable tranche (max.)		5.000.000	5.000.000
Total budget support	7.000.000	24.500.000	31.500.000
Institutional Support (I.S.)			1.100.000
Evaluation of I.S.			60.000
Audit of I.S.			40.000
TOTAL PROGRAMME			32.7 00.000

4.2. Budget support modalities

The Action consists of a direct and untargeted budget support, according to the modalities agreed upon on the Vulnerability FLEX decision.

4.3. Procurement and grants award procedures

The provisions of the BSMS financing agreement in this regard remain unchanged.

4.4. Performance monitoring and criteria for disbursement

The disbursement of this additional 2010 fixed tranche will be guided by the provisions of the BSMS Financing Agreement. In this perspective, GoL shall communicate at the due time information on the following: i) satisfactory progress in the implementation of the Poverty Reduction Strategy (PRS); ii) satisfactory progress in the maintenance of a stability-oriented macroeconomic policy as evidenced by fulfilment of the IMF-Poverty Reduction Growth Facility (PRGF) or similar programme; iii) satisfactory progress in the implementation of its programme

to improve PFM. The GoL shall use its best efforts to supply the EC in a timely manner with all the necessary information needed to formulate an assessment based on the above mentioned i) ii) and iii) points, as well as ensure dialogue around the objectives supported by this GBS program. The EC will decide to disburse on the basis of the assessment of the GoL requests.

4.5. Evaluation and audit

The provisions of the BSMS financing agreement in this regard remain unchanged.

4.6. Communication and visibility

The Action should receive specific press coverage as it is additional to the tranches already provided under BSMS financing agreement and is justified by particular circumstances.

ANNEX III

1. IDENTIFICATION

Country/Title/Number	MALAWI - POVERTY REDUCTION BUDGET SUPPORT III (PRBS III) 2ND Rider to the Financing Agreement CRIS number: FED/2008/020959		
Total cost	EU Contribution: EUR 19.000.000 Revised value of Poverty Reduction Budget Support III Programme therefore: 134.000.000		
Aid method / Management mode	General budget support – centralised management		
DAC-code	51010	Sector	General Budget Support

2. RATIONALE AND COUNTRY CONTEXT

The purpose of the present amendment is:

- (2) to provide for an additional 2010 fixed tranche of EUR 19.000.000 and increase the amount of the budget support component of the programme accordingly.

In reaction to the international economic and financial crisis, the Communication *Supporting development countries in coping with the crisis* (COM 2009-160 final) foresees inter alia the creation of the Vulnerability FLEX mechanism. The Commission Decision concerning an increase in allocation of resources for unforeseen needs from the 10th EDF to support the most vulnerable and least resilient ACP countries in coping with the impact of the global financial crisis by setting up an ad hoc Vulnerability FLEX mechanism details its rationale, eligibility criteria and modalities. The Vulnerability FLEX mechanism has set aside an amount of EUR 500.000.000 from the reserve of the national and regional indicative programmes under the 10th EDF for the purpose at hand.

In this context, the National Authorising Officer of Malawi has requested on 15th March 2010 an exceptional additional support to mitigate the impact of the crisis. Malawi is considered eligible under Vulnerability FLEX on the basis of a limited set of economic and social vulnerability criteria, the nature of the residual financing gap and the capacity of the EC to quickly provide meaningful support (see Allocation Decision for VF 2009). This proposal aims at providing in 2010 an additional tranche of EUR 19.000.000 within the current general budget support programme (10th EDF), to be financed from the B-envelope of the 10th EDF.

2.1. Country Context and National Policy and Strategy

2.1.1. Economic and social situation and poverty analysis

The economy of Malawi is relatively small with a nominal GDP of about US\$ 3.5 billion and a population of approximately 13.2 million⁵. The per capita GDP is about US\$ 265 per year. The economy is largely dependent on agriculture, which accounts for about 36% of GDP as well as for more than 70% of export revenues. It occupies more than 80% of Malawians. Overall, macroeconomic management has been sound since 2004 when the current administration took over Government. This has been demonstrated by the positive conclusion

⁵ Preliminary Report on National census 2008

of the IMF monitored programme, then by the positive conclusion of the three-year IMF PRGF programme in July 2008, and the IMF Board approving a US\$ 77 million one-year Exogenous Shock Facility (ESF) in December 2008. The ESF was, however, not successfully concluded in 2009 due to budgetary over-expenditure particularly in the context of the Government's much-acclaimed input subsidy programme ahead of the Presidential and Parliamentary Elections in May 2009. Consequently, the ESF expired in December 2009 without a positive conclusion. Following on discussions between Government and the IMF, Malawi was granted a new three year US\$ 79.4 million Extended Credit Facility (ECF) to support Malawi's economic programme for the period 2010-2012. Government has committed to continued structural reforms and adoption of a more flexible exchange rate policy among others. This commitment has been demonstrated by a gradual movement of the Malawi Kwacha against the US Dollar since December 2009 after being virtually pegged to the US Dollar for years. Average growth for Malawi has remained above 7% since 2005 with the highest peak in 2008 (+9.8%). These growth rates compare very favourably to those experienced in the period of the ten years running up to 2005, which was quite erratic with an average growth rate of only approximately 2%. The average inflation rate came down to single digit (8.5% in 2009). This is largely attributed to improved food security situation on account of the improved agriculture sector output supported by the input subsidy programme and favourable weather conditions in the past four years. Interest rates continued to decline during the same period to 15%. The government's net domestic debt has been reduced from close to 20% of Gross Domestic Product (GDP) earlier this decade to around 10% of GDP this year.

Notwithstanding the remarkable achievements of the last few years – “Malawi’s Economic Miracle” - the country continues to experience chronic low and volatile levels of reserves marked by periodically critical foreign exchange shortages, resulting in recurring import payment backlogs. Official reserves have at times dropped to dangerously low levels. According to official statistics, by the end of 2009 official reserves were at 1.2 month of imports. Following the exogenous choc caused by the increase of food and oil prices, , foreign reserves have significantly plummeted owing to a number of factors from a preliminary figure of 1.7 months of import cover in 2008 and to a critical level of 0.4 months of imports registered in November 2008, is amongst the lowest in Africa. The main one was the deterioration in Terms Of Trade (of about 3.8%) in FY 2008/09 due to 100% increase in fertilizer prices. In 2008, this resulted in a fiscal gap of US\$ 70 million of which some US\$ 30 million were covered by higher-than-envisaged tax revenues and spending cuts, while about US\$40 was covered by additional budget support from donors. In 2009 the situation was not helped with the expenditures around the Presidential and Parliamentary General Elections in May, the lower than expected proceeds from tobacco, the main export earner, and the rising demand for agricultural inputs and petroleum imports.

According to IMF projections made in December 2009 BOP prospects for 2010 and 2011 have changed in a positive direction. The current account deficit is expected to improve to 1.8 % of GDP in 2010 from deficits of 6.4 and 8.6 % of GDP in 2008 and 2009 respectively. Excluding grants, the BOP deficit is expected to improve to 18.7 % of GDP in 2010 from 21.9 % in 2009. This improvement reflects an increase in expected official transfers as well as an increase in exports to about US\$ 1,119 million in 2010 from US\$ 1,004.8 million in 2009 while imports will decline to US\$1,739 million in 2010 from US\$1,809 million in 2009. Exports are expected to rise as uranium mining reaches full operation by 2012. The decline in imports is a direct response in government efforts to reduce imports by cutting non-priority expenditures and the depreciation of the kwacha.

In terms of budget policy, revenue is projected to increase to 22.2% of GDP in FY 2009/10 compared to 20.6% of GDP in FY 2008/09. A further improvement to 22.7% of GDP is expected in FY 2010/11. This increase should come from a projected increase in tax revenues from 18.3% of GDP in 2008/09 FY to 19.3 % in FY 2010/11. However, financial support from development partners (grants) are projected to decline sharply in FY 2010/11 (to 9.1% of GDP from 11.5% of GDP in FY 2009/10 FY). The decline is mainly projected mainly because the World Bank and DFID country assistance programmes are coming to an end in June 2010 and no commitments have been made yet for the following year.

Expenditure, on the other hand, is estimated to increase slightly to 35.5% of GDP in FY 2010/11 from 35.2% of GDP in FY 2009/10. Current expenditure is to decline to 24.6% of GDP in 2010/11 FY from 25.0% of GDP in 2009/10. This slight expenditure reduction, however, is not expected to affect spending in essential services of education and health as committed by GoM within the framework of poverty reduction budget support. Consequently, the projected overall fiscal deficit for FY 2010/11 is 3.7% of GDP. In order to finance this deficit and repay domestic debt at 1% of GDP, the government needs financing equivalent to 1.5% of GDP. Expenditure being under pressure, the V-FLEX is much needed to maintain that spending level and ensure the protection of social spending.

In that situation, fiscal deficit for 2010/11 excluding grants will reach 12.9 % GDP compared to 17.5% of GDP in the 2008/09 fiscal year. Fiscal deficit including grants is forecasted -2.3% GDP for the current FY compared to -5.7% GDP FY 2008/09. Malawi is implementing a fiscal stabilization policy in a time of crisis while raising domestic revenue (+1% of GDP within 2 year) and reducing spending (-2.5% of GDP in 2 years). This fiscal consolidation effort to deal with the crisis needs to be taken into consideration in the context of the objectives of V-FLEX.

Following (i) the main annual budget support (CABS) review that took place during March 2010, during which development partners provided updates on planned donor budget support disbursements in 2010/11, and (ii) updated data which became available from the IMF regarding the latest calculations of the fiscal gap for FY 2010/11 following on GoM and IMF discussions in Washington that were also held in March 2010 the latest calculations estimate the fiscal gap for FY 2010/11 to be of around US\$ 52 million.

As mentioned above, Malawi received an amount of EUR 25.000.000 under the 2009 V FLEX allocation. The disbursement was made in March 2010 as planned. This came at the time when the country's foreign exchange reserves were at a very low level of 1.2 months of imports. Therefore the immediate impact was the boost on reserves and assisting the country to pay a backlog of outstanding foreign payments. In the short-term this will assist GoM in the implementation of prioritised activities particularly for the social sectors.

2.1.2. National Development/ Cooperation Policy and Strategy

The Malawi Growth and Development Strategy (MGDS) 2006-2011 was approved on 3 November 2006. Identifying national food security as a prerequisite for development, the main thrust is wealth creation through sustainable economic growth and infrastructure development as a means of achieving poverty reduction. Organised in five themes - sustainable economic growth; social protection; social development; infrastructure development; and improved governance - the MGDS outlines medium and long term objectives for a broad range of sectors, of which six are highlighted as key priorities: agriculture and food security; irrigation and water development; transport infrastructure development; energy generation and supply; integrated rural development; and prevention and management of nutrition disorders, HIV and AIDS.

The MGDS has undergone three reviews and its implementation has been broadly satisfactory since its adoption in November 2006. According to the most recent Annual Review (2008/2009), "*poverty declined from about 52.4 percent in 2004 to about 40 in 2008. The report states, in confirmation of the previous report, that "the reduction in poverty has been attributed to a number of initiatives including the input subsidy programme in the agricultural sector".* Some of the achievements by key sectors include GoM continued maintaining a stable macroeconomic environment; improving agricultural productivity as a result of the input subsidy; improving road infrastructure development; achieving significant progress in the health sector such as increasing the proportion of 1 year-old children immunised against measles and in the field of HIV/AIDS and nutrition.

The State President announced after the elections in May 2009 that three additional priorities have been identified for implementation in the next five years: i) education, science and technology; ii) youth development; iii) climate change and environment. These are additional and complementary to the initial six MGDS priorities. While the MGDS comes to an end in 2011, GoM and development partners have started the process of working on a successor development programme. It is largely expected that priorities will remain the same.

2.2. Eligibility for budget support and Vulnerability FLEX

In the framework of the Country Strategy Paper of the 10th EDF and the 2008 Annual Action Plan, Malawi is currently benefiting from EC budget support. The financing agreement of this programme was signed on 8 December 2008. Malawi's budget support eligibility has been satisfied since 2005 when the IMF granted a 3 year Poverty Reduction Growth Facility programme. This has been re-confirmed in February 2010 when Malawi was granted a new three year US\$ 79.4 million Extended Credit Facility (ECF) to support Malawi's economic programme for the period 2010-2012.

On the basis of the analysis in Section 2.1.1, as regards Criteria (a) High economic, social and political vulnerability, (b) Existence of residual fiscal financing gaps in the FY 2010/11 budget forecasted, and (c) Critical impact of mobilizing the Vulnerability FLEX, Malawi is deemed to be eligible for Vulnerability FLEX.

Vulnerability criteria to the V-FLEX: On the first criterion, Malawi is vulnerable to external shocks such as the fuel and fertilizer price increases which led to the deterioration of terms of trade in 2008.

Government revenue: domestic revenue is expected to increase to 22 % of GDP in 2009/10 and further to 22.5 % in 2010/11 financial year. This is as a result of enhanced efforts to increase domestic revenue collection by government and as a result, Malawi does not meet this criterion.

Fiscal Deficit: With respect to the fiscal deficit, the latest estimates forecast a fiscal deficit excluding grants of 12.9 % GDP compared to the pre-crisis deficit excluding grants of 13.52 % of GDP in the 2007/08 fiscal year. As a result the fiscal deficit criterion is not met.

Foreign reserves: Malawi continues to have very low levels of foreign reserves at only 1.8 months of import cover. This has resulted in a backlog of international payments hence the authorities would strive to improve the reserve position in order not to inhibit economic production. Moreover, this level of international reserves is sufficient to meet the V-FLEX macroeconomic vulnerability eligibility criterion.

Residual financing gap and critical impact:

With regard to the second criterion, Malawi anticipates to register a residual fiscal gap of about US\$ 52 million (about €38 million) due to the expected stagnation in domestic revenue and decline in grants. A V-FLEX of €19 million would cover half of the residual financing gap and meet the criterion.

Malawi meets the criterion regarding **absorptive capacity** by virtue of having an existing general budget support programme. The V-FLEX support to Malawi will be provided through this existing general budget support programme and subject to the same requirements on a national development strategy, macro-economic stability and public financial management as that programme.

2.2.1. National Development or Cooperation Policy and Strategy

The Malawi Growth and Development Strategy is in place and under implementation in Malawi. See section 2.1.2

2.2.2. Macroeconomic situation

Overall macroeconomic performance, though still fragile, has been sound from 2005 to 2008 considering the positive conclusion of the three-year IMF Poverty Reduction and Growth Facility (PRGF) programme in July 2008 and the IMF Board approving a US\$ 77 million one-year Exogenous Shock Facility (ESF) in December 2008. On 19th February 2010 the IMF Executive Board approved a three-year, SDR 52.05 million (about US\$79.4 million) new programme for Malawi under the Extended Credit Facility (ECF) to support the country's economic program for the period 2010-2012. The new programme succeeds a one year Exogenous Shocks Facility (ESF) arrangement also for SDR 52.05 million that could not be successfully completed in 2009 due to budgetary over expenditures in 2009 ahead of the General Elections. According to the IMF, the new programme is designed to build reserves to a prudential level of three months of imports in 2012 and achieve a properly valued exchange rate to support growth and stability. The programme intends to continue with the structural reform agenda aimed at strengthening the Public Financial and Economic Management unit in the Ministry of Finance, and enhancing the social safety net programme through improved targeting of households and a possible expansion of the donor-financed pilot transfer program. The tax administration will be further strengthened and the tax base broadened to allow the value-added tax rate to be reduced to regional norms. In addition, the programme intends to create an enabling environment for private investment and growth by: developing a comprehensive strategy for reforming the utility companies and expanding access to utility services; strengthening the regulatory environment; and adopting market-friendly agricultural sector policies. .

2.2.3. Public Financial Management

Over recent years there have been a number of reforms and improvements to the PFM system in Malawi. Reforms have been implemented under the overall framework of a PFM Action Plan adopted in 2006. Improvements to the system were confirmed by a third PEFA assessment completed in May 2008, the main findings of which indicate that Malawi continued to exercise fiscal discipline in budget execution with domestic revenue collections maintained above targets. On public accounting, there has been an improvement in the timeliness of submission of public accounts (2007/08) due to the significant progress in the implementation of IFMIS. Positive developments were observed in the area of debt management, payroll management and government procurement reforms. The predictability

and comprehensiveness of budgetary support from donors also improved during the period under review. Nevertheless external auditing and parliamentary scrutiny of financial accounts suffered delays in the submission to Parliament of the audits and this is presently being addressed following the nomination of the new Auditor General in May 2008. In confirmation of its commitment to PFM reform Malawi adopted a new PFM Action Plan in May 2009, which should help coordinate donor support and further step up the pace of the PFM reforms in Malawi.

There is an effective policy dialogue on Public Finance Management (PFM) reforms in Malawi, and Public Expenditure Finance Accountability Assessments (PEFA) were conducted in 2005, 2006 and 2008 leading to a number of reforms and improvements to the PFM system since 2005. Notably, there have been improvements in public accounting, debt management, payroll management, procurement as well as in predictability and comprehensiveness of budget support.

2.3. Lessons learnt

In the context of the food and oil price crisis and the recent global financial crisis, it has been demonstrated that core spending needs to be sustained during periods of crisis, if current development gains are to be preserved and long term development goals achieved. . The exchange rate issue which delayed the implementation of the IMF Programme in 2009 and gave rise to the underlying issue regarding the level of international reserves has now been addressed as the new IMF programme seeks to build a satisfactory level of reserves as a means of enhancing overall macroeconomic stability.

2.4. Complementary actions

The proposed initiative must be seen in close context with the ongoing PRBS III programme in terms of macroeconomic, public finance management and social sector objectives. This initiative will also ensure continuity with the additional budget support allocations Malawi received under (i) the 2008 EUR 200.000.000 EDF 10 B envelope food and oil prices crisis initiative as a top-up to PRBS 2 (EUR 8.890.000), through rider 2 to 9th EDF PRBS II, (ii) the Food Facility funded from the General Budget (EUR 15.900.000), through DCI-FOOD/2009/21735 Financing Agreement and (iii) V FLEX 2009 tranche (EUR 25.000.000), through Rider 1 to PRBS III. Malawi will also benefit from technical assistance provided under both PRBS II and PRBS III to enhance PFM in general. The initiative is complementary to other budget support foreseen by other development partners, such as the figures announced in March 2010 CABS review Aide Memoire.

2.5. Donor coordination

The Commission, in close cooperation with international organisations and notably the IMF and the World Bank, has assessed the impact of the global financial and economic crisis on the ACP States, concluding that the crisis may adversely affect macro-economic stability and progress towards achieving the millennium development goals in many of the countries.

A coordinated approach of the Commission with the IMF, World Bank, Member States and the AfDB where relevant is essential throughout the Vulnerability FLEX process to ensure that the response results in the maximum benefit to affected countries.

3. DESCRIPTION

3.1. Objectives

The overall objective of the present rider is to further support the implementation of macro economic and fiscal policy driven by the Government of Malawi to mitigate the impact of the crisis on the country. The European Commission short term support provided through the Vulnerability FLEX will be critical in order to close or reduce significantly the residual fiscal financing gap with a view to maintaining priority expenditures in FY 2010/11, especially as they relate to social spending. Where fiscal financing gaps are expected to be closed in 2010 by reducing planned priority expenditures, Vulnerability FLEX funds may compensate for this reduction. As mentioned in the country context, Malawi will experience a fiscal gap currently estimated at close to US\$ 52 million (EUR 38.000.000) due to the expected decline in grants.

3.2. Expected results and main activities

The expected result is to reduce the negative impact of the crisis on a country facing economic and social vulnerability risks and contribute to its macroeconomic stability. Concretely, and against a background of potentially growing fiscal financing gaps, the Commission intervention will close or notably reduce these budgetary gaps in order to protect core social expenditures.

3.3. Stakeholders

See AF 10th EDF GBS + BS donors and IFIS

3.4. Risks and assumptions

The successful implementation of GBS in Malawi will depend amongst others upon maintaining macroeconomic stability. Although prospects are solid as evidenced in the previous sections, the issue of the exchange rate regime adopted by the Government of Malawi needs to be taken into consideration. In particular, as stated by the International Monetary Fund, the Government of Malawi should be ready to adopt more exchange rate flexibility. The implementation of the new IMF programme will be closely followed to ensure Governments' commitment to meeting the agreed macroeconomic targets. In particular, the successful completion of the first ECF review by the IMF is key to ensuring that progress in resolving the exchange rate policy issue is confirmed. This issue will be closely monitored, in liaison with IMF including through the first staff review mission scheduled for the second half of May 2010.

3.5. Crosscutting issues

See AF 10th EDF GBS.

4. IMPLEMENTATION ISSUES

4.1. Budget and calendar

In addition to the EUR 90.000.000 originally provided under the Poverty Reduction Budget Support III, plus the EUR 25.000.000 top-up of the VFlex 2009 tranche, the present amendment will increase the budget support component by EUR 19.000.000 to EUR 131.000.000. The revised disbursement profile of Poverty Reduction Budget Support III is presented in the table below.

Poverty Reduction Budget Support III financial design (amounts in €million)

	2008	2009	2010	2011	Total	Share
Fixed Tranche – PRBS III	26.000.000	15.500.000	15.500.000		57.000.000	43%
Fixed Tranche-VFlex 2009 & 2010		25.000.000	19.000.000		44.000.000	34.5%
Variable Tranche - PRBS III (max.)		15.000.000	15.000.000		30.000.000	22.5%
Total budget support	26.000.000	55.500.000	49.500.000		131.000.000	100.0%
Share (%)	19,84	42,37	37,79		100%	
Institutional Support (I.S.)		1.000.000	1.500.000		2.500.000	
Evaluation of I.S.			40.000	40.000	80.000	
Audit of I.S.			50.000	100.000	150.000	
Contingencies				270.000	270.000	
TOTAL PROGRAMME	26.000.000	56.500.000	51.090.000	410.000	134.000.000	

4.2. Budget support modalities

The Action consists of a direct and untargeted budget support, according to the modalities agreed upon on the Vulnerability FLEX decision.

4.3. Procurement and grants award procedures

The provisions of the Poverty Reduction Budget Support III in this regard remain unchanged.

4.4. Performance monitoring and criteria for disbursement

The disbursement of this additional 2010 fixed tranche will be guided by the provisions of the Poverty Reduction Budget Support III Financing Agreement.

The provisions of the Poverty Reduction Budget Support III in this regard remain unchanged.

4.5. Communication and visibility

The Action should receive specific press coverage as it is additional to the tranches already provided under Poverty Reduction Budget Support III and is justified by particular circumstances.

ANNEX IV

1. IDENTIFICATION

Country/Title/Number	Sierra Leone/V-FLEX 2010: Sierra Leone Multi-Donor Budget Support for Macro-economic Stabilisation Rider to the Financing Agreement (Increase in financial ceiling, extension of the period of execution and reallocation of the budget) CRIS: FED/2008/020-947		
Total cost	EU Contribution: EUR 10.000.000 Revised value of Sierra Leone Multi-Donor Budget Support for Macro-economic Stabilisation: EUR 68.400.000		
Aid method / Management mode	General budget support – centralised management		
DAC-code	51010	Sector	General Budget Support

2. RATIONALE AND COUNTRY CONTEXT

The purpose of the present amendment is:

- (3) to provide for an additional 2010 fixed tranche of EUR 10.000.000 and increase the amount of the budget support component of the programme accordingly.

In reaction to the international economic and financial crisis, the Communication *supporting developing countries in coping with the crisis* (COM 2009-160 final) foresees inter alia the creation of the Vulnerability FLEX mechanism. The Commission Decision concerning an increase in allocation of resources for unforeseen needs from the 10th EDF to support the most vulnerable and least resilient ACP countries in coping with the impact of the global financial crisis by setting up an ad hoc Vulnerability FLEX mechanism its rationale, eligibility criteria and modalities. The Vulnerability FLEX mechanism has set aside an amount of EUR 500.000.000 from the reserve of the national and regional indicative programmes under the 10th EDF for the purpose at hand.

In this context, the National Authorising Officer of Sierra Leone has requested on 12th March 2010 an exceptional additional support to mitigate the impact of the crisis. Sierra Leone is considered eligible under Vulnerability FLEX on the basis of a limited set of economic and social vulnerability criteria, the nature of the residual financing gap and the capacity of the EU to quickly provide meaningful support. This proposal aims at providing in 2010 an additional tranche of EUR 10.000.000 within the current general budget support programme (10th EDF), to be financed from the B-envelope of the 10th EDF.

2.1. Country Context and National Policy and Strategy

2.1.1. Economic and social situation and poverty analysis

- *Vulnerability assessment*: In spite of its fragile situation, the economy of Sierra Leone has shown some resilience in the face of the adverse international economic context. Information gathered during the IMF staff mission in the country (11th March – 23rd March 2010) suggests that the country's economic and fiscal performance in 2009 has been better than anticipated in early 2009 and that the situation will continue to improve as the global economy recovers. However, the Government's budget remains exposed to a number of risks linked to the ongoing global economic slowdown which is likely to reduce possibilities to increase expenditures to address the many social and economic needs of the country.

- *Description of the impact of the crisis:* The revised macroeconomic framework presented by the Minister of Finance to Parliament in November 2009 anticipates a real GDP growth of 4.7 percent for 2010. Even though this indicates a recovery, growth is lower than the pre-crisis projected growth rate of 5.8% of GDP. A similar trend can be observed for exports which, in spite of an expected increase, will grow less than anticipated before the crisis (2008 medium-term projections). Because imports are also expected to reduce, the external current deficit is projected to narrow slightly to 8, 7% of GDP in 2010.

Annual average inflation was initially forecast to decline to 8.8 percent in 2010 and remain in single digit in subsequent years. However, the steep depreciation of the exchange rate, the ongoing increase in the pump prices of petroleum products, and the introduction of the Goods and Services Tax (GST) pose a significant challenge to the attainment of this target⁶. Recent information indicates that inflation rate rose to 17, 3% in March 2010 (year-on-year comparison).

The domestic revenue performance of the Government is expected to improve in 2010 compared to 2009. However, although the actual 2009 revenue performance was better than anticipated in early 2009, the 2010 revenue performance is expected to be weaker than anticipated before the crisis (2008 medium-term projections). This will frustrate the implementation of the Agenda for Change (PRSP II) which provides for an increase in capital expenditures to ensure the rapid development of key infrastructures in the country to attract investment and boost economic growth. The pre-crisis projections (2008 medium-term projections) forecast that domestic revenues will reach 13, 2% GDP in 2010. While, the fiscal performance in 2009 was better than anticipated and has prevented a too sharp decline in government revenues, the revised 2010 budget indicates that domestic revenue collected will amount to 12.3% of GDP in 2010, a drop of 0.9% of GDP compared with the pre-crisis projections.

To allow the government to attain its development objectives in line with the PRSP II (transport, agriculture, energy), expenditures for 2010 have been increased. Poverty-related expenditures for 2010 are maintained at a similar level as 2009 (Le 417 billion or 5.5% of GDP in 2010 compared to Le 361 billion or 5,5% of GDP in 2009). The main contributor to the nominal increase in poverty-related expenditures is the Free Health Care Initiative announced by H.E. President Koroma in November 2009 and launched officially on 27th April 2010. The Free Health Care initiative, which aims to ensure that pregnant and lactating mothers and children under the age of 5 can access medical care free of charge, offers a higher remuneration to medical staff across the country in an attempt to curb the widespread practice of unofficial fees charged by doctors and nurses. The increase in remuneration for health workers will translate in an additional cost of Le 28, 1 billion (EUR 5.600.000) for the Government. DFID has pledged to cover most of the extra salary costs linked to the Free Health Care Initiative in 2010. The overall budget deficit, excluding grants, is projected to widen to 10.9% of GDP in 2010, compared with a budget deficit of 9,8% of GDP in 2008 (deterioration by 1.1% of GDP between 2008 and 2010) driven by much needed capital expenditures. Government remains committed to the maintenance of macroeconomic stability and to the implementation of structural reforms to support economic growth and enhance the delivery of basic services. The Government request for additional budget support under the V-FLEX 2010 mechanism aims to facilitate the implementation of its Agenda for Change in an economic context that frustrates its initial ambitions.

- *V-FLEX eligibility:* Sierra Leone is considered eligible under the V-FLEX 2010 in the light of:

Criterion n°1: **its economic vulnerability**, demonstrated by falling domestic revenues. Domestic revenues are expected to drop by 0,9% of GDP from 13,2% of GDP initially forecasted to 12,3% of

⁶ The IMF 6th PRGF mission team found that between February 2009 and February 2010 inflation had risen by 17% due to the improper implementation of the GST by a large number of businesses and the increased fuel pump prices as of January 2010. The IMF considers that prices will deflate in the coming months as businesses will understand the functioning of the GST and refrain from increasing prices.

GDP in the revised budget (agreed with the IMF in April 2010) and a widening public deficit (excluding grants) by -1,1 % of GDP (from -9,8% in 2008 to 10,9% of GDP in 2010). In the case of the first sub-criteria (i.e. shortfall in domestic revenues), **Art 2.1.d of the EU decision relating to situations of fragility is invoked and the vulnerability thresholds under the first criteria should be adapted.** Sierra Leone remains in a situation of fragility in spite of continuous progress made towards strengthening institutions and processes. The revised fiscal framework agreed with the IMF in April 2010 demonstrates the Government's determination to preserve a stable macro-economic framework by moderating expenditures and therefore limiting its budget deficit. In this light, a V-FLEX 2010 allocation would underpin this stabilisation and allow the GoSL to maintain much needed social and infrastructure spending.

Criterion n°2 & 3: Following discussions with the Government during the fifth PRGF review in September 2009, the IMF identified a residual financing gap of 22 million USD for 2010. A number of new expenditures and risks of revenue shortfalls have surfaced during the course of the sixth PRGF review (which took place from the 11th to 23rd March 2010), including the costs of the new Free Health Care Initiative and difficulties faced in the implementation of the new Goods and Services Tax (VAT). At the same time, new sources of revenues have also appeared (especially coming from the mining sector) as well as additional donor financial assistance to support the implementation of the Free Health Care initiative (DFID). Following discussions between the Government and the IMF in April 2010, **the financing gap is now assessed at +/- 24 million USD.** The EU V-FLEX disbursement of EUR 10.000.000 (+/- 13,2 million USD) would cover 55% of the anticipated financing gap and would significantly ease fiscal pressure on the Government.

Criterion n°4: **the capacity of the Government of Sierra Leone to absorb budget support** is not problematic since the Government has been benefitting from budget support under the 8th, 9th and 10th EDF. The Government continues to demonstrate a strong commitment to maintain macro-economic stability while at the same time attempting to boost its economic growth through major capital investments.

- Poverty: The UN Human Development Index 2009 ranked Sierra Leone as the third least developed country in the world (180 out of 182), with about 70% of the population below the national poverty line (average during the period 2000-2007). In this context, it is essential to protect core social services while developing basic infrastructures for energy supply, roads and agricultural production. Poverty-related expenditures (health, education, and transfers to local councils) have been negatively affected by revenue shortfalls in previous years already (except in 2009 thanks notably to the EU V-FLEX disbursement).

As indicated in the Government request, in 2009 the Government of Sierra Leone benefitted from larger than expected budget support disbursement in the course of last year due to the disbursement of the V-FLEX 2009 (EUR 12.000.000) and the delayed disbursement of the B-envelope food crisis budget support (EUR 6.420.000). These additional EU funds helped to compensate revenue losses directly linked to the crisis (estimated at +/-20 million USD) and to slightly increase the level of development expenditures by Le 21 billion (+/- EUR 4.000.000, spent on infrastructure and energy projects). The V-FLEX 2009 also allowed the GoSL to limit resorting to domestic financing. Indeed, while the domestic financing ceiling agreed with the IMF for 2009 was 2,5% of GDP, it was limited at 1,3% of GDP at the end of the year.

While the initial budget assumed Le 188 billion (2,8% of GDP) in budget support disbursements, the actual outturn was Le 289 billion (4,5% GDP), excluding a 10 million USD budget support *loan* by the World Bank. In total, budget support represented 23,2% of total revenues in 2009. This large inflow of budget support to which the V-FLEX 2009 contributed significantly allowed to sustain the level of poverty-related expenditures detailed in the initial 2009 Government's budget and to limit the use of domestic borrowing. It also allowed the Government accelerate implementation of infrastructure projects through the provision of co-financing.

In spite of larger than expected budget support inflows, the domestic primary budget deficit widened to 4% of GDP, slightly above the ceiling agreed with the IMF in September 2009. This is largely due to an increase in the number priority sectors (energy, roads, agriculture) and to a number of unanticipated expenditures (emergency water project for Freetown, payment of salary arrears and gratuities to former Government ministers and ambassadors, troops sent to Darfur on a peace-keeping mission, etc.).

2.1.2. National Development/ Cooperation Policy and Strategy

National policy and strategy: The first GoSL Poverty Reduction Strategy Paper (2005-2007) was extended until the adoption of the Agenda for Change (PRSP II) covering 2009-2013. The PRSP II marks a shift towards a strategy aimed at enabling economic growth as a way to reduce poverty.

National Budget and medium term financial perspectives: National budget remains highly dependent on external aid. The objective of the GoSL to restore budget credibility and macroeconomic stability has been put under strong pressure by the global crisis because of the strong shortfall of domestic revenue (at least 0.9% of GDP). Fiscal and PFM measures have been strengthened to avoid further decline of revenue.

Performance Measurement: GoSL and Development Partners hold regular (quarterly) budget execution monitoring meetings. The macroeconomic situation is also followed by the IMF in the context of a PRGF/ECF programme. MDDBS partners also use a Performance Assessment Framework; the latest review took place in June 2009.

2.2. Eligibility for budget support and Vulnerability FLEX

In the framework of the Country Strategy Paper of the 10th EDF Sierra Leone is currently benefiting from EU budget support. The financing agreement of this programme was signed on 22 April 2009.

On the basis of the analysis in Section 2.1.1, Sierra Leone is deemed to be eligible for Vulnerability FLEX.

2.2.1. National Development or Cooperation Policy and Strategy

The Agenda for Change (PRSP II) is in place and under implementation in Sierra Leone.

2.2.2. Macroeconomic situation

Despite the negative economic developments described under section 2.1., the Government of Sierra Leone is responding to the crisis by establishing an appropriate fiscal policy supported by donors (i.e. increased access to the IMF facilities, frontloaded budget support of DFID and ongoing budget support by the AfDB and the WB), by revising expenditure planning, and by using domestic and external financing when possible. The efforts of the country to maintain a stable macroeconomic situation have been confirmed by the latest IMF mission in March 2010. The PRGF/ECF 6th and last review was approved by the IMF board June 4th together with a new 3 years arrangement under ECF.

2.2.3. Public Financial Management

The Government of Sierra Leone's has made significant headway in relation to PFM reforms in the last years. Last November, a comprehensive Integrated Public Financial Management Reform Programme was launched and implementation has now started. Ultra basic elements are well established. Major achievements in the area of PFM reforms in recent years include:

- Establishment of a solid legal framework for PFM since 2004 (Local Government Act (2004), Public Procurement Act (2004), Government Budgeting and Accountability Act (2005), Financial Management Regulations (2007)).

- The establishment of basic budgeting, procurement and accounting procedures in the local councils.

- The removal of the backlog of annual financial statements (the 2008 public accounts were produced within four months of the year end as per the law).
- The immediate publication of the auditors' general report on public accounts as soon as they are transmitted to Parliament for parliamentary scrutiny.
- For the first time since the end of the war, the Auditor General's Office issued a qualified opinion on the 2008 accounts and it appears that qualifications to the 2009 accounts (which are due by 31 March 2010) could be reduced to three.

Ongoing reforms concern:

- The revision of the legal framework in the areas of: public procurement, the clarification of local authorities and central government's respective roles and responsibilities, revision of the mandate of the Sierra Leone Audit Service and the introduction of a national debt law (covering central and local government, public enterprises and national pension fund borrowing and contingent liabilities).
- The Government Budgeting and Accountability Act will also be reviewed to address a few inconsistencies in the law, but also to allow improvement in the various PFM processes.
- The establishment of a procurement cadre of persons fully trained in national procurement law and good practices and subscribing to a professional code of conduct with a view to allow retention of skilled procurement personnel.
- Capacity-building programme being finalised for Government's accountants and auditors. The general training programme will be undertaken through the Accounting Technician Scheme West Africa (ATSWA) and will be implemented nationally by the Institute of Chartered Accountants of Sierra Leone.

2.3. Sector Policies (where appropriate)

Budget support and PFM support programmes are notably linked to other sector policies such as the civil service reform, the Free Health Care initiative was launched on the 27th of April 2010, the fight against corruption or initiatives in the energy sector. Social sector policies need to be further developed.

2.4. Lessons learnt

In the context of the food and oil price crisis and the current financial and economic crisis, it has been demonstrated that core spending needs to be sustained, if current development gains are to be preserved and long term development goals achieved (*see WB paper Reference, IMF 2009 March report etc*).

2.5. Complementary actions

The Government of Sierra Leone has decided to respond to the economic slowdown by restructuring its expenditure framework for 2010 and by increasing expenditures (thus increasing the fiscal deficit compared to 2009). The budget presented to Parliament in November 2009 marks a significant shift in the composition of expenditures. The road, energy, and agriculture sectors now capture a larger share of the available public resources in an effort to boost economic growth, address the infrastructure needs of the country and create a more attractive business environment. The social sectors however receive a reduced share of the budget (except for the health sector which is exceptionally boosted by the Free Health Care Initiative).

Therefore, the increase in planned expenditure is being driven by an expansion of capital expenditure, increasing to 39% as a share of the budget in 2010, up from 33% in 2009. Recurrent expenditure has

decreased by an equivalent 6 percentage points to 61%. The drop in recurrent spending is achieved by a decrease in non-wage, non-interest expenditure from 7.6% in 2009 to 6.7% in 2010⁷.

The Government continues to receive budget support from the UK DFID (£15 million already disbursed in February 2010 + £3 million foreseen in support to the Free Health Care Initiative), the World Bank (\$7 million) and the AfDB (\$8 million). Disbursements under EU programmed budget support in 2010 amounts to 11.300.000.

2.6. Donor coordination

The Commission, in close cooperation with international organisations and notably the IMF and the World Bank, has assessed the impact of the global financial and economic crisis on the ACP States, concluding that the crisis may adversely affect macro-economic stability and progress towards achieving the millennium development goals in many of the countries.

A coordinated approach of the Commission with the IMF, World Bank, Member States and the AfDB where relevant is essential throughout the Vulnerability FLEX process to ensure that the response results in the maximum benefit to affected countries.

3. DESCRIPTION

3.1. Objectives

The overall objective of the present rider is to further support the implementation of macro economic and fiscal policy driven by the Government of Sierra Leone to mitigate the impact of the crisis on the country. The European Commission short term support provided through the Vulnerability FLEX will be critical in order to close or reduce significantly the residual fiscal financing gap with a view to maintaining priority expenditures in 2010, especially as they relate to social spending. In the case of Sierra Leone, a preliminary assessment suggests that the IMF will allow the GoSL to resort to increased domestic financing (up to 1.7% of GDP compared to 0.7% in 2009 where V-FLEX 2009 help reduced domestic debt) to support the increased level of expenditures.

3.2. Expected results and main activities

The expected result is to reduce the negative impact of the crisis on a country facing economic and social vulnerability risks and contribute to its macroeconomic stability. Concretely, and against a background of potentially growing fiscal financing gaps, the Commission intervention will close or notably reduce these budgetary gaps in order to protect core social expenditures.

3.3. Stakeholders

The main stakeholders of GBS/PFM will be the GoSL and primarily the MoFED and other DPs and the IMF. Ultimately, the population of Sierra Leone will benefit from this BS operation.

3.4. Risks and assumptions

The major risk for this budget support operation relates to the outcome of the next IMF ECF review under the new programme that will take place in September 2010. The conjunction of the fiscal impact of the crisis, the planned increase in expenditures and the new tax policy, with the introduction of the Goods and Services Tax (VAT), adopted by the Government could translate into slippages in the country's macro-economic performance.

In this context, following closely budget execution and revenue collection performance has become even more critical and will be particularly followed within the framework of MDDBS dialogue and close coordination with the IMF.

⁷ This is mainly a result of the removal of spending on fuel for emergency power generation this year.

The major assumption is that progress in reforming the National Revenue Authority and in implementing the GST will allow increased revenue collection in the coming months.

3.5. Crosscutting issues

The EU budget support is expected to contribute to positive results at political, economic and social levels. In particular, the IPFMRP should foster transparency and accountability in the use of public funds and thus improve good governance practices, including fiscal governance.

4. IMPLEMENTATION ISSUES

4.1. Budget and calendar

The present amendment will increase the budget support component by EUR 10.000.000 to EUR 59.000.000. The revised disbursement profile of Multi Donor Budget Support for Macro-economic stabilisation programme is presented in the table below.

In addition, the present addendum introduces a budget reallocation and extends the implementation period by 20 months to increase support to the Integrated Public Financial Management Reform Programme (IPFMRP) multi-donor trust fund and allow continued support to IPFMRP activities, which are programmed to end in January 2014.

Multi Donor Budget Support for Macro-economic stabilisation financial design (in EUR)

	2009	2010	2011	2012	Total
Fixed tranche	10.000.000	9.000.000	9.000.000		28.000.000
Fixed tranche – B envelope	12.000.000	10.000.000	0		22.000.000
Vulnerability Flex Variable tranche (max.)	2.000.000	3.000.000	4.000.000		9.000.000
Total budget support	24.000.000	22.000.000	13.000.000		59.000.000
Share					100.0%
IPFMRP / TF to the WB	3.000.000	2.000.000	2.000.000	1.000.000	8.000.000
Institutional Support (I.S.)		900.000			900.000
Evaluation of I.S.			250.000		250.000
Audit of I.S.			1.50.000		150.000
Communication and visibility	10.000.000				100.000
TOTAL PROGRAMME					68.4 00.000

4.2. Budget support modalities

The Action consists of a direct and untargeted budget support, according to the modalities agreed upon on the Vulnerability FLEX decision.

4.3. Procurement and grants award procedures

The provisions of the Multi Donor Budget Support for Macro-economic stabilisation programme in this regard remain unchanged.

4.4. Performance monitoring and criteria for disbursement

The disbursement of this additional 2010 fixed tranche will be guided by the provisions of the Multi Donor Budget Support for macro-economic stabilisation Financing Agreement.

4.5. Evaluation and audit

The provisions of the Multi Donor Budget Support for Macro-economic stabilisation programme in this regard remain unchanged.

4.6. Communication and visibility

The Action should receive specific press coverage as it is additional to the tranches already provided under Multi Donor Budget Support for Macro-economic stabilisation programme and is justified by particular circumstances.

ANNEXE V

1. IDENTIFICATION

Pays/Intitulé/numéro	TOGO/Appui Budgétaire à la Réduction de la Pauvreté (ABRP) Avenant au Programme CRIS : FED/2009/021-630		
Coût total	Contribution UE : 12.000.000 EUR Révision du montant du programme d'ABG: 27.000.000 EUR		
Méthode d'assistance / Mode de gestion	Appui budgétaire général – Gestion centralisée		
Code CAD	51010	Secteur	Appui budgétaire

2. MOTIF ET CONTEXTE NATIONAL

L'objet du présent avenant est:

de fournir en 2010 une tranche fixe additionnelle de 12.000.000 et d'accroître d'autant la composante d'appui budgétaire dudit programme.

Afin de répondre à la crise économique et financière internationale, la Communication "*Supporting development countries in coping with the crisis (COM 2009-160 final)*" prévoit notamment la création d'un nouveau mécanisme, le FLEX Vulnérabilité. La raison d'être, les critères d'éligibilité et les modalités de ce mécanisme sont précisés dans la Décision de la Commission "*concerning an increase in allocation of resources for unforeseen needs from the 10th EDF to support the most vulnerable and less resilient ACP countries in coping with the impacts of the global financial crisis by setting up an ad hoc Vulnerability FLEX mechanism*" [Décision C(2009)6135]. A cet effet, l'instrument du FLEX Vulnérabilité est doté d'un montant de 500 million d'euros issus de la réserve des programmes indicatifs nationaux et régionaux du 10^{ème} FED.

C'est dans ce contexte que l'Ordonnateur National du Togo a formulé une requête datant du 15 mars 2010 sollicitant l'octroi d'un appui exceptionnel pour atténuer l'impact de la crise. Le Togo est considéré éligible au Flex Vulnérabilité sur base d'un nombre limité de critères portant sur la vulnérabilité économique et sociale, la nature du besoin de financement résiduel et sur la capacité de l'Union européenne à fournir rapidement un appui décisif (cf. Décision d'allocation pour le VF 2009). Cette proposition a donc pour objectif d'octroyer en 2010 une tranche additionnelle de 12.000.000 au programme d'appui budgétaire général en cours (10^{ème} FED), qui sera financée par l'enveloppe B du 10^{ème} FED.

D'autre part, les disponibilités financières du PIN 10^{ème} FED concernant l'Appui Budgétaire en appui au DSRP du Togo permettent la couverture des besoins en ABG pour la période 2011 – 2014.

2.1. Contexte national et politique et stratégie nationales

2.1.1. Situation économique et sociale et analyse de la pauvreté

La crise financière et économique globale n'a pas épargné le Togo. Son analyse se traduit par une diminution de la croissance de 1.5 points en 2009 et 2010 par rapport aux prévisions initiales de la

FRPC. Le revenu par tête continuera donc à stagner sinon diminuer, comme cela a été le cas depuis 15 ans.

Les projections de la revue de novembre 2009 de la FRPC indiquent une augmentation du déficit budgétaire sur base ordonnancement hors dons en 2010 à 6.6% du PIB comparé à 2,5% du PIB en 2008 et 4,6% du PIB en 2009 afin de mener une politique contra-cyclique. Pour 2010, l'écart de financement résiduel s'élève à 17,59 milliards FCFA (26.830.000 EUR) après prise en compte des contributions du FMI (12,4 milliards), de la CE (4,9 milliards maximum au titre de l'ABRP et 5,4 milliards au titre de la Food Facility), de la Banque Mondiale (5 milliards), de la BAD (3,75 milliards) et de la France (2,6 milliards qui reste à confirmer).

Le montant de la "Crisis Response Window" (CRW) de la Banque Mondiale (BM) devrait se situer (selon nos informations) autour de 3.130.000 EUR (4.6 MUSD) ramenant l'écart résiduel, à 23.700.000 EUR. A ce stade, hormis une potentielle allocation au titre du V-FLEX, aucun autre financement n'est identifié. Compte tenu de l'impossibilité de réduire la dépense (approche confirmée par le FMI), notre appui devient d'autant plus décisif pour maintenir l'investissement et les dépenses courantes aux niveaux prévus pour 2010.

Cette politique budgétaire d'augmentation du déficit budgétaire prévue pour l'exercice 2010 est en ligne avec la 3^{ème} revue FRPC/ECF de novembre 2009 et la 4^{ème} revue qui sera soumise au FMI le 25 juin 2010. Ce glissement du déficit s'explique par une baisse des recettes et une hausse des dépenses entre 2009 et 2010 pour mener une politique budgétaire contra-cyclique de soutien à la croissance via l'investissement public. En matière de recettes, la baisse provient d'une part d'une diminution des recettes totales par rapport aux prévisions initiales pour 2010 (20.3% contre 21.9% du PIB) à travers une révision à la baisse des dons (4.3% du PIB atténués mais revu à 2.7%). Elle provient, d'autre part, de la forte baisse de recettes propres du Gouvernement par rapport à 2009 avec une chute de -1.4% du PIB (-6Mds FCFA) traduisant notamment la révision à la baisse de certaines mesures fiscales pour soulager les acteurs économiques. En matière de dépenses, la politique contra-cyclique du gouvernement de hausser la dépense publique par rapport à 2008 se poursuit : les dépenses domestiques primaires atteindraient 18.9% du PIB (268 mds FCFA) contre 16.6% en 2008 qui est plutôt expliqué par la hausse des dépenses d'investissement financés avec des ressources propres. Les autorités soulignent à juste titre l'importance du doublement (en part du PIB) des dépenses d'investissement dans les secteurs prioritaires (infrastructure, agriculture, santé et éducation) pour aligner le budget sur les priorités du DSRP. Ces investissements sont importants en termes de création d'activités et réduction de la pauvreté (lien avec le DSRP).

Pour 2010, le gouvernement prévoit un programme d'investissement de 100,6 milliards de FCFA financé à moitié sur ressources internes (51Mds) et externes (dont 49.6Mds venant d'un prêt de la BM pour la réforme du secteur financier). Le budget vise un objectif volontariste de 203 milliards de FCFA si les ressources extérieures supplémentaires sont disponibles (prêts/dons projets).

L'écart de 100 mds FCFA observé entre le TOFE et le budget de l'état togolais ne sera engagé que sous réserve de la mobilisation de financement externe pour des projets d'investissement.

Le Togo répond donc bien à la situation décrite dans les lignes directrices du V-Flex 2010 pays où la crise globale, freinant la croissance, rend d'autant plus important la hausse des dépenses prioritaires pour éviter une chute du PIB par habitant et qui commence à rattraper le retard accumulé pendant les années de crise.

L'analyse des critères d'éligibilité du Togo au Flex Vulnérabilité nous montre qu'il satisfait aux quatre critères. Dans le contexte actuel du Togo, qui n'a pas encore atteint le point d'achèvement de l'initiative PPTE, le V-Flex permettrait de soutenir ses dépenses prioritaires. Nous soulignons que l'hypothèse d'atteinte du point d'achèvement à la fin 2010 est déjà prise en compte dans le cadrage macro-économique.

D'autre part, le pays enregistre des avancées dans l'opérationnalisation du DSRP avec la préparation, déjà avancée, d'un Plan d'Action pour la Réforme de la Gestion des Finances Publiques, une Politique de l'aide extérieure ainsi que d'outils de suivi (indicateurs) de la mise en œuvre du DSRP/PAP. A l'évidence, suite à la tenue des élections présidentielles de mars 2010, l'action du Gouvernement se concentre maintenant sur les grands chantiers de réforme et de développement. La revue favorable du programme FMI d'avril 2010 confirme qu'il n'y a pas

d'obstacle à l'augmentation de l'actuel ABRP et que l'opportunité de poursuivre ce programme au-delà de 2011 est réelle; la période 2012 -2014 serait plus fortement axée sur les résultats sociaux en matière de réduction de la pauvreté.

1) Vulnérabilité Economique, Sociale et Politique

Le ralentissement de l'économie mondiale et sous-régionale pèse sur l'économie togolaise.

L'atonie de la croissance du PIB par habitant ne fait que souligner davantage la vulnérabilité des populations togolaises. Les efforts de stabilisation politique soutenus par la Communauté internationale commencent à porter leurs fruits même s'il est encore trop tôt pour estimer que le pays est stabilisé. Le résultat des élections qui se sont déroulées dans le calme, permet d'envisager à moyen terme un renforcement du processus de démocratisation.

Au-delà de ces éléments généraux de vulnérabilité, l'analyse des critères du V-FLEX 2010 est la suivante :

Déficit budgétaire : Le Togo remplit le critère d'augmentation du déficit budgétaire hors dons entre 2008 et 2010 puisqu'il passera de -2.5% du PIB à -6.7%.

Recettes propres : Le Togo ne remplit pas le critère de réduction des recettes propres entre 2010 et 2008 dans la mesure où elles augmentent de +0.6% du PIB. En revanche, comme le soulignent les autorités dans leur requête, selon les prévisions actuelles les recettes devraient diminuer entre 2009 et 2010 pour passer de 19% du PIB à 17.6%. Cette diminution s'explique surtout par le haut niveau atteint en 2009 suite à la vente des licences de téléphonie mobiles (recettes non fiscales) qui ne se reproduira que partiellement en 2010. En dehors de cet élément conjoncturel, l'amélioration structurelle de la collecte fiscale grâce aux réformes entreprises aux Douanes et au niveau de l'administration centrale parvient à compenser les pertes de recettes liées à la diminution de certains taux afin de soulager les acteurs économiques (IRPP et IS⁸), ce qui est d'ailleurs confirmé par la hausse de 0.6% de la recette totale entre 2008 et 2010.

Il est fort probable que les recettes propres auraient été très supérieures avec une croissance plus forte (4% de potentiel contre 2.5% actuellement) ce qui aurait permis de ne pas réduire la pression fiscale. Le Togo reste donc en situation vulnérable, comme reconnu comme tel par le FMI et la BM.

Réserves : Le Togo étant membre de la Zone Franc Ouest (UEMOA), ce critère ne peut pas être rempli.

2) Existence d'un besoin de financement résiduel en 2010

La requête et les éléments mentionnés ci-dessus attestent bien de l'existence d'un besoin de financement lié à la mise en place d'une politique visant à répondre à la crise en soutenant la dépense pour soutenir la croissance. Cette politique contra-cyclique est soutenue par le FMI. La Délégation, en concertation avec le FMI, propose de retenir comme montant de référence 23.700.000 EUR prenant en compte la contribution additionnelle de la Banque Mondiale au titre de sa fenêtre "crise"⁹.

3) Rôle décisif du V-FLEX 2010

Une contribution d'au moins 50% est essentielle pour réduire autant que faire ce peut le besoin de financement car aucune autre alternative n'existe pour le moment. Cela fera partie des points de discussions lors de la prochaine mission du FMI (en avril 2010) afin d'éviter de devoir procéder à des ajustements qui seraient très dommageables. Un montant de 12.000.000 EUR permettrait de remplir le critère des 50%.

La Délégation suggère de ne pas d'octroyer la totalité des 17.500.000 EUR requis par les autorités compte tenu des appuis budgétaires importants déjà prévus. La discussion se poursuit avec le FMI pour boucler le financement 2010.

4) Capacité d'absorption

La Délégation conforte le choix des autorités de choisir l'aide budgétaire pour répondre à leurs besoins budgétaires. L'éligibilité du Togo a été confirmée en fin d'année avec le décaissement de

⁸ Impôts sur les Revenus des Personnes Physiques et Impôt sur les Sociétés

⁹ Crisis Response Window

la 1^{ère} tranche du programme. La bonne marche du programme FMI et de l'initiative PPTE sont autant de facteurs positifs.

La Délégation a consulté les autres donateurs d'appui budgétaire (FMI, Banque Mondiale, Banque Africaine et France). Ils partagent l'approche proposée en particulier l'importance de maintenir les dépenses des secteurs prioritaires au niveau présenté dans la loi des finances. Ils ont indiqué que leur contribution à la réduction de l'écart de financement ne pouvait pas être augmentée au delà des montants indiqués ci-dessus.

2.1.2. Développement national/politique et stratégie de coopération

(1) Politique et stratégies nationales

La stratégie nationale de développement s'inscrit dans le DSRP complet que le Gouvernement a adopté en juin 2009 après un large processus consultatif pour remplacer le DiSRP de 2008. Les quatre grandes priorités pour la période 2009-2011 sont: (i) le renforcement de la gouvernance ; (ii) la consolidation des bases d'une croissance forte ; (iii) le développement du capital humain et (iv) la réduction des déséquilibres régionaux et le développement à la base. En ce qui concerne la promotion de la bonne gouvernance un accent particulier est mis sur l'assainissement des finances publiques à travers l'amélioration des recettes fiscales, le contrôle de l'exécution budgétaire, la lutte contre la corruption et l'amélioration du système de passation des marchés.

(2) Budget national et perspectives financières à moyen terme

Le budget 2010 prévoit une augmentation du déficit budgétaire afin de soutenir la croissance à travers des investissements publics dans les secteurs porteurs de croissance (agriculture, travaux publics, infrastructures de transport, énergie, commerce) et les secteurs sociaux (éducation, santé, eau et assainissement), en cohérence avec les actions prioritaires du PAP et les orientations du DRRP complet.

Le FMI appuie une politique budgétaire expansionniste visant à résister à la crise et à permettre la réalisation des investissements clés du PAP, quoique moins volontariste que celle du gouvernement.

L'aide budgétaire passerait ainsi de 1,6% du PIB en 2008 à 2,2% en 2009 et 4,3% en 2010.

(3) Mesure de la performance :

Le cadre d'évaluation des performances du DiSRP comprend une matrice de 31 indicateurs dont 11 sont directement liés à des indicateurs OMD avec des valeurs de référence de 2006 et des cibles 2010 et 2015 et une matrice de plus de 150 mesures. Le cadre d'évaluation du DSRP complet, y compris les aspects institutionnels, commence à se mettre en place. L'Union européenne finance un appui conséquent à la statistique (Programme d'Appui Institutionnel – PAI) centré sur le renseignement des indicateurs. Le suivi du programme FMI et PPTE est également un outil important de mesures de la performance structurelle, notamment macro-économique et de gestion des finances publiques.

2.2. Eligibilité à l'appui budgétaire

Dans le cadre du Document de Stratégie Pays du 10^{ème} FED et du Plan Annuel d'Action 2008, le Togo bénéficie actuellement d'un appui budgétaire de l'Union européenne. La Convention de Financement dudit programme a été signée le 03 novembre 2009 et un premier déboursement a été effectué en décembre 2009.

Sur base de l'analyse présentée à la section 2.1.1, en particulier concernant les critères 1 et 3, le Togo est considéré éligible au Flex Vulnérabilité.

2.2.1. Développement national et politique et stratégie de coopération

Le Document complet de Stratégie de Réduction de la Pauvreté (2009-2011) est en place depuis fin 2009 et en cours de mise en œuvre.

2.2.2. Situation macro-économique

En dépit des développements économiques défavorables décrits dans la section 2.1., le Gouvernement du Togo répond à la crise en menant une politique fiscale adaptée soutenue par les bailleurs de fonds (ex: accroissement de l'accès aux facilités du FMI, anticipation de l'appui budgétaire de la Banque Mondiale, V-FLEX 2010), en adaptant la planification des dépenses publiques ainsi qu'en ayant, dans la mesure du possible, recours au financement domestique et extérieur. Les efforts du pays pour maintenir la stabilité macro-économique ont été confirmés par la mission du FMI en avril 2010.¹⁰ La 4^{ème} revue de la FEC sera soumise au FMI le 25 juin 2010.

2.2.3. Gestion des Finances publiques

Plusieurs documents réalisés en 2006 et 2008 pointaient les faiblesses de la GFP du pays (notamment les Public Expenditure Management and Financial Accountability Review (PEMFAR) effectués par la BM en 2006 et répétés avec la participation de la BAD et de la CE en mi 2008 et le Public Expenditure and Financial Accountability (PEFA) d'octobre 2008 portant sur les exercices 2005 - 2007). L'affaiblissement des structures étatiques, notamment des administrations financières, était très dommageable.

Partant de ces faiblesses, la situation fin 2009 montre que le Gouvernement a bien tenu les engagements pris : une série de réformes et un certain nombre de textes législatifs cruciaux ont été adoptés. Cette évolution est notamment positive dans la gestion des finances publiques. Ces progrès permettent l'engagement renforcé du FMI sur un programme standard, la FRPC, en 2008 devenue Facilité Elargie de Crédit (FEC). Certaines réformes importantes (notamment dans le cadre de l'I-PPTE) lancées en début d'année ont été finalisées courant 2009 : renforcement du contrôle interne et externe (IGF et Cour des comptes créés début 2009), production régulière de situations périodiques d'exécution budgétaire, réduction du nombre des comptes du Trésor. Les fondements d'une amélioration durable du système sont bien en place. L'enjeu fondamental est de renforcer les capacités humaines et institutionnelles des administrations. Afin d'encadrer les nombreuses réformes lancées et coordonner les appuis institutionnels, l'Union européenne a appuyé la préparation d'une stratégie globale d'amélioration de la gestion des finances publiques avec une matrice de mesures et de résultats sur la base des travaux PEMFAR et PEFA. Un plan d'action 2010-2014 pour la Réforme de la Gestion des Finances Publiques est en cours de finalisation.

Ce projet de plan d'actions fait suite au PEMFAR/PEFA, pour la période 2010-2014. Le critère d'éligibilité concernant la gestion des finances publiques donc est rempli.

2.3. Politiques sectorielles (si approprié)

Le Togo ne dispose de stratégies sectorielles que dans les secteurs de la santé (Plan National de Développement Sanitaire, 2009-2013) et de l'éducation (Plan Sectoriel de l'Education, 2010-2020), qui doivent être étoffées d'avantages sur le plan de leur mise en œuvre, en particulier pour le volet santé. Le Ministère de l'Education vient de lancer leur requête à la Fast Track Initiative pour le financement de leur plan d'actions. De plus, il vient de conclure (mars 2010) un cadre partenarial d'évaluation des politiques et des performances entre le gouvernement togolais et certains bailleurs de fonds (UNFPA, UNICEF, PAM, Plan Togo, Aide & Action International, Handicap International, AFD, la France et l'Allemagne, UE). Les partenariats sectoriels sont encore informels et aucune revue sectorielle n'a encore eu lieu. Des CDMT sectoriels de la Santé et de l'Education sont alignés sur le Plan d'Action Prioritaire du DSRP.

¹⁰ <http://www.imf.org/external/french/np/sec/pr/2010/pr10153f.htm>

2.4. Enseignements tirés

La crise des prix des produits pétroliers et alimentaires et la crise financière actuelle ont démontré que les dépenses essentielles ("core spending") doivent être soutenues pendant les périodes de crise si l'on veut sauvegarder les acquis obtenus en termes de développement et atteindre les objectifs fixés à long terme (cf. Analyse de la Banque Mondiale, rapport de mars 2009 du FMI, etc).

Les seuls appuis budgétaires récents de l'Union européenne au Togo, en plus de l'ABG, sont les deux programmes d'apurement des arriérés du Togo envers la BEI sur des prêts FED (programmes assimilés à une aide budgétaire ciblée): le PARAMUT sur le 9e FED dont la tranche unique de 5.000.000 EUR a été décaissée en décembre 2008 à la suite du passage du point de décision de l'initiative PPTE et le PAMT sur le 10e FED dont la tranche unique de 17.464.000 EUR ont déjà été payé en 2009. Ces appuis ont été directement versés à la BEI.

2.5. Actions complémentaires

La Banque mondiale, la BAD, le FMI et la France interviennent également sous forme d'aide budgétaire ou d'appui à la balance des paiements au Togo. (i) la Banque Mondiale dispose d'un programme d'appui budgétaire non ciblé couvrant 2008 (12 M\$), 2009 (20 M\$, approuvé le 21 avril 2009) et 2010 (12 M\$) focalisé sur la gestion des finances publiques et des réformes sectorielles (coton, phosphates et secteur financier) ; (ii) la BAD a approuvé en février 2009 un don de 14.600.000 EUR en appui à la balance des paiements en deux tranches focalisé sur la gestion des finances publiques, le climat des affaires et la réduction de l'impact de la crise alimentaire. (iii) le FMI a augmenté la FRPC en réponse à la crise ce qui a donné lieu au tirage de 30MDTS en 2008 et 26.9 MDTS en 2009 et va faire de même en 2010 avec la FEC. En 2010, 17.6MDTS sont attendus voire plus si le Fonds couvre le reliquat du besoin de financement résiduel) (iv). La France fournit de l'aide budgétaire ciblée en dons de 4.000.000 EUR en 2008 (intrants agricoles) et 4.000.000 EUR (apurement d'arriérés internes) en 2009.

Par ailleurs, la réforme de la gestion des finances publiques est actuellement appuyée par une série d'appuis institutionnels : (i) le projet PAI, financé par l'Union européenne pour un montant de 8.000.000 EUR, apporte un appui par la mise en place de quatre assistants techniques internationaux et le recrutement d'environ 120 agents locaux dans les domaines de la préparation, de l'exécution et du contrôle budgétaire et de la statistique ; (ii) la France va fournir une assistance technique au Trésor ; (iii) le FMI fournit par le biais de AFRITAC Ouest des appuis à la gestion de la dette, aux régies financières et au Trésor ; (iv) la BAD continue ses appuis en formation et équipements et assistance technique auprès des services du Ministère de l'Economie et des Finances (MEF) en particulier le Secrétariat Général, l'Inspection Générale des finances, le Trésor et le Budget.

2.6. Coordination des bailleurs de fonds

La Commission, en étroite coordination avec les organisations internationales et notamment le FMI et la Banque Mondiale, a analysé l'impact de la crise économique et financière internationale sur les Etats ACP. Il en ressort que cette crise peut négativement affecter la stabilité macro-économique ainsi que les progrès réalisés dans l'atteinte des objectifs du millénaire dans de nombreux pays. La Délégation a participé activement à la dernière mission du FMI d'avril 2010 afin de participer au dialogue sur les questions budgétaires et macro-économiques et instruire le V-FLEX 2010.

Afin de s'assurer que les appuis des bailleurs de fonds produisent leurs meilleurs effets au profit des pays affectés, il est essentiel de promouvoir une approche coordonnée tout au long du processus du FLEX Vulnérabilité entre la Commission, le FMI, la Banque Mondiale, les Etats Membres et la BAfD. Au Togo, c'est tout particulièrement important pour le volet réforme des finances publiques qui se met en place autour du plan d'actions et pour le suivi du DSRP.

3. DESCRIPTION

3.1. Objectifs

L'objectif général de cet avenant est d'augmenter le soutien à la mise en œuvre de la politique budgétaire et macro-économique menée par le Gouvernement du Togo pour atténuer l'impact de la crise. Au travers le Vulnérabilité FLEX, l'Union européenne procure un appui de court terme qui sera décisif pour réduire significativement (50%) le besoin de financement budgétaire résiduel afin de contribuer à maintenir les dépenses prioritaires en 2010, particulièrement les dépenses sociales.

3.2. Résultats escomptés et principales activités

Le résultat attendu est de réduire l'impact négatif de la crise sur un pays vulnérable sur le plan économique et social ainsi que de contribuer à préserver sa stabilité macro-économique et de prolonger et rendre prévisible l'appui budgétaire de l'Union européenne.

3.3. Parties prenantes

Le principal bénéficiaire de cet appui budgétaire est le gouvernement du Togo et les populations les plus défavorisées. Les parties prenantes (outre les ministères sectoriels qui bénéficieront d'améliorations de leurs ressources) seront principalement le Ministère de l'Economie et des Finances, d'autres intervenants ministériels chargés de la coopération (Ministère de la Coopération, du Développement et de l'Aménagement du Territoire) et des réformes (Secrétariat Permanent aux Programmes de Réforme et aux Politiques Financières). Ces trois institutions assurent aussi la coordination entre le Gouvernement et ses partenaires. Parmi les partenaires, le FMI, la BM, la BAD, l'Allemagne et la France, seuls Etats membres actifs au Togo, seront aussi des parties prenantes importantes.

3.4. Risques et hypothèses

Le risque majeur est de nature politique, la transition démocratique et le retour à un état de droit ne sont pas encore complètement achevés même si les élections présidentielles de mars 2010 se sont bien déroulées et augurent d'une période post électorale paisible et à moyen terme un renforcement du processus de démocratisation. La mise en œuvre de l'accord politique global et le cadre permanent de dialogue et de concertation sont des facteurs visant à atténuer ce risque.

(A mettre dans le Mémoire / V-Flex Togo).

En ce qui concerne les critères d'éligibilité à l'ABG, les principaux risques sont liés à la poursuite et à l'opérationnalisation des réformes de la gestion des finances publiques. La fragilité du cadrage macroéconomique, vulnérable aux chocs exogènes et dépendant des aides extérieures ainsi que la mise en œuvre du DSRP face au manque de moyens financiers disponibles doivent également être pris en compte. La mobilisation des différents appuis techniques et l'engagement coté togolais permettent de relativiser ces risques. L'assainissement de la GFP est d'ailleurs suivi par les indicateurs du présent programme, et ceux de nos partenaires (FMI, BM). L'amélioration de la concertation entre bailleurs de fonds en particulier dans le cadre du suivi de la FRPC/FCE et du DSRP permettra de mieux anticiper des difficultés survenant en matière macroéconomique et DSRP. Enfin, l'assistance technique au MEF devrait répondre aux besoins de renforcement institutionnel clé pour réussir les réformes budgétaires et le suivi du DSRP.

3.5. Questions transversales

L'amélioration de la qualité de la gouvernance économique et financière est l'un des objectifs majeurs de ce programme. Les analyses de la pauvreté réalisées dans le cadre de la préparation du DSRP mettent en évidence que celle-ci est étroitement liée à la faible gouvernance. Les questions transversales comme égalité des genres, durabilité environnementale, etc. sont inscrites dans le DSRP.

4. QUESTIONS DE MISE EN ŒUVRE

4.1. Budget et calendrier

En sus des 15.000.000 EUR initialement prévus au titre de l'Appui Budgétaire à la Réduction de la Pauvreté (2009-2010), le présent avenant augmente la composante d'appui budgétaire qui passe de 15.000.000 EUR à 27.000.000 EUR. Le profil de décaissements révisé du Document complet de Stratégie de Réduction de la Pauvreté (2009-2011) est présenté dans le tableau ci-dessous.

Appui Budgétaire à la Réduction de la Pauvreté
Profil de décaissement (en EUR)

	2009	2010	Total
Tranche fixe	7.500.000	5.000.000	12.500.000
Tranche variable (max.)		2.500.000	2.500.000
Tranche fixe – enveloppe B-Flex Vulnérabilité		12.000.000	12.000.000
Total appui budgétaire	7.500.000	19.500.000	27.000.000
TOTAL PROGRAMME			27.000.000

4.2. Modalités de l'appui budgétaire

L'action consiste en un appui budgétaire direct et non ciblé, conformément aux modalités agréées par la décision portant création du FLEX Vulnérabilité et à la Convention de Financement de l'Appui Budgétaire à la Réduction de la Pauvreté en cours.

4.3. Procédure de passation de marchés et de subvention

Les dispositions l'Appui Budgétaire à la Réduction de la Pauvreté à ce sujet ne sont pas modifiées.

4.4. Suivi de l'exécution et des critères de décaissement

Le décaissement de la tranche fixe additionnelle Vulnérabilité FLEX 2010 sera guidé par les dispositions de la convention de financement de l'Appui Budgétaire à la Réduction de la Pauvreté (FED/2009/021-630). Les trois conditions générales d'éligibilité à l'appui budgétaire sont la mise en œuvre satisfaisante (i) d'une stratégie nationale de développement (Document de Stratégie de Réduction de la Pauvreté ou DSRP dans ce cas), (ii) d'une politique de stabilisation macro-économique et (iii) d'un programme d'amélioration de la gestion des finances publiques.

Concernant les progrès dans la mise en œuvre du DSRP, une attention particulière sera portée sur, 1) l'élaboration d'une matrice des indicateurs de performance et d'un tableau de bord pour le suivi et l'évaluation du DSRP en accord avec les principaux bailleurs de fonds et 2) la mise en place d'un cadre partenarial fonctionnel de suivi de la mise en œuvre du DSRP.

4.5. Communication et visibilité

L'action bénéficiera d'une couverture médiatique car elle vient en supplément des tranches déjà prévues par l'Appui Budgétaire à la Réduction de la Pauvreté ce qui est justifié par des circonstances particulières.