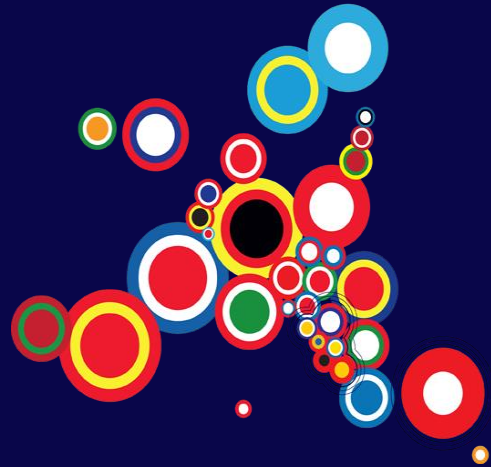




## INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II) 2014-2020

### BOSNIA AND HERZEGOVINA

### EU Support to the Economic Reform Programme (ERP)



#### **Action summary**

This Action will continue EU support to the improvement on the Economic Reform Programme (ERP) and will build on the support provided by the EU through the regional OECD implemented project in support of the ERP of Bosnia and Herzegovina, especially regarding capacity building of the institutions of all levels of government in Bosnia and Herzegovina to prepare and implement the ERP.

The Action will ultimately contribute to the improvement of economic governance in Bosnia and Herzegovina through the improvement of the quality of the ERP.

| <b>Action Identification</b>   |  |
|--|--|
| <b>Action Programme Title</b>  | Annual Action Programme for Bosnia and Herzegovina for the year 2018   |
| <b>Action Title</b>  | EU Support to the Economic Reform Programme (ERP)  |
| <b>Action ID</b>   | IPA/2018/ 041-501/1  |
| <b>Sector Information</b>  |  |
| <b>IPA II Sector</b>   | Democracy and governance   |
| <b>DAC Sector</b>  | 15111 - Public finance management  |
| <b>Budget</b>  |  |
| <b>Total cost</b>  | EUR 2 000 000  |
| <b>EU contribution</b>   | EUR 2 000 000  |
| <b>Budget line(s)</b>  | 22.020101  |
| <b>Management and Implementation</b>   |  |
| <b>Management mode</b>   | Direct management  |
| <i>Direct management:</i><br><b>EU Delegation</b>                                  | EU Delegation to Bosnia and Herzegovina  |
| <i>Indirect management:</i><br><b>National authority or other entrusted entity</b> |  |
| <b>Implementation responsibilities</b>   | EU Delegation to Bosnia and Herzegovina  |
| <b>Location</b>  |  |
| <b>Zone benefiting from the action</b>   | Bosnia and Herzegovina   |
| <b>Specific implementation area(s)</b>   | Bosnia and Herzegovina   |
| <b>Timeline</b>  |  |
| <b>Final date for concluding Financing Agreement(s) with IPA II beneficiary</b>    | At the latest by 31 December 2019  |
| <b>Final date for concluding delegation agreements under indirect management</b>   | N/A  |
| <b>Final date for concluding procurement and grant contracts</b>                   | 3 years following the date of conclusion of the Financing Agreement, with the exception of cases listed under Article 114(2) of the Financial Regulation |
| <b>Final date for operational implementation</b>                                   | 6 years following the conclusion of the Financing Agreement  |
| <b>Final date for implementing the Financing Agreement</b>                         | 12 years following the conclusion of the Financing Agreement   |

|   |                          |                              |                          |
|---|--------------------------|------------------------------|--------------------------|
| <b>(date by which this programme should be de-committed and closed)</b> |                          |                              |                          |
| <b>Policy objectives / Markers (DAC form)</b>                           |                          |                              |                          |
| <b>General policy objective</b>   | <b>Not targeted</b>      | <b>Significant objective</b> | <b>Main objective</b>    |
| Participation development/good governance                               | <input type="checkbox"/> | <input type="checkbox"/>     | X                        |
| Aid to environment  | X                        | <input type="checkbox"/>     | <input type="checkbox"/> |
| Gender equality (including Women In Development)                        | <input type="checkbox"/> | X                            | <input type="checkbox"/> |
| Trade Development   | <input type="checkbox"/> | X                            | <input type="checkbox"/> |
| Reproductive, Maternal, New born and child health                       | <input type="checkbox"/> | X                            | <input type="checkbox"/> |
| <b>RIO Convention markers</b>   | <b>Not targeted</b>      | <b>Significant objective</b> | <b>Main objective</b>    |
| Biological diversity  | X                        | <input type="checkbox"/>     | <input type="checkbox"/> |
| Combat desertification  | X                        | <input type="checkbox"/>     | <input type="checkbox"/> |
| Climate change mitigation   | X                        | <input type="checkbox"/>     | <input type="checkbox"/> |
| Climate change adaptation   | X                        | <input type="checkbox"/>     | <input type="checkbox"/> |

## 1. RATIONALE

### PROBLEM AND STAKEHOLDER ANALYSIS

Reform efforts are underway in most of the economies in the region to address internal structural weaknesses, but considerable growth potential can be unleashed through an acceleration of structural reforms that bring more people to the labour market, boost investment and innovation and also through closer economic integration that will make the region more attractive as an investment destination.

In the Enlargement Strategy 2014-15, the European Commission outlined the three pillars of its enlargement policy: rule of law, economic governance and public administration reform. The economic governance pillar addresses the concerns of citizens in a persistently difficult economic environment, with high unemployment and low investment. Economic governance is particularly important in relation to the Western Balkans since none of them is yet considered to be a functioning market economy able to withstand the competitive pressure of the EU single market.

The new economic governance approach provides a more coherent framework for economic policy-making for the Western Balkans and Turkey, inspired by the European Semester process for EU member states. The objective of the approach is to support them to meet the Copenhagen economic criteria and help them to better respond to numerous economic challenges they are facing.

The European Commission horizontal overview of the economic challenges (submitted to the EFC secretariat in April 2018) highlights that the bottlenecks to competitiveness and growth in the Western Balkans include weak business environments, low private sector investment, especially in research and innovation and wide skills gaps. Emphasis on economic governance is further developed in the Western Balkans Strategy of the European Commission. The countries of the Western Balkans are invited to strengthen economic policy planning and governance through the preparation of the annual Economic Reform Programmes (ERP).

The Assessment of the ERP BiH by the European Commission underlines that the sections on structural reforms (diagnostic, measures, public consultation, costing etc.) needs continued improvement by the consolidation of the entities' contributions into a single coherent country-wide ERP with measures on a country-wide basis. The public sector's investment plans are insufficiently linked to the macroeconomic framework, while the link between public revenue and structural reform is non-existent. The compilation and presentation of fiscal data is not in line with the European System of National Accounts (ESA 2010), and the programme does not present a road map for aligning the country's statistical system with EU standards or for submitting a fiscal notification. Discrepancies between the plan of public investments and the macroeconomic framework (the part related with public investments) is due to different approaches in financing sources (the Macroeconomic framework section provides all the potential sources of funding, while the Ministry of Finance of BiH only provides input from the budget). The European Commission also states that the implementation of the policy guidance jointly adopted in the Economic and Financial Dialogue of 23 May 2017 has been limited. The cause of the shortcomings cited by the EC in its Assessment is the lack of functional coordination which, under the conditions of institutional arrangement such as in BiH, such as the chronic and time consuming disputes between the various governmental stakeholders, resulted in substantial delays and have strongly impeded the effectiveness of economic policy.

Bosnia and Herzegovina faces particular challenges related to the co-ordination of the preparation of the Economic Reform Programme in terms of institutional arrangements, which hinder the entire planning process in the country. The lack of a functional framework of coordination (institutional and normative) appears to be significant. A major problem is the coordination of economic policies at the level of economic decision makers, which is not developed through a coherent planning framework, and includes all levels of government.

A medium-term policy-planning framework has been established at all levels of BiH, except for Brčko District where the process of adopting the Strategy is initiated by the formal Decision of the Government of Brčko District of BiH. However, there is still a problem of harmonized mid-term planning for the whole of Bosnia and Herzegovina, which is reflected in the weak development of sector strategies and the lack of a

national development strategy in BiH. This problem has a direct effect on the unclear and nonbinding accountability of the institutions in the preparation and implementation of the Economic Reform Programme. Improving economic governance will contribute to the overall improvement of stable and transparent financing of BiH institutions, governance and control of public finances and the fulfilment of international financial obligations, which will ultimately affect the welfare of all BiH citizens.

The unsatisfactory quality of the Economic Reform Programme document, which the European Commission points out in the ERP Assessment, is caused by inadequate administrative capacity in terms of specific knowledge and skills for the preparation of such a document at the level of line ministries, the lack of coordination between the different structures of the government to achieve country-wide structural reforms implementation, and the lack of ownership at political level. Reforms based on expert analysis and evidence prove to be crucial for this process. The result of insufficient and incompetent capacities is an inconsistent and incoherent Economic Reform Programme, and therefore the focus on functional coordination and evidence-based reforms is of great importance for the preparation of this document. Furthermore, the knowledge and skills of administrative officers require targeted training in the planning, diagnosis and prioritization of reform measures in the Economic Reform Programme. According to the SIGMA Monitoring Report 2017, Bosnia and Herzegovina amended the Unified Rules for Legal Drafting, with the aim of introducing Regulatory Impact Assessment (RIA) into the policy-development process at the state level.

Moreover, there is a notable lack of involvement of the academic community as well as governmental, non-governmental institutions, social partners and of the private sector representatives in the process of developing the ERP. The ERP monitoring system is also insufficient and does not follow a policy cycle that will ensure further improvement of the ERP preparation process. Another important problem is the need to strengthen the capacity of relevant ministries in charge of articulation of reforms, evidence-based analysis and functional coordination.

There are two groups of stakeholders for this Action. The first group of stakeholders are the nominated coordinators from the two levels of government (through a legal act adopted by each respective level of government), namely the Directorate for Economic Planning (DEP) at the state level, and the entity coordinators from the Federal Institute for Development Planning (FIDP) and the Ministry of Finance of Republika Srpska (RS). The role of the coordinators in the process of the preparation of the Economic Reform Programmes is to coordinate the institutions in the drafting and final compilation of the entire document. Throughout this process, the coordinators have the obligation to provide both the knowledge and technical support to the institutions. The coordinators would need assistance in the preparation and prioritization of structural reforms, as well as improvement of the coordination of the process of preparation of ERP. It is necessary for the coordinators to be trained as trainers for the institutions during this project and for them to be equipped with the tools for the provision of technical assistance to the institutions.

The second group of stakeholders would be comprised of the line ministries and other governmental institutions, as well as non-governmental organizations and the academic community. The needs of this group of stakeholders is the building and support of capacities of the stakeholders in various segments of the preparation of ERP, e.g. analysis, diagnostics, preparation, prioritization, monitoring.

Improving economic governance will contribute to the overall improvement of stable and transparent financing of BiH institutions, good governance and control of public finances and the fulfilment of international financial obligations, which will ultimately affect the welfare of all BiH citizens.

Bosnia and Herzegovina is a fiscally decentralised country in which, according to its Constitution and its laws, each level of government adopts a fiscal policy, so fiscal coordination, consolidation of fiscal data and reporting are of essential importance for planning and monitoring fiscal policy in BiH. Ministries of Finance on all levels of government lack capacities and tools for medium-term macro-fiscal projections as the foundation of placing macroeconomic, fiscal and sectoral policy in the centre of the process of planning and budget preparation. The problem of consolidating fiscal data due to a high degree of fiscal decentralisation, in addition to identifying the institution for preparing consolidated reports, is further burdened by application of different accounting standards and different methodology in implementation of consolidation procedure. Therefore, consolidated accounts are not comparable and they do not give a clear representation of public finance in BiH. The European Commission pointed to the shortcomings in the reporting. The compilation and presentation of fiscal data submitted under the Economic Reform Programme for BiH is not in line with

the European System of National Accounts (ESA 2010), and the fiscal effects of planned measures on the revenue and expenditure side are not visible.

Projections of budgets of central governments and social security funds of Entities and Institutions of BiH are prepared on the basis of harmonised tables for reporting to the IMF, which are not prepared on the basis of the same consolidation methodology. In order to obtain comparable data within BiH and more quality data comparable with other countries, it is necessary for the consolidation of public revenues and expenditures to be prepared on the basis of the same methodology. In that respect, it is necessary to develop tools for consolidating fiscal data and projections as well as tools for consolidation debt data and projection. Based on the decision of the Fiscal Council, the Macroeconomic Unit of the Governing Board of the Indirect Tax Authority prepared consolidated data for the central and general government of Bosnia and Herzegovina in 2015 in a format prepared by the IMF in cooperation with the national authorities, in order to monitor the Stand-By Arrangement. Since the above application was developed for the purpose of monitoring the Stand-By Arrangement and due to the lack of capacity in the Macroeconomic Unit of the Governing Board of the Indirect Tax Authority, the activity is not carried out nor the consolidated data are published in the Macroeconomic Unit of the Governing Board of the Indirect Tax Authority bulletins.

The analysis of the problem has found that, for the reporting purpose in line with international standards and EU practices and standards, it is necessary to strengthen the capacities of the finance ministries of all levels of government, harmonize and standardize the methodology and procedures for consolidating fiscal data and public debt data. In this regard it was established that the problem could be solved by software development, training of civil servants at all levels of government, and elaboration of detailed instructions for the application of software and procedures for the consolidation of fiscal data and public debt data at all levels of government. This would strengthen the capacities of the finance ministries of all levels of government and improve the reporting to the European Commission, and build capacities for the quarterly and finally the monthly reporting.

#### **OUTLINE OF IPA II ASSISTANCE**

The interventions in the implementation of this Action are planned in two areas. Through this Action, IPA funds would be used to strengthen the capacities of the institutions, line ministries and other governmental institutions involved in the formulation of structural reforms in the reform fields (currently eight). IPA funds would be used to strengthen the technical capacities of the coordination institutions, the line ministries and other government institutions and all finance ministries. The problem analysis has determined that these capacities would be significantly improved by the development of a system/software for planning and reporting. The training of civil servants at all levels of government in the ministries would be carried out for the application of these systems/software and the harmonized methodologies. The problem analysis and activities indicate that direct beneficiaries are the Directorate for Economic Planning, Federal Institute for Development Programming, the Ministry of Finance of RS, the Ministry of Finance at all levels of government and the line ministries and other government institutions. The second result targets the consolidation of the state and entity contributions into a single coherent country-wide ERP and is aimed at the role and responsibilities of the coordinators of the ERP.

#### **RELEVANCE WITH THE IPA II STRATEGY PAPER AND OTHER KEY REFERENCES**

The European Commission **Western Balkans Strategy** recalls that the annual economic reform programme exercise led by the Commission is a crucial tool for supporting the modernisation of economies and achieving closer economic coordination with the EU. Under the flagship initiative to support socio-economic development, the Strategy confirms the Commission's intentions to strengthen the ERP exercise and provide improved technical assistance. It also states that the annual economic reform programme exercise led by the Commission with all Western Balkan countries is a crucial tool for achieving closer economic coordination with the EU. This Action will contribute to the improvement of economic coordination with the EU.

The **Indicative Strategy Paper** for Bosnia and Herzegovina 2014-2020 requires IPA II assistance to take into account ERP efforts and to support the implementation of both the structural reform plans included in the ERP as well as the policy guidance. More specifically, it aims to support BiH in preparation and implementation of the ERPs in view of improving their quality and ensuring consistent implementation. Furthermore, the Indicative Strategy Paper for Bosnia and Herzegovina states that governance and public

administration reform are key priorities of the Enlargement Strategy. The focus of IPA II assistance will be on the implementation of principles of good governance and improving the public sector management, in particular to strengthen economic management, public financial management, public service delivery and administration reform. As a closely linked key objective, the Indicative Strategy Paper states support to Bosnia and Herzegovina on its Economic Reform Programme preparation and implementation in order to have a sound basis for socio-economic and structural reforms. The Indicative Strategy Paper as one of the expected results of the IPA II support reads: *“Improved quality of the annual Economic Reform Programme and consistent implementation of the reforms contained in the programme and of the Ministerial policy guidance jointly adopted each year”*. This Action will contribute to the improvement of governance and public administration reform.

In accordance with the **Stabilization and Association Agreement**, Article 111<sup>1</sup>, this Action will contribute to the components of the building of strong institutions and is intended to imply the main features and aspects related to the development of public administration and meeting the criteria for membership. The Action will contribute to meeting the economic criteria for membership.

The **European Commission Interim Country Report 2018** states that concerning **economic development and competitiveness**, Bosnia and Herzegovina has made some progress, but is still at an early stage of establishing a functioning market economy. Some improvements of the business environment have been achieved and the financial sector has been strengthened. Key remaining issues are a weak rule of law, a still poor business environment, a fragmented and inefficient public administration and major labour market imbalances, related to a poor education system, weak institutional capacities, and an unsupportive investment climate. Moreover, the informal economy remains significant.

This Action will contribute to the strengthening of the commitment of Bosnia and Herzegovina to market-oriented reforms.

When it comes to Policy Development and Coordination, the **SIGMA Report for 2017** recalls that at all levels of the administration, the relevant legal and regulatory frameworks have established most of the critical centre of government functions. However, the function of co-ordinating the content of the proposals and their implementation has not been established at any level. While formal guidelines for the planning and monitoring of government work have been adopted on all levels, formal guidance in the areas of policy development and sectoral-strategy development is still not available. At all levels of BiH, the prioritization of the annual work of the respective Governments and the cooperation between the centre of government (CoG) institutions in reviewing the ministerial proposals remains weak.

The Sigma Report 2017 provides recommendations to help public authorities to take concrete actions to address the most important challenges. SIGMA Recommendations in the field of Public Policy and Coordination for 2017 are:

- 1) All levels of the administration should establish the legal and institutional frameworks for coordinating the policy content of proposals within the CoG. The relevant CoG institutions should take methodological responsibility for developing and strengthening the policy-making process.
- 2) All levels of the administration should support the operationalisation and functioning of the new EU Co-ordination System. They should also develop and adopt guidelines in the areas of EI planning, planning and monitoring of EU assistance, EI-related negotiation, and translation of the acquis.

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<sup>1</sup> SAA – ART. 111 - Public Administration Reform: Cooperation will aim to further the development of an efficient and accountable public administration in Bosnia and Herzegovina, building on the reform efforts undertaken to date in this area. Cooperation in this area shall focus mainly on institution building, in line with European Partnership requirements, and will include aspects such as the development and implementation of transparent and impartial recruitment procedures, human resources management and career development for the public service, continued training, the promotion of ethics within the public administration and the strengthening of the policy making process. Reforms will take due account of fiscal sustainability objectives, including aspects of fiscal architecture. Cooperation shall cover all levels of public administration in Bosnia and Herzegovina.

3)The CoM of BiH (DEP), the FBiH Government (FIDP), and the BD Government should develop and adopt guidelines in the area of sectoral strategy development.

The recommendations are still valid and this Action will contribute to the fulfilment of the SIGMA recommendations.

A high-level conference held in Brussels on 12 November 2014 introduced the European Commission's reinforced approach to public administration reform in the Enlargement process and launched the **Principles of Public Administration** developed jointly by the EC and OECD/SIGMA. The Principles were well received and welcomed by the Western Balkans countries and Turkey as a good framework for structuring a dialogue on public administration reform with the European Commission, but also for guiding, prioritising and monitoring the national reform process. The countries also committed to work with SIGMA in conducting country reviews which will set baseline values for indicators included in the monitoring framework. This Action will contribute to the improvement of good governance within the public administration.

The objectives agreed under the **South East Europe (SEE) 2020**<sup>2</sup> are important benchmarks for the reform efforts of Bosnia and Herzegovina and this Action from IPA II will be used to support meeting these benchmarks. Within SEE 2020, the Governance for Growth pillar is considered to be a cross-cutting component and a prerequisite for the achievement of the Strategy's objectives and for the effective implementation of the Strategy's policy measures and instruments across all pillars. There is ample evidence that institutions – particularly those involved in governance – contribute significantly to development and growth. An important focus of the Strategy is the inter-institutional cooperation and coordination for devising policies and disseminating practices at each administrative level through SEE and for improving the coordination between institutions in administering and issuing administrative decisions. Enhancing cooperation and coordination between the different administrative levels should contribute to economic growth.

#### **LESSONS LEARNED AND LINK TO PREVIOUS FINANCIAL ASSISTANCE**

A general lesson learnt, applying to all sectors, is that policy and legislative development needs to be evidence-based, costed and subject to appropriate internal and external stakeholder consultations at the right time of the legislative and policy-making process. This is key in ensuring implementation and enforcement of adopted policies and legislation. Therefore, the action shall ensure consistency with the horizontal public administration reform (PAR) efforts.

Bosnia and Herzegovina – as other WB countries - has been involved in a number of technical cooperation projects in recent years involving support to the design of its ERPs. This was in fact one of the main components of the programme on economic governance implemented by the OECD and funded under the multi-country IPA 2015; this programme has provided support to ERP coordinators in particular for economy-wide diagnostic and prioritisation. This support will run until mid-2019 covering five annual ERP cycles. While institutional capacity has to some extent increased following OECD intervention, in BiH there is a need for continued support to ERP coordinators and specifically for the preparation and support of reforms in line ministries and other governmental institutions.

The EU has supported the development of national planning system in BiH through a Twinning project as part of IPA 2009 with the project “**Strengthening the National Planning Process in BiH** “. The Project had provided initial assistance in the development of the planning process and a general strategic planning methodology and toolkit. The idea was to help to avoid the production of over-comprehensive strategy documents, which try to address and list everything without developing a clear focus. Regarding the sectoral approach to development planning, the Project had trained a large number of civil servants in coordination and/or planning agenda at the BiH level (including DEI, DEP, MoFT and line ministries and other governmental institutions) and at the level of FBiH (Federal Ministry of Finance - FMF, line ministries and other governmental institutions) and BD.

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<sup>2</sup> South East Europe 2020 Strategy, <http://www.rcc.int/files/user/docs/reports/SEE2020-Strategy.pdf>



At the end of the Project, the beneficiary institutions were tasked with economic analysis and forecasting, as well as the assessment of the impact of policy and reform measures to build stronger capacities in these fields. Knowledge about key issues such as topics of high relevance, data requirements, and methodologies and tools (including software), is much higher now.

The main Project's recommendations were that there should be continuous effort to strengthen within the government sector awareness through the development of a general development strategy, promotion of comprehensive planning within sectors and the strengthening of economic analysis, impact assessment and policy formulation. The Project has ended before the start of the dialogue between BiH authorities and the Commission regarding NERP 2015-2017.

In this area there is an ongoing project "**Strengthening Capacities for Strategic Planning and Policy Development**" - Phase II (SPPD II). The project directly contributes to the implementation of the Public Administration Reform Strategy of BiH in the field of strategic planning, coordination and policy development, building upon the achievements and Lessons learned in Phase I SPPD (2009-2011). The SPPD II project aims to further develop functional and sustainable strategic planning systems related to budget planning and evidence-based policy development at the state, entity and Brčko District level, which promote efficiency, effectiveness, accountability, and support to the EU integration process.

**The capacity building project for the compilation of accounting data in the public sector and public finance statistics**", financed by IPA I and implemented in 2013 and 2014, contributed to some progress through the provision of basic trainings in the area of reporting to ESA 95 and, among other things by the document "Methodological Guidelines for the Compilation of Projected Fiscal Data in the ERP Tables in accordance with ESA 95 and International Standards, as well as the GFS 2001 connection tables in ESA 95 (Economic Classification)." There is a great need to continue with more detailed training in the application of ESA 95 and ESA 2010. This partially has solved the problem of capacity building at all levels of government for reporting purposes towards the EU. Bridge tables (GFS / ESA) which were prepared within this project could be used and updated as part of this action.

The activities regarded the development of softwares/IT solutions would represent an upgrade of the capacities related to the mentioned project, as the problem of capacity building was solved partly by the previous project.

## 2. INTERVENTION LOGIC

### LOGICAL FRAMEWORK MATRIX

| OVERALL OBJECTIVE   | OBJECTIVELY VERIFIABLE INDICATORS (*)  | SOURCES OF VERIFICATION  |  |
|---|--|--|--|
| To strengthen economic fundamentals and growth in Bosnia and Herzegovina in view of economic criteria for EU accession and of the requirements of economic policy coordination in the European Semester | Composite indicator (average of Government Effectiveness, Burden of Government Regulation and Regulatory Quality)  | World Bank, World Competitive Forum  |  |
| SPECIFIC OBJECTIVE  | OBJECTIVELY VERIFIABLE INDICATORS (*)  | SOURCES OF VERIFICATION  | ASSUMPTIONS  |
| To improve Economic Reform Programme preparation and implementation   | Evolution in grade in ERP Assessment by EC   | EC annual assessments of BiH Economic Reform Programmes  | Full commitment and support of the decision-makers of the involved institutions;   |
| RESULTS   | OBJECTIVELY VERIFIABLE INDICATORS (*)  | SOURCES OF VERIFICATION  | ASSUMPTIONS  |
| <b>Result 1:</b> Capacities of line ministries and other government institutions for preparation and implementation of ERP strengthened and improved  | 1.1. Number of staff trained in prioritization, diagnostics, reform formulation and monitoring of ERP<br><br>1.2. Number of trained civil servants for the software use and in the methodology for collection, dissemination and consolidation of fiscal data and public debt data | Project Deliverables (Reports, Trainings, etc)<br>Training reports including gender disaggregated data<br>Progress Report / Project documentation<br>Reports from National Authorities<br>ERP Assessment by EC | Good cooperation between relevant partners and willingness to adapt to changes where necessary;<br>Technical and human resources required for action implementation allocated; |
| <b>Result 2:</b> Capacities of the institutions of the ERP coordinators strengthened and improved   | 2.1. Number of capacity building activities of the coordinating institutions<br><br>2.2. Number of awareness raising activities  | Steering Committee Meetings/Review meetings<br>Action Management Meetings<br>On the Spot Checks reports / Other Site Visits  | Institutional settings defined and staff available to benefit from the TA;   |

(\*) All indicators should be formulated as measurement, without specifying targets in the Logical Framework Matrix. The targets should be included in the performance measurement table in section 4. More detailed guidance on indicators is provided in Section 4 on performance measurement.

(\*\*) Relevant activities have to be included only in the following sub-section.

## **DESCRIPTION OF ACTIVITIES**

### **Planned activities related to Result 1: Capacities of line ministries and other government institutions for preparation and implementation of ERP strengthened and improved**

For the purpose of contributing to Public Administration Reform and good governance by strengthening economic governance and the improvement of the Economic Reform Programme, the Action will further strengthen the capacities of the line ministries and other governmental institutions for preparation and implementation of country-wide structural reforms. This Action will develop the capacities of line ministries and other governmental institutions to formulate and implement structural reforms based on evolving practices, lessons learned during the preparation and implementation of the ERP process and recommendations (e.g. European Commission, DG NEAR, and SIGMA). The Action will support the operational level of the line ministries and other governmental institutions (with on-the-job training and mentoring, as well as group trainings according to the needs of the beneficiaries) with their formulation and monitoring functions and procedures including the preparation of the country-wide structural reforms.

#### **1.1. Develop and deliver trainings for preparation of ERP**

TNA (Training Needs Assessment) – Within this activity, an analysis of the training needs relevant for a consistent and coordinated countrywide ERP for the institutions will be conducted. This activity will provide a training programme with detailed training plans for the targeted beneficiaries. The specific needs for this type of training will be detected during and after the TNA. The activity will also follow and take into account the Guidelines for the ERP of the EC for the development and implementation of ERP. This Action will contribute to the development of civil servants and continuous professional education, as well as to the development and capacity building of the civil service in BiH in accordance with the Public Administration Reform Strategy. This activity will also take into account the specific needs of women and men.

#### **1.2. Development of software/system for the collection, exchange and consolidation of overall fiscal data, public debt data for the needs of ERP**

This activity has the objective to establish necessary software and systems of data collection, exchange, consolidation and reporting for the following areas: fiscal data, overall public debt and the public sector. One software for the collection, exchange and consolidation of fiscal data including projections for the next two years for all levels of government in accordance with the economic and COFOG classification, and the other for the collection, consolidation and reporting of public debt data and projections. The above software would enable easier, faster and more efficient data collection and consolidation, and it would be located in the Ministry of Finance and Treasury of BiH, entity finance ministries, cantonal ministries of finance and the Brčko District. This will result in major improvement of ERP. It will provide bases for comprehensive and coherent fiscal framework that includes credible forecast not only of ongoing but also planned projects. In addition, detailed instructions will be drawn up to specify, in cooperation with user institutions, all details related to data (mode of exchange, data exchange periods, rebalance date, table layout, etc.). After that, training of civil servants of ministries of finance of all levels of government involved in the process of data collection and consolidation, application of software and instructions will be carried out. The trained civil servants are expected to transfer the acquired knowledge to an appropriate additional number of civil servants using literature and materials from the seminar.

#### **1.3. Structural reforms: Develop an IT platform for inputs for ERP**

The software would be newly developed IT platform uniquely designed for the use of line ministries and other governmental institutions in order to provide and complement their inputs for the structural reforms, which would contribute to the overall planning and reporting for ERP. The purpose of this activity would be to at all times have an updated version of the document that is available to stakeholders, i.e. the line ministries, other governmental institutions and the coordinators. It would also facilitate the consolidation of the measures at the State level once the first draft of the document is completed, which would in turn ensure countrywide structural reforms. The coordinators will regularly overview the inputs/structural reforms. This activity will ensure the adequate formulation of the structural reforms.

### **Planned activities related to Result 2: Capacities of the institutions of the ERP coordinators strengthened and improved.**

The complex constitutional structure of BiH (the number of different public organizations across different government levels and non-governmental organizations, public enterprises and academy community) requires a tailor-made coordination set-up for the design and implementation of strategic documents, where all key stakeholders are involved and satisfied with the approach. For this reason, it is essential to improve and strengthen capacities in coordinating institutions for the ERP process, which would in turn ensure the joint participation and ownership of the programme as well as a coherent and country-wide ERP.

### **2.1. Raising awareness of relevance of ERP**

Raising awareness activities will be included in the Action to enhance the relevance of the Programme among decision makers, civil society organizations, the academic community and other relevant organizations. Communication activities including presentations for high-level officials and decision makers will be implemented. Within this activity, a part of the DEP webpage will be made available to the institutions and the public for displaying best practices, other countries' ERPs and the process of coordination for ERP in BiH, as well as tools and methodologies for the institutions that will facilitate the process itself. Increased stakeholder consultations will be provided through this activity throughout the process of the preparation of the Programme. This activity will provide the necessary transparency and awareness for the improvement of economic reforms.

### **2.2. Capacity building for coordinators**

The upcoming new Public Administration Reform Strategy aims to improve inter-institutional cooperation procedures and the development of a uniform methodology of planning, monitoring and reporting. With consideration towards the Public Administration Reform Strategy, within this activity a GAP analysis will be conducted for identifying the gaps in the capacities of the institutions involved in the preparation consultation process of the ERP. This GAP Analysis will provide the recommendations for improvement of the ERP preparation and coordination process, thereby overcoming the fragmented nature of the document. It should assist in elaborating concrete steps to increase political ownership and support of the process of ERP drafting, adoption, implementation and monitoring. This activity should in particular address the European Commission's recommendation to identify country-wide structural reforms within a coherent country-wide common policy framework linked to a comprehensive analysis of key structural challenges. In addition, this activity will provide the exchange of good practice in preparation and coordination of ERP, namely EU Member States, for direct best practice experience for coordinators. This activity may be realized through analysis of the corresponding EU Member States' national reform programmes and transfer of good practice and experiences. This activity would also provide recommendations in relation to the normative framework for economic planning, roles and responsibilities in the whole process of ERP.

### **2.3. Planning, diagnostics, reform formulation, prioritization and monitoring of implementation**

This activity will be based on a countrywide approach and a reform perspective. Within this activity, an overview/in depth analysis of the planning, diagnostics, reform formulation, prioritization and monitoring of implementation of ERP will be conducted, with the provision of recommendations. As per EC policy guidance and taking into account the constitutional environment in BiH, this key activity should provide clear recommendations and guidance of how to best identify 15-20 reform measures (countrywide) to tackle the most important obstacles to growth and competitiveness identified (countrywide). As a result of this activity, a countrywide diagnostic and 15-20 countrywide reform measures will be identified in view of improving the quality of the ERP. The aim of this activity will be to train the trainers, i.e. the coordinators. It is essential for the coordinators to be technically equipped to assist and support the line ministries and other governmental institutions in the planning, diagnostics, reform formulation, prioritization and monitoring of the implementation of the structural reforms.

### **2.4. Development and mentoring in tools of planning and costing**

Within this activity, a toolkit for planning of structural reforms will be made as well as a mentoring programme for costing for the institutions, bearing in mind the link with the IPA 2018 regional mentoring programme for costing for the institutions. This activity will provide an assessment of the cost of each reform measure. Both the toolkit and the mentoring are targeted towards the line ministries and other governmental institutions, who are the final beneficiaries. These will also serve as tools for the coordinators to use in order to assist the institutions in the formulation and monitoring of the structural reforms.

## **2.5. Preparation and implementation of Pilot ERP – new process of ERP based on lessons learned**

The preparation of the pilot Economic Reform Programme (new process of ERP) will take place during the actual preparation of the Programme after the training of the coordinators is complete (Activities 2.2., 2.3. and 2.4.). The Pilot ERP will be used as a basic tool for on-the-job training. In addition, the pilot ERP will be used and will cover the structural reform areas. This activity will contribute to applying the acquired knowledge and lessons learned, as well as ensure the sustainability of the Action.

### **RISKS**

For the successful realization of activities and achieving results, the **assumptions** are:

- Full commitment and support of the decision-makers of the involved institutions;
- Good cooperation between relevant partners and willingness to adapt to changes where necessary;
- Technical and human resources required for action implementation allocated;
- Institutional settings defined and staff available to benefit from the TA.

The risks that may arise during the implementation of the proposed activities are:

- Insufficient support from decision makers involved in the process;
- Insufficient capacity and understanding of the need for data consolidation for ERP.

The mitigation measures are as follows:

- The greatest risk during the implementation of this action is insufficient support by decision makers involved in the process. Bearing in mind that the action will be adopted and financed by the EU only if it is harmonized within BiH, this risk is minimized by the fact that all future beneficiaries of the action are involved in its preparation and development.
- Insufficient capacity and possible misunderstanding of the process and the need for data consolidation in both execution and projections for at least two years will be overcome by creating detailed instructions and comprehensive training for the action beneficiaries. In this regard, full cooperation and active participation of all relevant partners in the action is expected.

### **CONDITIONS FOR IMPLEMENTATION**

All ERP coordinating institutions should (re)confirm their agreement to this action prior to the tender launch.

## **3. IMPLEMENTATION ARRANGEMENTS**

### **ROLES AND RESPONSIBILITIES**

The main institutional stakeholders are the Directorate for Economic Planning (DEP), Ministry of Finance and Treasury of BiH, the Federal Institute for Development Programming and the Ministry of Finance of Republika Srpska. The Economic Reform Programme consists of four parts with divided roles of institutions involved in its preparation. The role of DEP is preparation of part 2-Macroeconomic projections, coordination of preparing of part 4- Structural Reforms together with the Federal Institute for Development Programming and the Ministry of Finance of Republika Srpska, as well as compilation and translation of the whole document for submission to the European Commission. The Ministry of Finance and Treasury of Bosnia and Herzegovina coordinates and, based on entities and District Brcko inputs, prepares part 3 of Economic and Reform Programme-Fiscal Framework, and submits it to Directorate for Economic Planning for the compilation of the whole document. The role of DEP, within the part 4 of Economic and Reform Programme-Structural Reforms, is to coordinate institutions at the state level, while the corresponding entity institutions are in charge of the coordination of entity and cantonal ministries.

The institutional stakeholders involved in the Action are:

- Directorate for Economic Planning (DEP)
- Ministry of Finance of Republika Srpska
- Ministry of Economic Relations and Regional Cooperation of Republika Srpska

- Federal Institute for Development Programming
- Federal Ministry of Finance
- Ministry of Finance and Treasury of BiH
- Government of Brčko District / Brčko District Directorate for Finance
- Ministry of Communication and Transport
- Ministry of Civil Affairs
- Ministry of Foreign Trade and Economic Relations
- BiH Agency for Statistics
- Federal Institute for Statistics
- Institute of Statistics of Republika Srpska
- Central Bank of BiH

For the smooth implementation of the Action the Steering Committee will be established including the representatives of the main, above mentioned, stakeholders.

#### **IMPLEMENTATION METHOD(S) AND TYPE(S) OF FINANCING**

The EU Delegation to Bosnia and Herzegovina will be responsible for the overall management and implementation of the Action under direct management mode.

The Action will be implemented through one Service Contract for provision of technical assistance for the Result 1 and Result 2.

#### **4. PERFORMANCE MEASUREMENT**

##### **METHODOLOGY FOR MONITORING (AND EVALUATION)**

The European Commission may carry out a mid-term, a final or an ex-post evaluation for this Action or its components via independent consultants, through a joint mission or via an implementing partner. In case a mid-term or final evaluation is not foreseen, the European 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 evaluations will be carried out as prescribed by the DG NEAR guidelines for evaluations. In addition, the Action might be subject to external monitoring in line with the European Commission rules and procedures set in the Financing Agreement.

## INDICATOR MEASUREMENT

| Indicator  | Baseline (2016) (2)   | Target 2020 (3)   | Final Target (2022) (4)  | Source of information   |
|--|---|---|--|---|
| CSP indicator  |   |   |  |   |
| Progress made towards meeting accession criteria on establishing a functioning market economy.   | Early stage   | Early stage   | Moderately prepared  | EC country report on BiH  |
| <b>Indicators for the Overall objective</b>  |   |   |  |   |
| Composite indicator (average of government effectiveness, burden of government regulation and regulatory quality)  | 44.3<br>(2017)  | 45.93   | 46.00  | The World Bank, World Competitiveness Forum                                     |
| <b>Indicators for the Specific Objective</b>   |   |   |  |   |
| Evolution in the grade in ERP assessment by EC   | The EC assessment of BiH ERP was very negative and only assessed very few measures that could be considered country-wide. | Significant progress in the development of a consistent countrywide ERP. The EC assessment of the BiH ERP is generally positive and assesses all structural reform measures included. | A consistent countrywide ERP is in place. The EC assessment of the BiH ERP is generally positive and assesses all structural reform measures included. | EC assessment of the BiH ERP  |
| <b>Result indicators</b>   |   |   |  |   |
| 1.1. Number of staff trained in prioritization, diagnostics, reform formulation and monitoring of ERP.   | 0   | 50<br>(20 + 15 + 15)  | 80<br>(30 + 25 + 25)   | Final Project Report<br>Training Material<br>Participating Records<br>Pilot ERP |
| 1.2. Number of trained civil servants for the software use and methodology for collection, dissemination and consolidation of fiscal data and public debt data | 0   | 220   | 280  | Project report and seminars attendance sheets                                   |

|  |   |    |    |   |
|--|---|----|----|---|
| 2.1. Number of capacity building activities of the coordinating institutions | 0 | 35 | 40 | Final Project Report<br>Training Reports              |
| 2.2. Number of awareness raising activities                                  | 0 | 10 | 16 | Final Project Report<br>Web page for ERP<br>Pilot ERP |



## **5. SECTOR APPROACH ASSESSMENT**

Commissioned by DG Enlargement, a study called ‘Mapping Sector Strategies’ was carried out in February 2014. The PAR sector achieved the highest score out of the 6 sectors assessed in BiH. The score was 47.97 out of 56. The PAR sector with PARCO as coordinating institution was considered ready for sector approach with some improvements.

Considering that the previous PAR Strategy has ended, another one is being developed at the time of the formulation of this Action Document. However, as it is still in the phase of drafting, it is not in the phase of implementation. The previous PAR Strategy has adequately developed sector coordination organised according to the Pillars of the Strategy and it has a unique instrument of donor coordination (the PAR Fund), which pools the resources of donors for the priority projects for implementation of the PAR Strategy. The donor coordination for the sector is conducted via meetings of the PAR Fund Joint Management Board (JMB). The meetings are organised regularly and often on a monthly basis. There is also a Donor Coordination Forum organised by the Ministry of Finance and Treasury of BiH. The performances of the sector are constantly measured and monitored also through various forms of external assessments such the one carried out by SIGMA.

The Economic Reform Programme is a strategic document that contains a medium-term macroeconomic and fiscal framework, including fiscal measures and a comprehensive structural reform programme aimed at improving long-term inclusive growth and competitiveness of Bosnia and Herzegovina. The leading institution responsible for the process of coordination of the preparation of the Economic Reform Programme is the Directorate for Economic Planning of the Council of Ministers of Bosnia and Herzegovina.

The Directorate for Economic Planning, in co-operation with the coordinators for the preparation of the Economic Reform Programme, appointed by the Entity Governments, drafts an Action Plan for the elaboration of the ERP, which includes specific activities to be undertaken with the deadlines for each activity. The Action Plan is the basic document that regulates the process of coordination of the preparation of the Programme of Economic Reforms and Co-operation between different levels of government, the Council of Ministers of BiH, the Government of the Federation of Bosnia and Herzegovina and the Government of the Republika Srpska.

The Directorate for Economic Planning in the Action Plan introduced new steps aimed at improving the consolidation of the document of the Economic Reform Programme itself, thus extending the cooperation of the institutions involved in the preparation of the Programme. The Economic Reform Programme is based on the contributions submitted by the competent institutions according to the adopted Action Plan by deadlines and by the holders of activities. In the development of this document, other than the coordinating institutions (Directorate for Economic Planning, Ministry of Finance and Treasury of BiH, the Federal Institute for Development Programming and Ministry of Finance of RS) participate representatives of the ministries of the Council of Ministers of BiH, the Government of the Federation of Bosnia and Herzegovina and the Government of the Republika Srpska, together with the representatives of the ministries from the entity level.

## **6. CROSS-CUTTING ISSUES**

### **GENDER MAINSTREAMING**

This Action will be implemented in line with two key laws in BiH, such as:

- the Law on Gender Equality and
- the Law on the Prohibition of Discrimination.

More precisely, the Law on Gender Equality prohibits discrimination on the grounds of gender and sexual orientation. Equal representation of men and women is considered attained when one sex is represented with at least 40 per cent in bodies at all levels of authority in BiH (state, entity, cantonal and municipal levels). Within the framework of the Action, the same proportion will be ensured as far as beneficiaries, targets and recipients of the activities will be concerned.

## **EQUAL OPPORTUNITIES**

When relevant, gender mainstreaming in the Action will be focused in:

- equal opportunity for participation of women in public administration;
- non-discriminatory legal and policy frameworks.

Gender sensitive language will be maintained throughout the project cycle. It will be ensured that the Action management will have adequate capacities to enhance women's participation in project activities and work towards gender equality objectives. Collection of gender sensitive data will be upgraded ensuring i) better use of the existing data, ii) better collection of data which exists in the institutions (if any), iii) better procession and cross tabulation of data (i.e. age and sex, sex and education, etc.), iv) better accessibility and timeliness of data (on-line), v) better interpretation of statistical data, vi) organizing some additional surveys, if needed. In general, a gender perspective will be maintained ensuring that the results of the project impact positively on gender equality as well.

## **MINORITIES AND VULNERABLE GROUPS**

Participation in the action activities will be guaranteed on the basis of equal access regardless of racial or ethnic origin, religion or belief, disability, sex or sexual orientation.

Structural reform implementation will lead to general improvement in economic governance of Bosnia and Herzegovina, which will be particularly beneficial for minorities and vulnerable groups.

## **ENGAGEMENT WITH CIVIL SOCIETY (AND IF RELEVANT OTHER NON-STATE STAKEHOLDERS)**

When it comes to the implementation of this specific Action, all envisaged activities will be open to cooperation and setting of synergies with CSOs and other non-state stakeholders.

In the specific case of Economic Reform Programme, the attention given to engage civil society will be of the utmost importance and will be addressed in supporting an overall environment that is conducive to civil society development as being an effective and accountable independent sphere of policy making. Public consultations will be organised during preparation of ERP.

## **ENVIRONMENT AND CLIMATE CHANGE (AND IF RELEVANT DISASTER RESILIENCE)**

This Action will have limited environmental impact. It will not have implications on the environment, health and security as a consequence of the actions to be undertaken.

|  |
|--|
| Climate action relevant budget allocation: EUR 0 |
|--|

## **7. SUSTAINABILITY**

Implementation of this action will enable the preparation ERP according to the EC Guidelines and strengthening capacities of stakeholders. In addition, improving stakeholder skills enables the creation of capacities for training to be provided for other civil servants of beneficiary institutions and transfer of acquired knowledge. The continuation of EU assistance through the IPA II 2018 Technical Assistance envisaged by this Action is of great importance for Bosnia and Herzegovina in order to promote growth and competitiveness through acquired knowledge and skills for the preparation of the Economic Reform Programme in the future.

## **8. COMMUNICATION AND VISIBILITY**

Communication and visibility will be given high importance during the implementation of the Action. The implementation of the communication activities shall be funded from the amounts allocated to the Action.

All necessary measures will be taken to publicise the fact that the Action has received funding from the EU in line with the EU communication and visibility requirements in force. All stakeholders and implementing partners shall ensure the visibility of EU financial assistance provided through IPA II throughout all phases of the programme cycle.

Visibility and communication actions shall demonstrate how the intervention contributes to the agreed programme objectives and the accession process. Actions shall be aimed at strengthening general public awareness and support of interventions financed and the objectives pursued. The actions shall aim at highlighting to the relevant target audiences the added value and impact of the EU's interventions and will promote transparency and accountability on the use of funds.

Visibility and communication aspects shall be complementary to the activities implemented by DG NEAR and the EU Delegations in the field. DG NEAR and the EU Delegations should be fully informed of the planning and implementation of the specific visibility and communication activities carried out by the beneficiaries and the implementing partners.