Introduction and Background

The recent difficulties in the Eurozone and the global financial crisis have underlined the importance of further consolidating economic and financial stability and fostering reforms and growth, not only within the EU, but also in the enlargement and neighbourhood countries. In the EU, the economic governance framework aims to detect, prevent, and correct problematic economic trends such as excessive government deficits or public debt levels, which can stunt growth and put economies at risk.[1]It can therefore be considered as a conceptual framework comprising processes used in the EU for governance in the field of economic interactions of different actors, in order to achieve the over-reaching goal of sustainable social and economic development.

In the current Enlargement Strategy, the Commission has identified economic governance as one of the key challenges for the Western Balkan countries[2] and Turkey, on their path towards EU accession[3]. Also, the revised European Neighbourhood Partnership (ENP) strategy of November 2015 stated that enhancing economic governance, strengthening fiscal stability and supporting structural reforms are EU priorities.

This EU support to economic governance has a strategic objective of improving the business climate and creating the conditions for:

- *i)* *Sustainable growth, necessary to create new jobs;*
- *ii)* *Attraction of foreign direct investments (FDI);*
- *iii)* *Creating a business environment in which businesses can be competitive and thrive, and*
- *iv)* *Reignite the spirit of entrepreneurship and* SMEs creation.

This support is mainly focused on the following domains and processes:

- *a) Prudent macro-monetary and fiscal management with all Public Financial Management (PFM) Cycle elements;*
- *b) Strategic public administration reform and policy management; and*
- *c) Effective regulatory policy management to ensure effective competitiveness.*

Western Balkans countries specifically face major structural economic challenges of high unemployment[4], low foreign direct investment and low levels of competiveness, and this is also the case in many ENP countries. Weaknesses with the rule of law and public financial management exacerbate the risk of corruption, negatively impact the good governance of the economy and negatively impact the investment climate.

Enhancing economic governance
The enlargement strategy 2013-14 proposed a new approach to help the enlargement countries tackle the economic fundamentals and to meet the economic criteria for EU accession. The new approach implies a change in the dialogue and improved reporting in order to give clearer guidance on the reforms needed to support long-term growth and competitiveness.
Key economic challenges which constitute "economic governance" in the Western Balkans are:
⇒ Strengthening fiscal consolidation by reducing budget deficits and implementing credible public sector reforms, including reform of the public administration and pension systems.
⇒ Strengthening public financial management, including revenue administration and collection, budget formulation and execution, accounting and reporting, and external oversight.
⇒ Addressing the high burden of non-performing loans.
⇒ Restructuring and improving governance of state-owned enterprises,
⇒ Improving the business environment, including the digital economy, and supporting private-sector development, reducing para-fiscal charges, simplifying regulation and boosting research investment.
⇒ Improving energy and transport networks and increasing connectivity.
⇒ Establishing functioning labour markets, including sufficient flexibility, addressing the informal sector, improving

[1] http://ec.europa.eu/economy_finance/economic_governance/index_en.htm
[2] The former Yugoslav Republic of Macedonia, Montenegro, Serbia, Albania, Bosnia & Herzegovina, and Kosovo (this designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence)
[3] COM (2014)700 Final
[4] An average of 21% in the Western Balkans according to Enlargement Strategy 2014: COM(2014) 700 Final

the employability of workers, and better aligning education and skills with labour market needs.
Source: Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - "Enlargement Strategy and Main Challenges 2014-15"

The successive reforms of the EU's rules in 2010-2012, introducing, among others, new surveillance systems for budgetary and economic policies and a new budgetary timeline for the euro area (the so called 'European Semester'), have put a higher focus on Economic governance issues in the EU.

Since 2013, economic governance has become one of the three fundamental pillars in the enlargement process, mirroring similar developments at the EU level. In this context, the enlargement countries were invited to enhance economic policy and its governance through the coordinated preparation of an Economic Reform Programme (ERP) comprising two elements – a macroeconomic and fiscal programme and a structural reforms and competitiveness programme. These ERPs were submitted for the first time in January 2015 and are being submitted on an annual basis.

In the neighbourhood region, the EU is also promoting an approach that encourages partners to tackle economic, social and structural reforms in a more integrated manner. This is necessary not only to increase prosperity and contribute to stabilisation but also to ensure that relevant countries are prepared to face the increased competition deriving from the trade liberalisation commitments taken in their agreement with the EU.

The evaluation on EU's support to Economic Governance is part of DG NEAR's multi-annual evaluation plan and will feed into the Mid-term review of the Union's instruments for financing external actions planned for 2017. It assesses the most recent IPA projects and a sample of ENI projects in the period 2009 to 2014 which (in) directly target economic governance in the Western Balkans and Turkey, and in selected Neighbourhood countries. It covers countries in the Enlargement (all of them) and Neighbourhood regions (Egypt, Jordan, Morocco and Tunisia, in the South; and Georgia and Ukraine, in the East).

The following key elements and preliminary findings can be highlighted, resulting from the ongoing economic governance evaluation, as concerns the IPA countries (West Balkans and Turkey):

Country		**Brief Overview of Preliminary Results**
Albania		The economic crisis has heavily affected its main EU trading partners and spilled over through trade, remittances and investment links. Despite this, the country has managed to avoid recession but economic growth has slowed. The EU assistance in the area of economic governance helped Albania to achieve its strategic objectives towards EU accession; it has contributed to align the tax legislation with the acquis, to strengthen the transparency and accountability of public financial management, refrain from creating new fiscal imbalances, and strengthening the public administration staff capacities.
Bosnia & Herzegovina		Since the onset of the crisis, the economy of Bosnia and Herzegovina has been adversely affected by the economic situation in its main EU trade partners. Furthermore, the negative contribution of weak domestic demand, the continuous political stalemate and a difficult investment climate, makes its economic environment a difficult one. All EU interventions still remain relevant as they tackled a harmonised, effective, transparent, and service oriented public administration, strengthened PFM and internal control environment capable of leading the country through the Stabilisation and Association process and on to EU accession. The original objectives of the EU supporthave been in line with the national policy and development objectives, priorities of authorities in Bosnia and Herzegovina, on all levels, and aligned with the overall framework of regional and national EU cooperation with partner countries.
Former Yugoslav Republic of Macedonia		The investment climate in the former Yugoslav Republic of Macedonia is negatively affected by the continuing weaknesses with the rule of law and signs of state capture, in particular as regards independent and efficient court systems and risk of corruption. Given the impact of the rule of law on economic governance, there is an urgent need to

		address this matter. This is despite the growing number of FDI's which has somewhat contributed towards decreasing country-wide unemployment. Macroeconomic stability should continue to be preserved and in particular the public deficit should be controlled more rigorously and transparency and implementation of public expenditure improved. The EU assistance in the area of economic governance is aiming to facilitate the country's achievement of its strategic objectives of EU accession. It has contributed towards preserving macroeconomic stability. This was supported by major public infrastructure spending and foreign direct investment, although signs of weaknesses were observed in the first quarter of 2016. The economy has a moderate level of preparation to cope with competitive pressures and market forces within the Union. Some progress was made to foster innovation and foreign investments and digitalization is progressing fast.
Kosovo*		The business climate in Kosovo is hindered by limited access to finance, unreliable energy supply, unfair competition and corruption. Kosovo's enterprise sector is dominated by small and micro-enterprises; retail trade continues to be the dominant sector. The EU assistance supported the Kosovo authorities to achieve the objectives of EU accession; it contributed in developing its policy framework by increasing the country capacities and systems for a better integrated policy planning, and economic and fiscal surveillance
Montenegro		Montenegro's small and open economy is in need of diversification. The GDP per capita in PPS (%, EU-27=100) grew in 2013, but the recovery remains fragile due to weak domestic demand, a narrow production base, and a high dependence on the external environment, This growth was largely driven by net exports of electric energy and tourism services, the latter with positive spill-over effects on retail trade. The EU assistance in the area of economic governance has contributed in the establishment of the market economy institutions, harmonisation of the national legislation with the *acquis and* strengthening of the public administration knowledge and capacities in the areas of internal market, financial sector, taxation and public financial management. EU assistance has contributed to the opening of the negotiations in respective chapters of the Stabilization and Association Agreement (SAA).
Serbia		The economic situation has gradually improved in Serbia, with stronger growth, higher investment and more jobs created by the private sector. The economic reforms are producing results and need to continue, with particular emphasis on restructuring state owned enterprises and public utilities. At the same time, Serbia faces major structural economic and social challenges, with high unemployment rates registered. Youth unemployment in particular remains worryingly high. The EU assistance in the area of economic governance helped Serbia to achieve its strategic objectives of EU accession. It has contributed to implementing an ambitious political and economic reform agenda and good progress was made to address some of the policy weaknesses, in particular with regard to the budget deficit and restructuring of publicly-owned enterprises. Economic reforms have brought clear results in terms of growth prospects and reduction of domestic and external imbalances.
Turkey		Among the Enlargement countries, Turkey has the biggest market and the highest Gross domestic product per capita (current prices), a figure nearly twice as high as the other beneficiary countries. The Turkish economy has grown at an average annual rate of 5.1% since 2001 with pronounced cyclical swings. This was helped by monetary policy accommodation and a relatively large increase in public spending. However since May 2013, Turkey's financial markets and the lira have been under strong downward pressure in the context of the transition to a less accommodative monetary policy in the United States, domestic political crises, and international tensions related to the civil war in neighbouring Syria.

*This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence

		The EU's support to economic governance in Turkey has mainly focused on the Ministry of Finance, most often in form of twinning projects, allowing, with fairly good effectiveness, to support the improvement of the Ministry's different Directorates' capacity in several domains: public internal financial control (PIFC), decision making and performance management, compilation and usage of financial statistics, etc. In addition, support has been provided to the Ministry of Economy (investment promotion), the Turkish Court of Accounts, etc.

The following key elements and preliminary findings are highlighted for the Neighbourhood countries covered by the evaluation:

Country	Brief Overview of Preliminary Results
Egypt	Egypt has been confronted with several political changes since the Arab Spring events of 2011. In spite of a higher growth during 2014 and 2015 (roughly 4%) compared to 2% in 2012, and 2013, the country is prone to large macro-fiscal imbalances with high and persistent current deficits, large public debts (nearly 100% of national GDP) and high unemployment for the young generation. The existence of a fixed exchange rate does not seem to serve well the country needs as a parallel market has emerged since 2013. Some of the most urgent reforms the adopted by Egypt in coordination with international donors assisting Egypt in its transition include: the fiscal reform (introduction of VAT) and reform on subsidies (food and energy) in order to address fiscal balances and target the needy, the transition to flexible exchange rate and support to private sector reforms in order to increase the competitiveness of the Egyptian economy and boost the employment of young generation and women. In this context EU assistance in the field of economic governance consists of a large project for improving the quality of PFM, another large programme focused on Trade and Domestic Market Enhancement Programme, Technical assistance to the Public Private Partnership (PPP) Central Unit and recently an Inclusive Economic Growth Programme. In spite of political instability these programmes have managed to support the country in crafting and enacting a set of structural reforms that have the potential to improve the economic governance in the future.
Jordan	Jordan's high growth period (with growth rates between 5-9 %) came to end after 2010 when Jordan was faced with external shocks due to security crisis in the region and the flow of refugees in the country mostly from the Syrian conflict. The Arab Spring and the immediate answer of national authorities to face the public discontent with deteriorating economic conditions through larger social support programmes worsened the macro-fiscal balances of the country by expanding overall fiscal deficits that are still high (around 5% for 2016) and public debt (more than 90%) . In this new context, the EU has been part of a large international donors coalition aiming to support Jordan to overcome this critical situation by enhancing its resilience as promoter of peace in the region and improving its capability of economic governance while IMF and other donors (WB, USAID, UN, GIZ etc.) are assisting in other domains like reform on subsidies, public enterprises and utilities, private sector and employment etc. EU support in the field of economic governance has aimed at improving budgeting framework through support for policy budgeting, strengthening the role and efficiency of Supreme Audit in its role of oversight of budget execution, the efficiency of fiscal administration through measures that aimed at increasing its efficiency of tax investigation activities and debt management. While the improvement in policy budgeting, and debt management according to international assessment (IMF and PEFA 2016) have been encouraging, the EU intends to achieve the same also in enhancing the role of Supreme Audit and efficiency of tax administration (here together with other donors especially IMF and USAID).
Morocco	Morocco managed to undergo a soft transition period to more advanced stage of economic development as result of good reforms that the country has embarked on since the early 2000s. These reforms, supported by a group of international donors (WB, AfDB and EU) and known as PARAP I and II, were focused on measures for improving the quality of PFM and Public Administration. The country has been following macro prudential measures consisting of fiscal consolidation through fiscal administration and reform of subsidies that have put the fiscal deficit on a downward path (expected to be below 3.5% of GDP for 2016) and central public debt below 70%. Unemployment also

	has been reduced to below 10% and the poverty rate has halved in the period 2007-2014 as the Moroccan economy is further expanding its capabilities in added value chains recently with new activities in electronic, automobile and aeronautics industry. In spite of these achievements, the country faces important challenges that have to do with a high poverty rate in rural areas (19%) and the unemployment rate for the young generation in urban areas (38.8%)- challenges that the country aims to address through important reform measures packed under a new important programme called “Hakama” (Good Governance). Following the successful budget support under two previous programmes PARAP I and II that have culminated with a new Organic Law of Public Finance (LOF), the EU has continued to support the implementation of this law with a new budget support under Hakama. This new support intends to build on previous achievements of PARAP I and II and is in line with new legal foundations of the Moroccan Constitution of 2011, aiming at improving the quality of budgeting, fiscal policy and administration and the quality of public services for the citizens.
Tunisia	In the aftermath of the Arab Spring of 2011, Tunisia experienced a major political overhaul that culminated with a new government and the start of a transition to a democratic form of political regime. Qualified as one of the best performers in terms of economic growth (almost 5% on average before 2010), sound fundamentals, competitiveness and social achievements (in terms of education and health outreach), Tunisia was marked by inequalities between different strata of population, high unemployment for young generation (15-29 age bracket), high regional disparities between the east coast and the interior regions of the country, an inefficient subsidy and welfare system very costly for the Government, and state capture from a powerful elite centered around the family in power. In the post revolution period, the model of economic governance, very much driven by the integration process with the EU, was largely supported by a coalition of large donors (WB, AfDB, EU and France). The package of reforms aimed at supporting the transition to a new model of economic governance including short terms measures in order to address the population needs (employment, social transfers, regional transfers), also in order to ensure consensus, and medium to long term reforms (restructuring public sector, financial sector, improving the business and investment environment, improving the quality of public finances and public administration services etc.), But all this was not supported by general governance reforms increasing transparency, political liberties, a free and "just" justice and free press. The post revolution EU support has been active in both components (economic and political) with important budget supports. While the EU support may be credited for having played an important role in enabling Tunisia finalising a peaceful political process - culminating with the adoption of new constitution in 2014 and election of consensual government - especially through components in support of regional governments, civil society, justice and public finances, there are certainly many challenges ahead especially in the areas of structural reforms that have the potential to set Tunisia in the path of sustainable development in order to reduce macro fiscal imbalances and offer more opportunities to new generation and the most marginalized part of society in both urban and rural areas.
Georgia	Following a drop in oil and commodity prices in the region and elsewhere, a decrease in remittances and capital inflows during 2014, the economy of Georgia grew less than 3% in 2015- the lowest level since 2010. In spite of these negative external shocks the services sector, especially tourism, has been doing well and managed to accommodate somehow the impact and set the country to a better path for 2016 and 2017 with growth rates foreseen above 3%. After the Association agreement that Georgia signed with EU in 2013, a Deep and Comprehensive Free Trade Agreement (DCFTA) was signed in June 2014, which entered into force in July 2016. Georgia’s objectives under this agreement are to increase the economic benefits as the country allocates the productive factors towards more effective uses in different sectors that have a greater export potential towards EU markets. These general objectives are translated in a set of national policy priorities that include also the governance reforms. EU supports Georgia in these reforms with an extensive PFM budget support and also different other instruments (like twinning), whose final aim is to improve the quality of governance practices such as budget formulation and execution through the TA to MoF and budget oversight with support to institutions like External Audit and Parliament

	Budget Office. Overall these programmes in coordination with other TA provided from other donors (IMF, WB, GIZ, and USAID) have managed to support a gradual improvement of the quality of economic governance as reported from international ratings and assessments.
Ukraine	Following two years of stagnation, Ukraine's economy entered a deep recession in 2014 due to the conflict in the eastern part of the country. This crisis was reflected in a sharp currency depreciation and lower investment and consumption. Decisive policy actions by the Ukrainian authorities in the past two years, supported by its international partners, have reduced external and internal imbalances and the macro-economic situation has stabilised. As a result, the economy was able to return to growth in the first half of 2016, consumer price inflation moderated and the central bank's international reserves have increased substantially. The restructuring of the banking sector lowered systemic risks to public finances and to the economy in general. The EU continues to reinforce its position as Ukraine's first trade partner. Ukraine's trade with the EU increased by 7.5% in the period October 2015 – September 2016 compared to the same period 2014-2015. Ukraine has the potential to attract more foreign investment, with international rankings pointing to legal and judicial unpredictability and an inadequate institutional framework as the main problems for the business and investment climate. The privatisation of state owned enterprises has stalled, and the moratorium on the sale of agricultural land has been extended until 1 January 2018. The EU assistance to Ukraine contributed to fiscal consolidation and external stabilization, and encouraged the implementation by the authorities of structural reforms which aimed at improving the overall macroeconomic management, strengthening economic governance, improving the business climate and boosting competitiveness, fighting corruption and increasing transparency and accountability.

In addition to the Economic Governance evaluation, DG NEAR has also launched the evaluation on Private Sector Development (PSD) and Competitiveness in enlargement and neighbourhood regions[5].Private Sector Development/Competitiveness is a broad sector and, for the purpose of the evaluation, has been staked out by the following intervention areas:

- Access to finance – financial instruments
- Access to finance – Technical Assistance
- Direct, non-financial support to SMEs
- Improving the business environment (including economic governance issues)
- Support to intermediary institutions
- Support to (hard) business infrastructure
- Research and Development and Innovation
- Intellectual, industrial, commercial property rights
- Trade enhancement, WTO, DCFTA, internationalization of SMEs
- Support to increasing investment flows
- Cluster development
- Support to social entrepreneurship

All IPA countries are covered by the PSD Competitiveness evaluation, while for ENI East the focus is on Armenia and Moldova, and for ENI South on Algeria and Egypt. The following can be briefly underlined in the current stage of the evaluation's implementation:

EU programmes and interventions seem to be reasonably in line with the needs of the countries; at the same time, in the view of the beneficiaries, multi-beneficiary programmes contribute little to the actual needs. It was found that multi-beneficiary interventions are all but invisible to the country-level beneficiaries.There is a need for stronger coordination between regional and national programmes, during the programming as well as the implementation phase.There is a steady evolution of quality of project designs, showing a steep learning curve on the part of the programmers, especially those within the Commission Services (EUDs and HQ).

[5] Since there are very tight relations between these two domains of economic governance on the one hand and competitiveness and PSD on the other hand, this Open Public Survey comprises several questions related to PSD & Competitiveness.

The utilisation of community programmes, such as CIP and FP7, although strongly stimulated by EU funding, appears to be rather low in ENI countries while at a reasonable, but as yet inadequate, level in IPA countries.