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ANNEX

of the Commission Implementing Decision on the Annual Action Plan contributing to the Western Balkans Energy Support Package in favour of Bosnia and Herzegovina for 2023

Action Document for State and Resilience Building Contract for Bosnia and Herzegovina

ANNUAL ACTION PLAN

This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation, and annual and multiannual action plans and measures in the sense of Article 9 of IPA III Regulation and Article 23(2) of NDICI - Global Europe Regulation.

1. SYNOPSIS

1.1. Action Summary Table

Title	State and Resilience Building Contract for Bosnia and Herzegovina Annual Action Plan contributing to the Western Balkans Energy Support Package in favour of Bosnia and Herzegovina for 2023
OPSYS	ACT-61596 (State and Resilience Building Contract in the energy sector BA2023AAP-ESP)
ABAC	ABAC Commitment level 1 number: JAD.1103420 (IPAI/2023/JAD.1103420/AAP-ESP Bosnia and Herzegovina 2023)
Basic Act	Financed under the Instrument for Pre-accession Assistance (IPA III)
Team Europe	No
Beneficiary	Bosnia and Herzegovina
Programming document	IPA III Programming Framework
PRIORITY AREAS AND SECTOR INFORMATION	
Window and thematic priority	Window 3 – Green agenda and sustainable connectivity Thematic Priority 2: Transport, digital economy and society, and energy (15%) Window 4 – Competitiveness and inclusive growth Thematic Priority 1: Education, employment, social protection and inclusion policies, and health (70%) Thematic Priority 2: Private sector development, trade, research and innovation (15%)
Sustainable Development Goals (SDGs)	Main SDG: SDG 7 Ensure access to affordable, reliable, sustainable and modern energy for all Other significant SDGs:

	<ul style="list-style-type: none"> - SDG 5 Achieve gender equality and empower all women and girls - SDG 8 Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all - SDG 9 Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation - SDG 10 Reduce inequalities within and among countries - SDG 13: Take urgent action to combat climate change and its impacts - SDG 17 Strengthen the means of implementation and revitalise the Global Partnership for Sustainable Development 			
DAC code(s)	15110 - Public sector policy and administrative management (3%) 15142 - Macroeconomic policy (2%) 16010 - Social protection (75%) 23110 –Energy policy and administrative management (5%) 32130 - Small and medium-sized enterprises (SME) development (15%)			
Main Delivery Channel @	12000 – Recipient government			
Targets	<input checked="" type="checkbox"/> Climate <input checked="" type="checkbox"/> Gender <input type="checkbox"/> Biodiversity			
Markers (from DAC form)	General policy objective @	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Aid to environment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women’s and girl’s empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Nutrition	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers @	Not targeted	Significant objective	Principal objective
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Internal markers and Tags	Policy objectives	Not targeted	Significant objective
Digitalisation @		<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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BUDGET INFORMATION																			
Amounts concerned	<p>Budget line: 15 02 02 01</p> <p>Total estimated cost: EUR 70 000 000.00</p> <p>Total amount of EU budget contribution EUR 70 000 000.00</p> <p>The contribution is for an amount of EUR 70 000 000.00 from the general budget of the European Union for 2023, subject to the availability of appropriations following the adoption of the relevant annual budget by the Budgetary Authority, or as provided for in the system of provisional twelfths.</p>																		
MANAGEMENT AND IMPLEMENTATION																			
Implementation modalities (type of financing and management mode)	<p>Budget Support</p> <p>Direct management through:</p> <p>Budget Support: State and Resilience Building Contract</p>																		
Relevant priorities and flagships from Economic and Investment Plan for the Western Balkans	<table border="1"> <tr> <td>Contributing to the Economic and Investment Plan (EIP):</td> <td><input checked="" type="checkbox"/> Yes</td> </tr> <tr> <td></td> <td><input type="checkbox"/> No</td> </tr> </table>	Contributing to the Economic and Investment Plan (EIP):	<input checked="" type="checkbox"/> Yes		<input type="checkbox"/> No														
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<p>Priorities: “Private Sector Support”, “Energy”, “Green Agenda”, “Human Capital Development”</p>																			
Final Date for conclusion of Financing Agreement	At the latest by 31 December 2023																		
Final date for concluding contribution / delegation agreements,	Not applicable																		

procurement and grant contracts	
Indicative implementation period	24 months following the conclusion of the Financing Agreement
Final date for implementing the Financing Agreement	Eight years following the conclusion of the financing agreement

1.2. Summary of the Action

Energy prices in Europe began soaring in 2021 after the lifting of the COVID-19 pandemic lockdowns. The situation further exacerbated following the Russian war of aggression against Ukraine in 2022. The war upended energy markets, triggering heightened price volatility and energy insecurity impacting the EU and its immediate neighbourhood. The rise in energy prices impacted consequently other sectors as well, like production, transport and all service sectors in general. This crisis situation has forced the European Commission to refocus its immediate response, through a set of short-term energy security-related measures, in Europe and beyond, as set out in the REPowerEU plan¹ and its EU external energy strategy². The current energy crisis is unprecedented, and it is a challenge for not only the EU Member States but also for the Western Balkans partners. In Bosnia and Herzegovina, electricity prices are still stable, but heating prices based on different energy sources (including gas supplied via single gas route with Russian gas) have significantly increased.

The overall objective of this Action is to assist Bosnia and Herzegovina in reducing the socio-economic impact of the rising energy prices, in particular on small and medium sized enterprises and households, and to strengthen the Government's overall capacity to deliver tailor-made services to vulnerable households and support the long-term socio-economic recovery, energy security and energy transition of the country.

This action will contribute directly to SDG 7 'Ensure access to affordable, reliable, sustainable and modern energy for all', and also to other SDGs, among them SDG 8 'Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all', SDG 9 'Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation', SDG 10 'Reduce inequalities within and among countries', SDG 13 'Take urgent action to combat climate change and its impacts'. The Action directly contributes to the priorities of the Economic and Investment Plan for the Western Balkans related to "Private Sector Support", "Energy", "Green Agenda", "Human Capital Development" and to the IPA III Programming Framework Window 3 "Green agenda and sustainable connectivity" (Thematic Priority 2: Transport, digital economy and society, and energy) and Window 4 "Competitiveness and inclusive growth" (Thematic Priority 1: Education, employment, social protection and inclusion policies, and health and Thematic Priority 2: "Private sector development, trade, research and innovation").

2. RATIONALE

2.1. Context

Energy prices in Europe began soaring in 2021 after the lifting of pandemic lockdowns, followed by the Russian war of aggression against Ukraine in 2022. The war upended energy markets, triggering heightened

¹ See REPowerEU: A plan to rapidly reduce dependence on Russian fossil fuels and fast forward the green transition.

² <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=JOIN%3A2022%3A23%3AFIN&qid=1653033264976>

price volatility and energy insecurity impacting the EU and its immediate neighbourhood. The rise in energy prices impacted consequently other sectors as well, like production, transport and all service sectors in general.

This crisis situation has forced the European Commission to refocus its immediate response, through a set of short-term energy security-related measures, in Europe and beyond, as set out in the REPowerEU plan and its EU external energy strategy and as reiterated by the President of the European Commission in her State of the European Union address³.

The current energy crisis is unprecedented, and it is a challenge for not only the EU Member States but also for the Western Balkans partners. The EU and the Western Balkans partners need to work hand in hand to increase energy security in the EU and in the Western Balkans as a matter of urgency.

On 16 June 2008, Bosnia and Herzegovina has signed in Luxembourg the Stabilisation and Association Agreement (SAA) with the European Union. The SAA is a new, third generation of the European agreements offered mostly to the Western Balkans partners, in structure of the Stabilisation and Association Process. The Agreement represents the international contract which is the central to domestic legislation, and it represents an obligation act for all levels of the government in the country. The Agreement is signed for an undefined period of time with a view to contributing to economic and political stabilisation of Bosnia and Herzegovina.

The SAA and its Interim Agreement, applied since 2008, have allowed progressive trade liberalisation and mutual duty-free access for most goods. In 2020, the EU remained Bosnia and Herzegovina's main trading partner, accounting for 65% of the country's total trade in goods, although with a 10.2% decrease due to the pandemic. In 2020, total trade was worth EUR 9.6 billion, while the country's trade deficit with the EU amounted to EUR 1.5 billion.⁴

In October 2020, the European Commission adopted a comprehensive Economic and Investment Plan for the Western Balkans⁵, which aims to spur the long-term economic recovery of the region, support a green and digital transition, foster regional integration and convergence with the European Union.

The Plan identifies ten investment flagships to support major road and railway connections in the region, renewable energy and the transition from coal, renovation of public and private buildings to increase the energy efficiency and reduce greenhouse gas emissions, waste and waste water management infrastructure, as well as the roll out of broadband infrastructure. Other flagships include increased investments in the private sector to boost competitiveness and innovation, in particular of small and medium sized companies and a Youth Guarantee.⁶

In Bosnia and Herzegovina, gas represents 3% of total energy supply. The country is completely depended on gas imports from Russia coming via Turkish Stream and has no alternative sources of supply e.g. not even additional pipelines. Both entities have contracts with Gazprom by which is determined that the method of calculating the price of gas is according to the oil formula. Russia's Gazprom has increased the price of gas deliveries to Energoinvest (supplier to the Federation entity) by 9.7% of the wholesale gas price in the entity, its third price hike this year. Under the decision, the wholesale gas price is rising to 1,095 BAM (\$542.4/559.9 euro) per 1,000 standard cubic meters Sm³, VAT excluded, applicable as of 1 October 2022, and will be valid until 1 January 2023. The previous wholesale gas price was 998 BAM per 1,000 Sm³. Inflation was reflected in the increase in energy prices, and this increase in 2021 comparing to 2020 amounts to 67% on average. Increase of costs by energy sources amounts to: coal 75%, wood 78%, district heating 25%, gas 71%, pellets 115%. Electricity price for households has not increased and most likely won't until 1 January 2023. Company

³ *State of the Union 2022 - President von der Leyen's speech*

⁴ *SWD(2021) 291 final*

⁵ *COM(2020) 641 final*

⁶ *SWD(2021) 291 final*

Gas-RES in (supplier for *Republika Srpska* entity) announced increasing in gas prices in the third quarter in compared to the second quarter of 2022 with a maximum of 10 %.

Against this background, the privileged relationship of the Western Balkans has allowed to extend to the Region several initiatives that were taken in the EU in the last months.

For instance, as immediate response to the energy crisis at EU level there are several objectives that focus on the gas sector. Under the mandate of the European Council, the European Commission and the EU Member States work together on establishing joint purchases of gas. Those efforts are accompanied by supporting measures: international outreach to current and potential gas exporters, and regional and pan-EU work streams for ensuring the most efficient use of the existing infrastructure under new patterns of gas flows. This work will also serve as a basis for the development of the global hydrogen market.

The European Commission and the European Council have invited the Western Balkans to join the platform for joint purchases of gas to lower dependency on Russian gas. The regional platform for South East Europe has prepared a detailed action plan outlining quick measures needed to accurately assess the gas demand and infrastructure potential in the region. Serbia and North Macedonia have participated in this discussion (all IPA III Western Balkans were invited). It should be noted that currently only three of the Western Balkans have gas infrastructure (Serbia, North Macedonia and Bosnia and Herzegovina). The EU Gas Storage regulation was incorporated in the Energy Community law on 30 September, making the filling targets and arrangements as well as storage certification mandatory also in the Western Balkan countries.

While supporting citizens and businesses to face energy and electricity price increase is the urgency, the short and medium term objectives for the region (decarbonisation, energy diversification, renewable energy generation, energy efficiency, connectivity of electricity and gas networks and interconnectors) stay unchanged to achieve the targets set under the Green Agenda for the Western Balkans⁷. The upcoming Energy Community Ministerial Council in December 2022 is expected to adopt 2030 climate and energy targets for each Energy Community Contracting Party. They will also develop National Energy and Climate Plans that will provide the roadmaps to achieve 2030 renewable energy and energy efficiency targets and commit to coal phase-out dates.

In addition, in order to provide additional direct support to the Western Balkans region, at the Berlin Process Summit of 3 November 2022, the European Commission announced a pledge for the Energy Support Package of EUR 1 billion in EU grants⁸, with expectations to leverage investments of up to EUR 2.5 billion. The Energy Support Package aims at addressing immediate, short-term and medium-term needs in the Western Balkans and in the context of the ongoing energy crisis:

- The immediate needs are related to the price increases in energy and specifically the electricity, which require the provision of budget support under this Action.
- The short- and medium-term needs relate to the energy transition, namely energy diversification, renewable energy generation, energy efficiency, connectivity of electricity and gas networks and interconnectors supported by the funding under the Western Balkans Investment Framework (WBIF).

The new Energy Support Package is expected to provide to the Western Balkans approximately EUR 500 million budget support in the form of State Building Resilience Contracts as immediate assistance under IPA III. The present Action addresses the immediate term by means of budget support to mitigate the

⁷ SWD(2020) 223, 6.10.2020.

⁸ European Commission - Press release: *Berlin Process Summit: EU announces €1 billion energy support package for the Western Balkans and welcomes new agreements to strengthen the Common Regional Market*

impact of rising energy prices and to support the energy sector and businesses in coping with the rapid increase of prices of energy.

The Energy Support Package is consistent with and further reinforces the EU policy framework for cooperation with and for financial assistance to the Western Balkans, first and foremost the **Economic and Investment Plan for the Western Balkans**⁹ (EIP) adopted by the European Commission on 6 October 2020.

Through the EIP, and its flagship projects, the EU support in the field of energy has been reinforced. Strong emphasis is put on energy market integration, decarbonisation and clean energy, increased use of renewable energy sources, increased digitalisation of the energy systems and smart grids, energy efficiency, including modernisation of district heating, and energy security. Enhanced connectivity and extension of the Energy Union to the Western Balkans is also instrumental for a successful clean energy transition in the region. In addition, new funding has been approved to replenish the Regional Energy Efficiency Programme in support to energy efficiency projects for public and private buildings.

The **Green Agenda for the Western Balkans** is an essential element of the EIP. Western Balkan leaders endorsed the EIP and the Green Agenda at the Sofia Summit in November 2020.

The **IPA III Programming Framework**¹⁰ sets the overall objectives of the EU's assistance under Window 3. The overall objectives of the EU's assistance under Window 3 are to promote the green agenda by reinforcing environmental protection, contributing to mitigation, increasing resilience to climate change, accelerating the shift towards a low-carbon and circular economy and develop the digital economy and society. The current action will contribute to boosting resilience of the Western Balkans partners in the current energy crisis. The action is also relevant for Window 4, particularly for supporting private sector and vulnerable households.

On 12 October 2022, the European Commission adopted its **2022 Enlargement Package**¹¹, providing a detailed assessment of the state of play and the progress made by the Western Balkans and Türkiye on their respective paths towards the European Union, with a particular focus on implementing fundamental reforms, as well as clear guidance on the reform priorities ahead. When it comes to the energy crisis, the package refers to the need of closer coordination of actions and cooperation amongst the Western Balkans partners and with the EU to tackle the energy crisis.

2.2. Problem Analysis

According to the Energy Community Secretariat the security of supply risk profile for the season 2022/23 in the Western Balkans is considered “low” for Bosnia and Herzegovina and Serbia and “medium” for the remaining four partners (compared to “high” in Ukraine and Republic of Moldova). The specific risk profile for Bosnia and Herzegovina is as follows:

Energy Community risk assessment 2022/23 LEVEL OF RISK (high, moderate, low): *Low*

Sources of risk: distribution network overloading, local supply interruptions

Total final energy supply by source (approx. 307 000 TJ): 52% coal, 22% oil products, 16% biofuels and waste, 7% hydro, 3% gas.

- imports: 47 059 TJ coal, 29 086 TJ crude oil/ gas, 10 170 TJ electricity, 6 942 TJ natural gas, 58 155 oil products.

- exports: 14 714 TJ coal, 23 634 TJ electricity, 293 TJ oil products.

⁹ COM(2020) 641 final Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions An Economic and Investment Plan for the Western Balkans

¹⁰ C(2021) 8914 final

¹¹ COM(2022) 528 final

Gas:

- 3% of total energy supply. 0.25 billion cubic meters / year (100% of Russian origin, coming through a single connection with Serbia) There are plans to extend Balkan Stream pipeline to Bosnia and Herzegovina (*Republika Srpska* entity) indicating that the pipeline should be finished in five years. The pipeline in Bosnia and Herzegovina (New Eastern Gas Interconnection) would go from Bijeljina to Banja Luka and Novi Grad through *Republika Srpska* entity and Brcko District. State level support would be necessary to implement the plan.
- main supplier, Energoinvest, agreed with Gazprom sufficient gas volumes till 1.1.2023
- in case of halt of gas imports, residential heating would be severely impacted, but could switch to electricity, which is available
- the mazut/heavy oil reserves for the district heating could last one week at the most.
- other alternative supplies would entail purchase gas from most likely Hungary, but the affordability of the price is a big challenge.

Electricity:

electricity production mix: 62% coal, 36% hydropower

- Bosnia and Herzegovina exports electricity (net export in H1 2022 ~2.027 GWh) and will continue to export this winter;
- No problems with security of electricity supply are expected for the following winter;
- Bosnia and Herzegovina electricity companies which export electricity are making significant profits.

EIP priority projects: Ionian-Adriatic Pipeline and Southern Gas Interconnection with Croatia

The most significant problem in the region in the short term is related to prices of imported electricity. Western Balkans partners except Bosnia and Herzegovina are systematically net importers of electricity. The import needs in 2022 are further exacerbated by the lower outputs of hydro plants due to draught.

Electricity prices in all Western Balkans partners – particularly for domestic users – are centrally regulated and have remained below the production / import price, as well as below the European market price (between 22-41% of the EU average). This puts additional pressure on partners' budgets to cater for the financial losses of the Utility providers.

An increase of electricity prices to market level is perceived by partners as destabilising the social situation, being not affordable for the majority of residential consumers, and even a factor leading to bankruptcy for commercial users.

Record-high energy price increases at the end of 2021 and beginning of 2022 put significant pressures on the purchasing power of consumers. These increases followed a marked decline in energy prices at the onset of the COVID-19 pandemic. While the initial rise in energy prices was mainly driven by the recovery in energy demand following the easing of the COVID-19 lockdown measures after the first wave of the pandemic, the subsequent price rally during 2021 was also significantly affected by supply-side issues. This development was aggravated in early 2022 by the Russian war of aggression against Ukraine. The increase in European gas prices since the summer of 2021 has been particularly sharp, reflecting a combination of supply and demand factors that left European gas inventories at historically low levels ahead of the winter season and the gas market vulnerable to supply and demand uncertainty, including from escalating geopolitical tensions.¹²

As provided for in the Green Agenda for the Western Balkans, energy efficiency, as a prerequisite for achieving decarbonisation at the lowest possible cost, must be integrated in the future energy-related policy and investment decisions. The preparation and submission of National Energy and Climate Plans and Targets will demonstrate a commitment to tackle the issue, targeting the sectors with the highest energy savings potential. Also, renewable energy sources already make a significant proportion of the electricity mix in some

¹² https://www.ecb.europa.eu/pub/economic_bulletin/articles/2022/html/ecb.ebart202204_01~7b32d31b29.en.html

economies of the region. The roll-out of modern technologies needs to be accompanied by a better investment environment.

Regarding renewable energy sources and energy efficiency measures, further reforms are required. Renewable energy and energy efficiency represent two out of five main parts of the draft National Energy and Climate Plan (NECP). It is of paramount importance to meet targets defined within the strategic documents.

The inconsistency in energy statistics represents a significant problem both in monitoring the implementation of energy efficiency and renewable energy targets and determination of future targets in Bosnia and Herzegovina. Current targets for energy efficiency and renewable energy sources and the complete plan of their realisation are defined based on previous statistics while monitoring the implementation is done according to the data from the updated statistics. This leads to inconsistency, resulting in difficulties to accurately monitor the level of implementation of the country's commitments in these fields. It is necessary to further improve the quality of energy data to ensure reliable, accurate and composite energy statistics.

The energy transition process in Bosnia and Herzegovina is vertically and horizontally decentralised, so the distribution of responsibilities between ministries at the state and entity/cantonal levels is as follows: (i) the Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina is responsible for coordination, monitoring and reporting; (ii) the Ministry of Energy, Mining and Industry of the Federation entity and the Ministry of Energy and Mining of *Republika Srpska* entity are in charge of renewable energy sources and the electricity and gas market; (iii) the policy of reducing GHG emissions is under the jurisdiction of the Ministry of Environment and Tourism of the Federation entity and the Ministry of Spatial Planning, Buildings and Ecology of *Republika Srpska* entity, while the ministries of social policy in both entities are in charge of taking care of the vulnerable category of the population, which partially includes energy-vulnerable population groups. When energy poverty is positioned as a social problem, it falls under the jurisdiction of the Ministry of Labour and Social Policy in the Federation entity and the Ministry of Health and Social Protection in *Republika Srpska* entity, but when it is connected to the energy transition, it also falls under the jurisdiction of the other two ministries, i.e. the Ministry of Energy, Mining and Industry of the Federation entity and the Ministry of Energy and Mining of *Republika Srpska* entity. Environmental Protection Fund of the Federation entity and the Fund for Environmental Protection and Energy Efficiency of *Republika Srpska* entity allocate grants for private and legal entities.

2.3. Lessons Learned

Recent initiatives in the area of energy efficiency and allocation schemes (66% for the Federation entity, 33% for *Republika Srpska* entity, and 1% for Brcko District) would be served to inform the entities about possible internal arrangements in the implementation of the energy measures supported by this action. Such initiatives worth mentioning owing to their successful reach-out and appeal to citizens was the tourist voucher programme and the energy efficiency initiatives for private buildings and Micro and Small and Medium Enterprises. Lessons learned from past energy efficiency programmes indicate that at least 50% of grant is necessary to make the investments attractive.

In terms of implementation modality, it is the first time that budget support implementation modality is employed in Bosnia and Herzegovina, thus there are no lessons learnt as to what would suit its context best, particularly in this type of intervention focusing on short-term needs and supporting long term energy resilience framework. Nevertheless, the COVID-19 fast-track evaluation¹³ which also assessed the relevance and efficiency of the budget support contract in the crisis response, especially in the shape of State and

¹³ Fast-track assessment of the EU initial response to the COVID-19 crisis in partner countries and regions (2022), available at https://international-partnerships.ec.europa.eu/policies/monitoring-and-evaluation/strategic-evaluation-reports/fast-track-assessment-eu-initial-response-covid-19-crisis-partner-countries-and-regions-2020_en

Resilience Building Contracts, concluded with the following recommendations which could be used to inform the policy dialogue and design in the framework of the present intervention:

- To maximise the use of policy dialogue as a leverage to inform and monitor the implementation of the crisis response plans of partner countries
- To pursue support to medium- to longer-term fiscal and public expenditure reforms aimed at increasing domestic revenue mobilisation and at promoting debt sustainability during both crisis and post-crisis responses.
- To support partner countries in developing their capacities for the vertical and horizontal expansion of social protection systems in EU partner countries to increase crisis preparedness and resilience.
- To further cooperate with partner governments to be more open and accountable in their present and future crisis policy response and crisis spending

2.4. Additional Areas of Assessment

2.4.1. Public Policy

Strategic framework

The national energy strategy of Bosnia and Herzegovina was adopted in August 2018, and is outlined in the Framework Energy Strategy until 2035. Its implementation is ongoing. The Framework Energy Strategy until 2035 provides a strategic guideline regarding efficient usage of resources to ensure secure and affordable energy supply and energy efficiency. Bosnia and Herzegovina will not develop a plan for the implementation of the Framework Energy Strategy, but instead has started drafting the National Energy and Climate Plan of Bosnia and Herzegovina until 2030 (NECP). The final draft of the NECP, which will replace the national energy strategy, the national renewable energy action plan and the national energy efficiency action plan is expected to be drafted at the end of 2022, and adopted at the latest in 2024. The NECP will define targets for energy efficiency, renewable energy sources and GHG emissions reduction by 2030, as well as the necessary policies and measures to achieve them. The Building Renovation Strategy (BRS) for Bosnia and Herzegovina by 2050 is in the final drafting phase and will profit from the proposed action as well as the National Emissions Reduction Plan (NERP Bosnia and Herzegovina), 2018 – 2027, applicable since its country-wide adoption in 2015.

Security of supply

Measures to improve security of supply of electricity need to be redirected from coal to renewables. Bosnia and Herzegovina is also committed to gradually phase out coal subsidies, align with the EU emissions trading system (ETS) and introduce other carbon pricing instruments to promote decarbonisation. This will be particularly challenging for a country where energy production and industry depend to a large extent on fossil fuels. Regarding security of supply for natural gas, the country is fully dependent on a single source, rendering Bosnia and Herzegovina vulnerable in case of disruption. Both entities have a long-lasting contract with Gazprom. In addition to receiving natural gas through the Turkish Stream, an agreement has been signed for the single interconnection point between Serbia and Bosnia and Herzegovina, in accordance with the EU *acquis*. The Federation entity should accelerate the preparations of the main design, permitting, and adoption of the law on the Southern Gas Interconnector project that will contribute to strengthening the integration into the European gas market and increasing the security of supply. There was no progress in the harmonisation of legislation on compulsory oil stocks and petroleum products. Bosnia and Herzegovina is strongly encouraged to develop the necessary legislation, establish a body at state level on compulsory oil stocks and ensure harmonisation of legislation at entity level, in line with the requirements under the EU *acquis*.

Energy efficiency

In Bosnia and Herzegovina, the energy efficiency sector is the competence of the entities and Brčko District. In both the Federation entity and *Republika Srpska* entity, competence on energy efficiency is shared between

ministries responsible for energy and ministries responsible for spatial planning and in Brčko District it is at Government level. In addition, both entities have established environmental funds: - Fund for Environmental Protection in the Federation entity and Environmental Protection and Energy Efficiency Fund in *Republika Srpska* entity, both responsible for the implementation of energy efficiency policies, legislation and financial programmes. Besides subsidies, the Funds are collecting funds through environmental taxes and charges imposed on the business – but the collected amount is not enough for significant energy efficiency investments. The current financing mechanism channelled through two entity Funds (Fund for Environmental Protection of the Federation entity and Environmental Protection and Energy Efficiency Fund of *Republika Srpska* entity) involve the co-financing of energy efficiency projects together with beneficiaries through the allocation of grants and loans. The majority of implemented energy efficiency projects are executed in cooperation with international organisations, which includes blending the grants from an international organisation with the grants from the Funds and beneficiaries' contribution and this practice proved to be very efficient.

Energy poverty

Energy poverty is mentioned in the electricity directive/regulation through the concept of vulnerable consumers. Essentially, the goal of all the aforementioned regulations, as well as the UN goals for sustainable development, is to highlight and enable all population groups to use energy, which is necessary for a quality life. By signing the Sofia Declaration and accepting the Green Agenda for the Western Balkans, Bosnia and Herzegovina undertook to implement concrete measures provided for in the European Green Deal, which also include the issue of energy poverty.¹⁴

Some improvement in overall alignment of legislation with the EU *acquis* in Bosnia and Herzegovina and its entities have been made in recent years. However, terms like energy vulnerable and energy protected consumer are used interchangeably in the documents and differ in meaning among entities, which might complicate the implementation of the necessary measures. At state level, energy poverty and energy vulnerability are recognised in the 2035 Energy Strategy; however, further improvements and a more direct approach in terms of laws and bylaws are still necessary.¹⁵

Some progress has been made regarding the protection of vulnerable energy consumers in the most recent versions of the legislation as well in the Electricity Act from 2020 of *Republika Srpska* entity, the Brčko District Electricity Law from 2020 and the Electricity Act from 2014 of the Federation entity. However, in all cases, relevant bylaws, programme, and regulations are yet to be established.

There are no information regarding number of Roma living under poverty line. However, overall information indicate that the most vulnerable categories are the elderly over 65 years, households with more than two children are in the poorest category, young people aged between 15 to 25 years with no education, people with disabilities, displaced persons and the Roma. Roma ethnic minority traditionally face social exclusion on the grounds of racial discrimination, such as limited access to education, health services and income opportunities, which puts majority of Roma directly in the identified 170.619 poor households.

The draft NECP, which is being prepared, and which is not yet adopted, only generally includes energy poverty, and defines goals in this area. The adoption of the document at state level would create the conditions for the establishment of policies on energy poverty at all levels of government in Bosnia and Herzegovina.

Regarding social policy in Bosnia and Herzegovina, as constitutionally defined, the state-level competence is limited to internal coordination, and represent and commit the country at international level, while the implementation of the policy is under the competence of the *Republika Srpska* entity and its local level, the

¹⁴<https://reset.ba/wp-content/uploads/2022/05/Suzbijanje-energetskog-siromastva-u-Bosni-i-Hercegovini-%E2%80%93-prvi-korak-energetske-tranzicije.pdf>

¹⁵ Study on Addressing Energy Poverty in the Energy Community Contracting Parties, DOOR, EIHP 2021

Federation entity - between entity, cantons and municipalities - and the of Brčko District competence. Both entities and Brčko District adopted various development strategies or sectoral energy strategies where they recognise existence of energy poverty and envisage different measures to protect vulnerable categories. Ministries in charge of social policy and employment are in place at entity and cantonal level as well as in the Brčko District. Despite the high poverty and poverty-related social challenges, the social protection system is underdeveloped, while the effectiveness of social transfers is limited. In almost all municipalities across the country social service centres exist; they are responsible for implementation of social policies and social assistance benefits.

In the Federation entity, Brčko District and Canton Sarajevo measures are in place for some socially vulnerable categories. The Federation entity adopted in 2011 the Decision on Implementation of Measures for Reducing Household Electricity Costs and Stimulating Energy Efficiency Measures. This measure is in place since 2011 and is still ongoing. By this Decision the consumers who are eligible for support are: pensioners with the lowest pension and recipients of permanent financial assistance. The Sarajevo Canton has had measures for protecting vulnerable consumers since 2014. Several different criteria are use e.g.: total income per household, households that have a member with a 100% disability etc. In Brčko District on annual basis, the Government adopts a Program for providing financial support to socially vulnerable consumers (pensioners and persons in a state of social need) for paying utility bills.

Subsidising and maintaining the affordable tariffs for households and SMEs should thus be seen as a temporary measure to address the energy crisis effect and is not as pre-empting the achievement of ongoing reforms in the energy sector – particularly that towards deregulation of the market.

In conclusion, the policy is sufficiently relevant and credible for budget support contract objectives to be largely achieved. Therefore, the policy can be supported by the Commission with the proposed budget support contract.

2.4.2. Macroeconomic Policy¹⁶

Despite difficult health and political conditions, economic activity rebounded strongly in 2021. Real GDP is estimated to have rebounded by 7.5 percent in 2021, reflecting pent-up domestic spending and higher exports to the EU. Economic activity returned to or surpassed pre-pandemic levels—industrial production and exports have exceeded pre-pandemic levels since mid-2021, while employment returned to its pre-pandemic level towards the end of the year. Strong exports, together with improved remittances more than offset rebounding imports, helping narrow the current account deficit to 2.1% of GDP in 2021. Official foreign reserves are above the minimum reserve adequacy threshold. The currency board arrangement continues to provide credible basis and assists to securing the macroeconomic and financial stability by maintaining public confidence in the currency.

After a year-long deflation, headline inflation surged, driven by accelerating food and transport prices. Monthly inflation reached 10.2 percent in March 2022 and continued to 16.8% y/y in August. Core inflation, while significantly below headline inflation, has also edged up. The sharp increase in prices was driven by elevated global commodity and fuel prices, which came on top of earlier pressures from rebounding demand and drought. Net wages have been growing steadily, in line with the long-run growth in labour productivity.

The fiscal position turned to a surplus of 0.8 percent of GDP in 2021 from a deficit of 4.7 percent in 2020. This reflected mainly record-high indirect tax revenues, which grew by 16.7 percent compared to 2020, reflecting recovering consumption and higher prices, as well as lower domestically financed capital spending. Current expenditures rose marginally, driven mainly by higher spending on goods and services, public wages,

¹⁶ Based on IMF Article IV staff report and October 2022 World Economic Outlook. Some data also from www.bhas.gov.ba as of 25 October 2022.

and social benefits (pensions), while pandemic-related spending declined. External financing in 2021 was ample, with the SDR allocation (EUR 306 million) and a first tranche of EU macro-financial assistance (EUR 125 million) adding to *Republika Srpska* entity Eurobond issuance in April (EUR 300 million). The authorities used part of this financing for pandemic-related spending and transfers to lower government levels in line with their revised 2021 spending plans.

Fiscal surplus of 0.7 percent of GDP in 2021, is expected to marginally decline to 0.5 percent in 2022, and fluctuate around 1 – 1.2 percent in the medium term. The 2022 was dominated by higher expenditures driven by a rise in the public wage bill (11.7 percent) and spending on goods and services and social benefits while capital spending remained subdued. Fiscal consolidation is expected to resume in 2023, albeit at a different pace in the two entities. Expected surpluses in the medium term should be primarily a result of a higher tax compliance in outer years, while spending should remain restrained.

Public debt is estimated to have peaked at 36.7% in 2021 and is projected to return to levels below 35 percent of GDP. The International Monetary Fund (IMF) Debt Sustainability Analysis points that Bosnia and Herzegovina government debt remains low and sustainable. The *Republika Srpska* entity has less favourable financing position compared to the Federation entity, with higher accumulated debt and bigger near-term refinancing pressure. Needed external financing for Bosnia and Herzegovina is expected to be mostly supported by International Financial Institutions (IFIs), enabling favourable interest rate and longer maturities.

Boosted by external demand and domestic consumption, the economic activity performed well in the first half of the 2022 and the Central Bank of Bosnia and Herzegovina (CBBH) estimated GDP growth for H1 at 4.8%. The slowing down is expected in the second half of the year, as the external demand, primarily in the EU will subside. The real GDP growth for 2022 is therefore expected to be between 3 and 4 %. The medium term outlook will depend on the external demand and domestic reform efforts.

The current account deficit is projected to widen to 4.3 percent of GDP in 2022, due to moderating exports and a larger, price-driven, import bill, and to subsequently stabilize at around 3.5 percent on average, over the medium term. The Inflation remained elevated in 2022. The surge in headline inflation extended well into the second half this year. 2023 is expected to bring about gradual easing of inflationary pressures consistent with a projected slowdown in global food and energy prices and easing of supply constraints, and caps on domestic electricity prices. The average 12-month Consumer Prices Index (CPI) inflation is projected to well surpass ten percent in 2022, and decline to around 4.5 percent in 2023, 3.5 percent in 2024 and gradually ease towards 2 percent over the medium term, in line with projected euro area inflation.

As for the monetary and financial sector policies, the banking sector weathered the COVID-19 crisis well. The authorities implemented different measures to secure liquidity and maintain lending activity. The non-performing loans (NPLs) continued to decrease, reaching 5.2% in Q2 2022. The authorities should close the gaps in the financial safety net by creation of a single resolution fund that can facilitate bank restructuring and provide liquidity on an exceptional basis and finalization of the NPL resolution framework.

In March 2022, the IMF staff completed discussions on the 2022 Article IV consultations and reached a staff-level agreement with Bosnia and Herzegovina on the priority areas to be tackled under the potential new programme, that would be discussed in detail following the formation of new governments at all levels subsequent to October 2022 general elections.

It was recognised that the rebound in economic activity helped restore fiscal balance. Going forward, the fiscal policy should cushion the impact of high food and fuel prices on the most vulnerable and retain buffers given the uncertain outlook. The authorities should aim to provide temporary, targeted assistance to vulnerable households. In parallel, the authorities should seek to improve the social safety net to be better prepared for future shocks. Available fiscal space should be used to scale up public investment, preferably through low-cost, long-term financing from international financial institutions.

In conclusion, the authorities are pursuing a stability-oriented macroeconomic policy and the eligibility criterion is met.

2.4.3. Public Financial Management

With the support of the EU funded IMF technical assistance programme, in January 2021, Bosnia and Herzegovina produced the second Public Financial Management (PFM) Strategy for the level of Bosnia and Herzegovina institutions 2021-2025, the previous having covered 2017-2021. The comprehensive (countrywide) PFM Strategy for 2021-2025 was agreed among all levels of governance and approved on 28 July 2022. This demonstrates **high level of agreement** on issues to be tackled in the PFM domain.

Another indicator of high degree of synchronisation in the PFM effort is **almost identical structure** of the PFM Strategies across the levels of governance (institutions of Bosnia and Herzegovina, Federation entity, *Republika Srpska* entity, and Brčko District) and very similar measures and activities, calendars and deadlines for those activities differ though.

In terms of governance arrangements, the ministries of finance (and the Directorate of Finance in Brčko District) are the main focal points for PFM reform coordination. Twice-annual reports to the relevant Governments are produced and discussed, in order to ensure political follow-up to the reform plans.

The PFM Strategy is well anchored in the strategic policy framework. The strategy covers measures and activities from the preceding period, and its implementation is being led by inter-institutional working group – the same group that drafted the strategy. At the same time, certain reforms are included in strategic documents for the first time, it **brings together key reform measures and activities** planned by the Council of Ministers and institutions through strategies for the development of specific PFM sub-systems:

- the Strategy for Development of Internal Financial Control Systems in Bosnia and Herzegovina Institutions (adopted in June 2020),
- the Public Procurement Development Strategy 2021 – 2025 (underway),
- the Strategic Development Plan of the Audit Office of the Institutions of Bosnia and Herzegovina 2021 - 2025 (underway),
- in addition, the Statistics Development Strategy for Bosnia and Herzegovina - Agenda 2030 (underway), and
- the Anti-corruption Strategy 2020 – 2024 (underway) will be important and relevant for PFM.

In addition, all governmental levels in Bosnia and Herzegovina are focused on the **reform of the budget process** based on the strengthening of the programme budgeting and its improvement and more linking with the **Medium-Term Budget Planning** and **Strategic Planning**. It is reflected both in the individual PFM strategies at all levels of the government in Bosnia and Herzegovina as well as in the Comprehensive (countrywide) PFM Strategy. All governmental levels have also prepared the draft suggestions for the amendment to the primary and secondary legislation to enable the reform.

The Federation entity has already adopted the new Law on Budget based on the implementation of the **programme budgeting** at all stages of the budget process (budget preparation, budget execution and budget monitoring). The other three administrative levels are still in the process of doing it.

The World Bank conducted the Public Expenditure and Financial Accountability Assessment (**PEFA**) in 2013 and published in 2014. Although done almost ten years ago its broader assessment findings remain applicable. The assessment provides evidence-based findings and analysis for Bosnia and Herzegovina, Federation entity, *Republika Srpska* entity and Brčko District institutions throughout the PFM cycle. Results for the level of Bosnia and Herzegovina institutions, which is the most relevant for the Budget Support, received ratings from A to D, with the average value across the 28 indicators being C+. Specifically, **expenditure outturn** was rated at C, **revenue outturn** got the top rating of A, reporting, availability of information and transparency was

rated at B, while controls were rated at C+. The new PEFA assessment financed by the EU was launched in July 2022, however its conclusions are not yet available.

Domestic Revenue Mobilisation is strong feature in the Bosnia and Herzegovina PFM system. This is corroborated by the fact that, for example, the EU's average in terms of indirect tax collection rate in 2020 was 13.4 % of GDP while in Bosnia and Herzegovina it stood at 19.2% of GDP for the same year providing a highly plausible argument that Bosnia and Herzegovina Indirect Tax Authority, which is in charge of administering Bosnia and Herzegovina VAT, customs and excise taxes is, in fact, doing a very good job at fulfilling its mandate.

The integration of **gender responsive budgeting** (GRB) in Bosnia and Herzegovina commenced in the mid-2000s with early efforts undertaken by the gender institutional mechanisms, international organisations and non-governmental organisations, and was closely connected to the public finance reform. In using the budget reform process as an instrument to advance gender equality, GRB was initiated as part of the regular budget planning and distribution practice, hence being mainstreamed and used as an analysis and control tool. During the years, all administrative levels have worked towards GRB and there have been several projects to increase capacities of the civil servants in this regard. The Bosnia and Herzegovina Law on Gender Equality and Bosnia and Herzegovina Gender Action Plan 2018-2022 note GRB as a key principle, embedding GRB in the country's legislative and policy framework.

In conclusion, the public finance management reform strategy is sufficiently relevant and credible, including on domestic revenue mobilisation, and the eligibility criterion is met.

2.4.4. Transparency and Oversight of the Budget

As measured by the 2021 Open Budget Survey (<https://internationalbudget.org/open-budget-survey/country-results/2021/bosnia-and-herzegovina>) the budget transparency index has gone from 55 in 2012 to 33 in 2021. The primary reason for the drop is the fact that Bosnia and Herzegovina Institutions Budgets have not been adopted in time by the legislature, and that in-year reports and citizen budget were not published in timely fashion. These are all the repercussions of the ongoing political stalemate which has existed at the level of Council of Ministers already for many years. It is noteworthy that Open Budget Survey assess only the performance of the Bosnia and Herzegovina Institutions and does not assess the performance of *Republika Srpska* entity and the Federation entity. Further, all individual and comprehensive PFM strategies have set as an objective to improve all dimensions of the 'Open Budget' (transparency, oversight, public participation).

The most recent PEFA report dates back to 2013 and being outdated it cannot be used in this analyse. SIGMA report 2021 on PFM considered the overall value of "Principle 5: Transparent budget reporting and scrutiny" as 2 (fair).

SIGMA report pointed at major deficiencies being in the field of "Quality of annual reports of state owned enterprises, extra-budgetary funds and local government" and "Existence of reporting on fiscal risks identified. The "Quality of the annual financial report of the government" was considered however adequate (3/7).

Generally speaking, the budgetary information is publicly available concerning budget execution in all administrative levels. In-year budget execution reports are prepared quarterly in the Brčko District, at State level and in the Federation entity but are not published. In the *Republika Srpska* entity monthly reports are published. With the exception of the *Republika Srpska* entity, all annual financial statements are published within six months of the end of the year.

There has been recently a major attempt to advance the budget transparency by publishing of citizens' budget in all governmental levels. The pilot citizens' budgets were published in 2020 by MoFT, Federation entity and *Republika Srpska* entity, and PFM strategies are proposing follow-up for these pilots.

All annual financial reports are submitted to the respective parliaments of each administrative level, however there is no structured feedback system on Parliaments' scrutiny. In SIGMA report the timeliness of parliamentary discussion on the report of the State Audit Institutions (SAI) was considered very good (3/3). This is confirmed also in Open Budget Survey 2021 which scored "External audit oversight" 95 out of 100.

Further to extraordinary expenditures/ crisis related budget accountability and integrity it is noteworthy that both the Federation entity and *Republika Srpska* entity adopted new emergency legislation which was intended to facilitate the ability of the Federation entity and *Republika Srpska* entity governments to better deal with COVID-19 pandemic. On how this fared in the case of the Federation entity a performance audit of COVID-19 related interventions covering the period March-December 2020 was produced and published in June 2021 by the Federation entity Supreme Audit Institution¹⁷.

The key findings of the performance audit provide for useful lessons learned concerning the issue of transparency and comprehensives of reporting as follows:

1. The Federation entity Ministry of Finance did not engage in detailed and transparent planning of expenditures needed for emergency interventions.
2. During the period of preparation of emergency law, the Federation entity Ministry of Finance did not provide The Federation entity Government with the fiscal impact assessment of such Law on The Federation entity Budget.
3. Performance indicators for the realisation of the measures from the emergency law, so to ensure the prerequisites for subsequent evaluation of the accomplished effects and clearly determine the results of both individual measures and the Law as a whole, were not established.
4. Reporting within budget documentation was inadequate.

Such performance audit was not conducted in the case of *Republika Srpska* entity but it is possible that the lessons learned in the case of The Federation entity also apply.

In conclusion, the relevant budget documentation has been published and the eligibility criterion met.

3. DESCRIPTION OF THE ACTION

3.1. Intervention Logic

The Action consists of a State and Resilience Building Contract to support the mitigation of the socio-economic impact of the energy crisis and to setup an energy resilience strategy/action plan aligned with the green energy transition focused on energy efficiency and renewable energy. The budget support contract contributes to the government's policy to reduce the negative impact of the energy crisis on citizens, to ensure the delivery of essential services, particularly to the most vulnerable segments of the population, residential sector, and Micro Small and Medium Enterprises (MSMEs), , at the same time ensuring that support measures do not lead to increase in energy consumption but are coupled with energy efficiency measures, and to support the long-term socio-economic recovery, energy security and energy transition of the country, building on and in line with commitments Bosnia and Herzegovina has under the Energy Community law and in line with the Energy Community Decarbonization roadmap. The EU's approach will be accompanied by a robust policy dialogue.

¹⁷ Effectiveness of Planning and Implementation of Measures to Mitigate the Economic Consequences of Pandemic COVID-19: https://www.vrifbih.ba/wp-content/uploads/2021/06/Efikasnost_planiranja_i_realizacije_mjera_za_ublazavanje_ekonomskih_posljedica_pandemije_COVID-19.pdf

The overall objectives (Impact) of this Action is:

1. To mitigate the immediate socio-economic impact of the rising energy prices and boost sustainable economy based on climate resilient low-carbon principles

The **specific objectives (Outcomes)** of this Action to mitigate the energy crisis are to:

1. Increased access of vulnerable households to immediate energy poverty mitigation measures
2. More efficient and rational use of energy resources in residential sector
3. Increased access to reliable, energy and resources efficient affordable commercial facilities (focused on M/SMEs)

The **outputs** to be delivered by this Action contributing to the corresponding specific objectives (Outcomes) are:

Induced outputs;

1. Targeted measures to support the socially vulnerable population are put in place
2. Continued existing measures to subsidise electricity/utility bills for energy poor consumers
3. Financial incentive mechanisms adopted to increase energy savings and reduce Greenhouse Gas (GHG) emissions in the residential buildings
4. Financial incentive mechanisms adopted to increase energy savings and reduce GHG emissions in the MSMEs
5. Policy and regulatory framework is upgraded to allow for regional integration and increased investments in the sectors of intervention and in facilitating the implementation of the investment projects by private as well as public stakeholders
6. Progress on implementation of the National Energy Action Plan achieved

Direct outputs;

1. Strengthened policy evidence on energy efficiency, energy resilience and related support measures
2. Fiscal space for reallocation of funds to vulnerable stakeholders created

3.2. Mainstreaming

Environmental Protection, Climate Change and Biodiversity

Outcomes of the Strategic Environmental Assessment (SEA) screening (relevant for budget support and strategic-level interventions).

The SEA screening concluded that no further action was required.

Outcomes of the Environmental Impact Assessment (EIA) screening (relevant for projects and/or specific interventions within a project).

The EIA screening classified the Action as Category C (no need for further assessment).

Outcome of the Climate Risk Assessment (CRA) screening (relevant for projects and/or specific interventions within a project).

The CRA screening concluded that this Action is no or low risk (no need for further assessment).

Gender equality and empowerment of women and girls

The principles of gender equality and women empowerment are significant objectives to this Action. There is low awareness of the importance of the inclusion of gender equality principles in energy policy planning and

management. Vulnerable groups are not included in these processes, gender impact assessment has not been conducted, gender disaggregated data is unavailable. Women are underrepresented in most of the sectors but this difference is especially noticeable in the energy sector, which has been perceived as a predominantly male sector. Among the total number of employees in the energy sector in BiH, there is 17 percent of women, while only 6 percent are in top management positions. Given this low share, opportunities for increased participation of women throughout the implementation of the action will be explored addressing EU GAP III and BiH GAP measures as well as relevant priorities identified in the BiH Country Level Implementation Plan (CLIP). Specifically, the principle of gender equality will be embedded in the activities related to targeted social support provided to women and men in the framework of the Anti-Crisis Economic Plan and any support offered to businesses (owned by women and men) receiving funding secured by credit-guarantee schemes. Based on the activities to be conducted in the framework of the Action, vulnerable women and men shall be provided with social support to cope with the negative effects of the rising energy prices. The project will hence have a direct impact on women and men as final beneficiaries of the Action. During the implementation stage and through policy dialogue, a focus on gender-specific issues will be taken into account.

Human Rights

Actions under this programme will apply the human rights-based approach and be based on the principles of good governance, equality and the inclusion of socially or economically deprived or vulnerable groups.

Disability

As per OECD Disability DAC codes identified in section 1.1, this Action is labelled as D1. This implies that the inclusion of persons with disabilities is an important objective of the Action. The Action envisages to provide targeted social support to women and men, girls and boys with disabilities, to cope with the negative effects of the rising energy prices

Democracy

Actions under this programme will support steps taken by the Bosnia and Herzegovina government to address the principles of public administration developed by the European Commission in close cooperation with the OECD/SIGMA.

Conflict sensitivity, peace and resilience

The contract is intended to increase the overall resilience of economy and society to external shocks.

Disaster Risk Reduction

The contract is intended to increase the overall resilience of economy and society to external shocks.

3.3. Risks and Assumptions

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
2,3	The operational capacity of the government due to the administrative set – up to implement the Resilience Contract and reach to the most vulnerable	M	H	Follow closely on the implementation through policy dialogue Use technical assistance from other envelopes to

	groups of society and boost energy efficiency sector in the most efficient and timely manner.			support the swift preparation of methodologies/criteria/etc to define the beneficiaries
1,2,3	Maintenance of stability-oriented macroeconomic policy and progress in the implementation of public finance management reforms	M	H	IMF programme is approved and remains on track
2,3	Lack of capacity of the government to define and implement efficiently short and medium term response measures to address the needed reform in the energy sector	M	M	Pursue the policy dialogue and technical support to the relevant public authorities, ensure close co-ordination with international partners, business community and civil society organisations.

3.4. Indicative Logical Framework Matrix

Results	Results chain	Indicators	Baselines (value and year)	Targets by the end of the budget support contract (value and year)	Sources of data
Indicative Impact of the policy	Mitigation of the immediate socio-economic impact of the rising energy prices and boosted sustainable economy based on climate resilient low-carbon principles of Bosnia and Herzegovina.	Annual growth rate of real GDP per capita (SDG 8.1.1) Energy Intensity Level of Primary Energy (SDG 7.3.1)	7.5 % (2021) 466.71 (2022)	>2.5% (2023) < 466.71 (2023)	BHAS – Agency for Statistics of B&H EUROSTAT
Expected Outcomes of the policy	<p>1.Increased access of vulnerable households to immediate energy poverty mitigation measures</p> <p>2.More efficient and rational use of energy resources in residential sector</p>	<p>Share of vulnerable households benefitting from energy poverty mitigation measures to overcome the price increase of 2022/23 energy bills for heating¹⁸</p> <p>Number of residential buildings benefiting from affordable commercial energy efficiency measures</p>	<p>25% of vulnerable households receiving financial support to overcome the price increase of 2022/23 energy bills for heating (2022)</p> <p>0 residential buildings receiving grants (2022)</p>	<p>96% of vulnerable households receiving financial support to overcome the price increase of 2022/23 energy bills for heating (2023)</p> <p>4000 residential buildings receiving grants (2023)</p>	Government report on adopted measures related to Energy Crisis Action Plan

¹⁸ Based on The European Social Policy Network Thematic Report on In-work poverty, Bosnia and Herzegovina, 2019

	<p>3. Increased access to reliable, energy and resources efficient affordable commercial facilities (focused on M/SMEs)</p> <p>4. Establishment of a legislative framework the electricity allowing for the establishment of a power exchange and participation in market coupling</p>	<p>Number of MSMEs benefiting from affordable commercial energy efficiency measures</p> <p>Amendments to the State electricity legislation providing the legal basis for the establishment of an organized electricity market and the unbundling of grid operators</p>	<p>0 M/SMEs receiving grants (2022)</p> <p>Amendments drafted, not adopted (2022)</p>	<p>400 M/SMEs receiving grants (2023)</p> <p>Adoption of the amendments prepared by the Energy Community Secretariat (Q2 2023)</p>	
Induced Outputs	<p>Targeted measures to support the socially vulnerable population are put in place</p> <p>Continued existing measures to subsidise electricity/utility bills for energy poor consumers</p> <p>Financial incentive mechanisms adopted to increase energy savings and reduce GHG emissions in the residential buildings</p> <p>Financial incentive mechanisms adopted to increase energy savings</p>	<p>Mechanism to support energy poor households to overcome the price increase of 2022/23 energy bills for heating in place.</p> <p>Number of mechanisms to subsidise energy poor household's electricity/utility bills.</p> <p>Number of financial incentive mechanisms to increase energy savings and reduce GHG emissions in the residential buildings in place</p> <p>Number financial incentive mechanisms to increase energy</p>	<p>0 (2022)</p> <p>3 (2022)</p> <p>0 (2022)</p> <p>0 (2022)</p>	<p>1 (2023)</p> <p>3 (2023)</p> <p>2 (2023)</p> <p>2 (2023)</p>	<p>Government report on adopted measures related to Energy Crisis Action Plan</p>

	<p>and reduce GHG emissions in the MSMEs</p> <p>Increased access to financial services and products to energy poor households, and resource efficiency investments (residential sector and M/SMEs)</p> <p>Policy and regulatory framework is upgraded to allow for increased investments in the sectors of intervention and in facilitating the implementation of the investment projects by private as well as public stakeholders</p> <p>Progress on implementation of the National Energy Action Plan</p>	<p>savings and reduce GHG emissions in the MSMEs in place</p> <p>Volume of sources of financing extended to all relevant target entities in EUR</p> <p>Measures from the Action Plan taken to upgrade the policy and regulatory framework</p> <p>% of the measures of the National Energy Action Plan fully implemented</p>	<p>0 (2022)</p> <p>Limited progress (2022)</p> <p>0 (2022)</p>	<p>70 000 000 (2023)</p> <p>Significant progress (2023)</p> <p>100 (2023)</p>	
Direct Outputs	<p>Strengthened policy evidence on energy efficiency, energy resilience and related support measures</p>	<p>New tools and products in place by the Government as part of the National Energy Action Plan</p> <p>Volume of sources of financing available to Government for targeting relevant entities in EUR</p>	<p>Limited progress (2022)</p> <p>0 (2022)</p>	<p>Significant progress (2023)</p> <p>70 000 000 (2023)</p>	<p>Government report on adopted measures related to Energy Crisis Action Plan</p>

	Fiscal space for reallocation of funds to vulnerable stakeholders				
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4. IMPLEMENTATION ARRANGEMENTS

4.1. Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with Bosnia and Herzegovina.

4.2. Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 24 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

4.3. Implementation of the Budget Support Component

The Programme will be subject to direct management by the European Union Delegation to Bosnia and Herzegovina.

4.3.1. Rationale for the Amounts Allocated to Budget Support

The amount allocated for budget support is EUR 70 000 000. No complementary support is foreseen.

This amount is based on the commitment of Bosnia and Herzegovina to allocate national budget resources to mitigate the socio-economic impact of the energy crisis generated by Russian war of aggression against Ukraine. This amount is informed by a comprehensive discussion with the stakeholders and by the preparation of a National Action Plan to address the consequences of the energy crisis, particularly on vulnerable households and small and medium enterprises.

4.3.2. Criteria for Disbursement of Budget Support

a) Conditions.

The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the National Energy Crisis Action Plan to address the consequences of the socio-economic impact of the energy crisis.
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme.
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information.

b) Fundamental values

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

4.3.3. Budget Support Details

The budget support component consists of two fixed tranches. Budget support is provided as direct untargeted budget support to the national treasury. The crediting of the euro transfers disbursed into Bosnia and Herzegovina Convertible Mark will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

4.4. Indicative Budget

Indicative Budget components	EU contribution (amount in EUR)
Budget support - cf. section 4.3	70 000 000
Evaluation – cf. section 5.2 Audit – cf. section 5.3	will be covered by another Decision
Communication and visibility – cf. section 6	will be covered by another Decision
Contingencies	N.A.
Total	70 000 000

4.5. Organisational Set-up and Responsibilities

For the proposed activities under this Action Document, the key institutional stakeholders at all levels of governance in Bosnia and Herzegovina are:

- **State-level:**
 - Ministry of Foreign Trade and Economic Relations (MOFTER) + Ministry Project Implementation Unit (PIU)
 - Ministry of Finance and Treasury (MoFT)
- **The Federation entity:**
 - Ministry of Energy, Mining and Industry
 - Ministry of Labour and Social Policy
 - Environmental Protection Fund
- **Republika Srpska entity:**
 - Ministry of Energy and Mining
 - Ministry of Spatial Planning, Civil Engineering and Ecology
 - Ministry of Health and Social
 - Fund for Environmental Protection and Energy Efficiency
- **Brčko District of Bosnia and Herzegovina:**
 - Government of the Brčko District

Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina will coordinate the implementation of all activities in cooperation with relevant entity ministries and Environmental funds. It is foreseen to establish a Steering Committee, consisting of all relevant stakeholders involved in the Action at the beginning of the Action implementation. It will reflect equal participation of men and women in the decision-making processes related to the Action implementation.

Outcome 1:

The Council of Ministers of Bosnia and Herzegovina is responsible for making decisions on the implementation of activities. Bosnia and Herzegovina Ministry of Finance and Treasury and Bosnia and Herzegovina Ministry of Foreign Trade and Economic Relations are responsible for implementation of activities. In case outcome 1 is implemented by using energy vouchers (preferred approach), the indicative implementation of activities is as follows:

In case outcome 1 is implemented by using energy vouchers (preferred approach), the indicative implementation of activities is as follows: Bosnia and Herzegovina Ministry of Foreign Trade and Economic Relations is also responsible for the tender procedure for printing energy vouchers within Project Implementation Unit (PIU). Bosnia and Herzegovina Ministry of Foreign Trade and Economic Relations will send an invitation to the Federal Ministry of Labor and Social Policy and *Republika Srpska* entity Ministry of Health and Social Protection to submit list of energy vulnerable consumers.

Distribution of energy vouchers will be under Government of the Federation entity, Government of *Republika Srpska* entity and Government of Brčko District. Energy voucher will be distributed through the Ministry of Labor and Social Policy of the Federation entity, *Republika Srpska* entity and the Ministry of Health and Social Protection and Government of Brčko. District Governments of the Federation entity and *Republika Srpska* entity and Brčko District will be responsible for reporting on conducted activities and submitting reports to the state level Ministry of Finance and Treasury and Ministry of Foreign Trade and Economic Relations.

In case outcome 1 is implemented by cash transfers to energy vulnerable consumers to overcome the price increase, the indicative implementation of activities is as follows: Bosnia and Herzegovina Ministry of Finance and Treasury will distribute funds to Ministry of Finance of the Federation entity, Ministry of Finance of *Republika Srpska* entity and Finance Directorate of Brcko District. Ministry of Finance of the Federation entity, Ministry of Finance of *Republika Srpska* entity and Finance Directorate of Brcko District will be responsible to transfer to funds to Ministry of Labour and Social Policy of the Federation entity, Ministry of Health and Social Protection of *Republika Srpska* entity and Government of Brcko District that will distribute the cash transfers to energy vulnerable consumers. Governments of the Federation entity, *Republika Srpska* entity and Brčko District will be responsible for reporting on conducted activities and submitting reports to the state level Ministry of Finance and Treasury and Ministry of Foreign Trade and Economic Relations.

Outcome 2:

The Council of Ministers of Bosnia and Herzegovina is responsible for making decisions on the implementation of activities. Bosnia and Herzegovina Ministry of Finance and Treasury and Bosnia and Herzegovina Ministry of Foreign Trade and Economic Relations are responsible for implementation of activities jointly with Environmental Protection Fund of Federation entity and Fund for Environmental Protection and Energy Efficiency of the *Republika Srpska* entity.

Distribution of grants will be carried out by Environmental Protection Fund of Federation entity and Fund for Environmental Protection and Energy Efficiency of the *Republika Srpska* entity.

Environmental funds of the Federation entity and *Republika Srpska* entity will be responsible for reporting on conducted activities and submitting reports to the state level Ministry of Finance and Treasury and Ministry of Foreign Trade and Economic Relations.

Outcome 3:

The Council of Ministers of Bosnia and Herzegovina is responsible for making decisions on the implementation of activities. Bosnia and Herzegovina Ministry of Finance and Treasury and Bosnia and Herzegovina Ministry of Foreign Trade and Economic Relations are responsible for implementation of activities jointly with Environmental Protection Fund of Federation entity and Fund for Environmental Protection and Energy Efficiency of *Republika Srpska* entity.

Distribution of grants will be carried out by Environmental Protection Fund of Federation entity and Fund for Environmental Protection and Energy Efficiency of *Republika Srpska* entity.

Environmental funds of the Federation entity and *Republika Srpska* entity will be responsible for reporting on conducted activities and submitting reports to the Bosnia and Herzegovina Ministry of Finance and Treasury and Bosnia and Herzegovina Ministry of Foreign Trade and Economic Relations.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

5. PERFORMANCE MEASUREMENT

5.1. Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its Outputs and contribution to the achievement of its Outcomes, and if possible at the time of reporting, contribution to the achievement of its Impacts, as measured by corresponding indicators, using as reference National Energy Crisis Action Plan list.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Roles and responsibilities for data collection, analysis and monitoring:

This Action will be regularly monitored by EU Delegation Bosnia and Herzegovina. To ensure adequate monitoring of the implementation of the National Energy Crisis Action Plan, two mid-term and one final assessment of the Action results will be carried out. Each of the mid-term analyses will be carried out following the first and the second year of Action's implementation, appraised against mid-term goals (milestones). The final assessment will be based upon the targets defined for the year 2023 presented in the log frame. Results of these appraisals will be presented to the EU Delegation and the Sector Steering Committee upon the approval of the Programme Manager at the EU Delegation.

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed. This assessment has fed into the design of the action as follows:

Internal monitoring will be implemented through Steering Committee's meetings, EU Delegation quarterly Implementation reviews, on-the-spot checks, meetings with beneficiaries and consultant

companies/contractors. A Sector Steering Committee will be established to monitor implementation of the Action and will be composed of the main beneficiaries and relevant reform institutions in Bosnia and Herzegovina. Steering Committee will oversee the implementation of activities under this Action Document. Apart from Contracting Authority, Steering Committee will include representatives from main stakeholders from all levels of authorities in Bosnia and Herzegovina. The composition of the Steering Committee will ensure equal representation of all key actors and their interests, highlighting the effectiveness and efficiency of such body.

Besides, the Action might be subject to external monitoring in line with the European Commission rules and procedures set in the Financing Agreement. That is subject to the DG NEAR's Thematic Support, Monitoring and Evaluation Unit. They assess EU support, over a significant period, looking at specific sectors/themes, country support, aid modalities, financial instruments. They help understand why, in a specific context, the policy dialogue and financial assistance have been successful or not and provide recommendations to decision-makers for future programming and implementation.

5.2. Evaluation

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

In case an evaluation is not planned, the Commission may, during implementation, decide to undertake such an evaluation for duly justified reasons either on its own decision or on the initiative of the partner.

The Commission shall form a Reference Group (RG) composed by representatives from the main stakeholders at both EU and national (representatives from the government, from civil society organisations (private sector, NGOs, etc.), etc.) levels. If deemed necessary, other donors will be invited to join. [The Commission shall inform the implementing partner at least one month in advance of the dates envisaged for the evaluation exercise and missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities].

The evaluation reports shall be shared with the partner country and other key stakeholders following the best practice of evaluation dissemination. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Evaluation services may be contracted under a framework contract.

The financing of the evaluation shall be covered by another measure constituting a financing Decision.

5.3. Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

6. STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

This programme is part of the EUR one billion Energy Support Package, which comprises also direct support to the six IPA beneficiaries through the Western Balkans Investment Framework for energy diversification,

energy transition and energy security. Visibility and communication activities should be pursued strategically also in this context and with the aim to promote the Package as a whole at regional and national level.

All entities implementing EU-funded external actions have the contractual obligation to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. To that end they must comply with the instructions given in the 2022 guidance document [*Communicating and raising EU visibility: Guidance for external actions*](#) (or any successor document).

This obligation will apply equally, regardless of whether the actions concerned are implemented by the Commission, the partner country, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU Member States. In each case, a reference to the relevant contractual obligations must be included in the respective financing agreement, procurement and grant contracts, and contribution agreements.

Given that a similar action is financed simultaneously in each beneficiary in the Western Balkans, joint visibility and communication activities may be undertaken. Visibility and communication aspects shall be complementary to the activities implemented by the Directorate-General for Neighbourhood and Enlargement Negotiations and will be coordinated with the EU Delegation, to ensure coherence of narrative and message, as well as horizontal strategic communications.

Communication and visibility measures may be funded from the amounts allocated to the Action. For the purpose of enhancing the visibility of the EU and its contribution to this Action, the Commission may sign or enter into joint declarations or statements, as part of its prerogative of budget implementation and to safeguard the financial interests of the Union. Visibility and communication measures should also promote transparency and accountability on the use of funds. Effectiveness of communication activities on awareness about the Action and its objectives as well as on EU funding of the Action should be measured.

Implementing partners shall keep the Commission and concerned EU Delegation/Office fully informed of the planning and implementation of specific visibility and communication activities before work starts.

Implementing partners will ensure adequate visibility of EU financing and will report on visibility and communication actions as well as the results of the overall Action to the relevant monitoring committees. Actions related to communication and visibility will be coordinated with the Strategic communications project of the EU Delegation, to ensure coherence of narrative and message, as well as horizontal strategic communications

7. SUSTAINABILITY

This action responds to immediate crisis needs aimed at supporting vulnerable stakeholders throughout the winter of 2022-2023. Nevertheless, this action also seeks to support long term energy resilience through the preparation of a National Energy and Climate Plans (Energy Community plan) and adherence to the targets therein beyond 2023 as part of the wider efforts to achieve energy resilience and clean energy transition.

Responsible authorities in Bosnia and Herzegovina will ensure strong ownership and commitment towards sustaining the Action outputs and ensure involvement of relevant stakeholders and target groups. This Action outputs will result in improving the institutional capacities of relevant stakeholders in Bosnia and Herzegovina regarding the implementation of sustainable energy measures, improving energy efficiency, reducing energy consumption and costs in households, private buildings and MSMEs. Developed capacities and skills in the stakeholders benefiting from this Action will enable them to carry on their tasks in an effective manner after the intervention ends. There is strong ownership among the project beneficiaries for the implementation of renewable energy and energy efficiency targets in Bosnia and Herzegovina. To ensure a good level of sustainability, any development of registries, databases, management information systems and other IT

systems should respect the national standards for interoperability. In cases when these are missing, consultations with the relevant authorities in the field of Information and Communication Technology (ICT) will be ensured.

Policy dialogue under this action and beyond will also address the status of social safety nets especially geared to respond to crisis type of situations as well as the implementation of the Domestic Revenue Mobilisation.