

**THEMATIC EVALUATION ON SUPPORT TO ECONOMIC GOVERNANCE IN ENLARGEMENT AND NEIGHBOURHOOD COUNTRIES (Ref. Contracts NEAR-TS/2015/367-897 and IPA/2015/367-895)**  
**FOLLOW-UP TO RECOMMENDATIONS**

Recommendations, Final report	Responses, DG NEAR: (i) accepted or not	Actions to be undertaken
<b>For Enlargement Region</b>		
<p>[On use of instruments]</p> <ol style="list-style-type: none"> <li>Maintain the already applied range of implementation instruments (twinning contracts, service contracts for technical assistance, et cetera) in the upcoming IPA II period, and pursue the introduction of pilot budget support programmes in situations where structural needs on policy and strategy level have called for this instrument, based on stable and clear commitment of the beneficiary government(s).</li> <li>As underlined by DG NEAR, specifically in Bosnia and Herzegovina there is a need to apply at this stage a range of implementation instruments; twinning and TA may be useful to prepare the ground for introduction of pilot budget support programmes (sector reform contracts) in the absence of a single economic space/area which is also expressed by the absence of country wide strategies in Bosnia and Herzegovina in many important areas.</li> </ol>	<p><b>Accepted</b></p> <p>Recommendations 1 and 2 are addressed to the European Commission.</p> <p>DG NEAR accepts the recommendations.</p> <p>As regards Recommendation 2, in the case of Bosnia and Herzegovina, the existence of a PFM (public financial management) strategy, which is an important precondition for sector reform contracts, has been missing. Some progress has been made recently with the adoption of sectoral strategies, including one on agriculture and rural development. Country-wide strategies in other important sectors, such as employment, countrywide SME or energy, are still outstanding, in spite of intensive Commission/EUD efforts to work with Bosnia and Herzegovina in that direction.</p>	<p>Recommendation 1 is being followed up within the programming and implementation of assistance under IPA II.</p> <p>In Bosnia and Herzegovina DG NEAR has aimed to continue supporting the elaboration of countrywide sector strategies (especially in PFM) in view of enlarging the scope of available instruments (sector budget support).</p>
<ol style="list-style-type: none"> <li>Further integration of EU's support to Economic Governance in the overall IPA II Framework should be pursued while tightening the corresponding involvement and participation of the beneficiaries: the ongoing introduction of budget support programmes is expected to facilitate the achievement of this strategic conditionality, thanks to a tighter partnership, stronger ownership by the national stakeholders and more incisive corresponding monitoring tools appropriate to budget support.</li> </ol>	<p><b>Accepted</b></p> <p>Recommendations 3-5 are addressed to the European Commission and also require the involvement of candidate countries and potential candidates, as far as the preparation of ERPs and their importance is concerned.</p> <p>DG NEAR accepts them, notably the emphasis to put on the role of Economic Reform Programmes (ERPs) and the policy guidance as central documents when choosing support for socio-economic development; and also to further link (part of) IPA II support to</p>	<p>Both the key role of the ERP as well as the link with IPA support have been emphasised by NEAR e.g. at annual ERP launch meetings with pre-accession beneficiaries.</p> <p>DG NEAR has also identified, within the mid-term review of Indicative Strategy Papers in IPA countries, the need to ensure better articulation of support to economic governance.</p>

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<p>4. This should be done by giving more weight to a pivotal role of Economic Reform Programmes (ERPs) and planning further support to Economic Governance in direct relation with key requirements identified and retained in the ERPs.</p> <p>5. ERPs would thereby provide a coordinated opportunity of precise identification of all further needs in terms of EU's support to Economic Governance, by means of ad hoc needs assessments to be built into the ERPs' agendas for reform.</p>	<p>ERP measures. However, in the case of certain beneficiaries, DG NEAR considers that it will be important to strengthen, in parallel, the capacity of the country to provide better quality ERPs and support them at the stage of the (country wide) assessment and identification of country-wide structural reform measures (15-20) to address bottlenecks to competitiveness and growth identified.</p>	<p>DG NEAR provides IPA beneficiaries with dedicated TA to support the preparation, coordination and monitoring of ERPs, including for identification of further assistance needs in the different areas of structural reform already.</p>
<p>[There is a need to introduce new (or reinforce the existing) indicators directly related to Economic Governance (as one of three EU Enlargement strategy pillars), within the overall set of the performance indicators structuring the IPA II Framework.]</p> <p>6. Economic governance's role in the overall IPA II sector-based structure should be further reinforced and supported by introduction of corresponding indicators, within but also beyond the actual IPA II framework.</p> <p>7. This could be articulated in tight relation with ERPs, as recommended in Recommendation 2, above. The current (level 2) indicators of the actual IPA II Monitoring, Reporting and Performance Framework (MRPF) have not been designed in order to support and highlight this potentially structural role of Economic Governance, within the overall sector structure of IPA II<sup>1</sup>; there is therefore the possibility of not only reformulating certain existing indicators but also of introducing new indicators which are specific for Economic Governance in its potentially pivotal position, within the EU's Enlargement strategy.</p> <p>8. Tighten the complementarity and synergy among national</p>	<p><b>Partially accepted</b></p> <p>Recommendations 6 and 7 are addressed to the European Commission and <b>are accepted</b>.</p> <p>DG NEAR agrees that economic governance could feature more prominently in the IPA II structure to reflect its role as one of the three fundamentals. Some synergies can be found with individual partners' ERPs in order to have more tailor-made indicators. In the next cycle, the ERPs will benefit from being accompanied by concrete progress indicators and more specific targets. IPA Actions, aimed at supporting socio-economic development through implementation of ERP reform measures, could also include such future ERP progress measurement indicators.</p> <p>Recommendation 8 is addressed to the European Commission and to 3 EU-funded organisations (the Regional Cooperation Council (RCC), the Regional School for Public Administration (ReSPA) and the Centre for Excellence in Finance (CEF)). The recommendation <b>is accepted with the caveat</b> that the CEF is <i>not</i> a regional organisation, but an international one. The recommendation has already been implemented with the RCC's increased role in the coordination of the implementation of the Regional Economic Area multiannual action plan and the</p>	<p>NEAR will review the IPA II MRPF to support and highlight the potentially structural role of Economic Governance, within the overall sector structure of IPA II; this might entail reformulating certain existing indicators or introducing new indicators which are specific for Economic Governance;</p> <p>The new Guidance Note for the ERPs 2019-2021 instructs partner countries to include progress measurement indicators and specific targets within the ERPs;</p> <p>DG NEAR will make use of those indicators in ADs for interventions supporting socio-economic development through the implementation of ERP reform measures;</p> <p>CEF will be contracted to carry out</p>

<sup>1</sup> As underlined above, in IPA II, Economic Governance is (merely) the Secondary sector 1.7 of the Primary Sector 1 "Democracy and Governance", and is defined as follows: "Strengthening economic policy and its governance, focusing especially on a medium-term macroeconomic and fiscal policy framework and related structural measures as well as sector measures enhancing competitiveness, including deregulation".

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<p>and multi-country programmes in support of economic governance and make better use of the leverage of three regional organizations currently active in supporting public administration reform and economic governance, with a particular attention to the strong potential of CEF's pivotal platform.</p> <p>9. In addition to the already implemented coordination of programming national and multi- beneficiary projects, conducted upstream between the DG NEAR's headquarters, the EUDs in IPA beneficiaries and in consultation with the NIPACs, this latter should be reinforced and extended in order to allow the NIPACs play their formal role of key national IPA II coordination player, with a particular focus on complementarity and where possible synergies among these national and multi-country projects.</p> <p>10. This should comprise building the awareness of the national IPA II support technical assistance projects, ongoing or about to be launched in several IPA beneficiaries, and mobilizing their action in order to contribute to this structural target, within their scopes of intervention.</p>	<p>engagement of CEF (under preparation) to carry out capacity building on the costing of structural reforms in the context of the ERPs under IPA 2018.</p> <p>Recommendation 9 and 10 <b>are not accepted</b> as NIPACs are already leading the programming of national IPA and NIPACs are already involved at the earliest possible stage in multi-country programming e.g. when priorities are identified, notably to ensure that funding under a multi-country programme has an added value from the regional perspective and that country-specific issues are addressed under national IPA.</p>	<p>capacity building on the costing of structural reforms in the context of the ERPs under IPA 2018;</p>
<p>11. Ensure more direct support to empowering Civil Society (CS) in economic governance, within the overall strategy of EU's support to CS in IPA II and with a clear focus on economic governance.</p>	<p><b>Accepted</b></p> <p>Recommendation 11 is addressed to the European Commission and to candidate countries and potential candidates. DG NEAR already emphasises the necessity of involving civil society in the national ERP preparation and monitoring of implementation. This is done to varying extents depending on the country.</p>	<p>DG NEAR to consider support to activities to build civil society capacity to take part in these processes.</p>
<b>For Neighbourhood Region</b>		
<p>1. Consider fiscal politics / political economy factors in setting policy dialogue, content and phasing of economic governance reforms by taking into account country-specific</p>	<p><b>Accepted</b></p> <p>Recommendation 1 is addressed to the European Commission. The recommendation is accepted.</p>	<p>Follow-up actions will depend on a country-by-country situation and be progressively undertaken in the</p>

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<p>situations and plans. In doing so;</p> <ul style="list-style-type: none"> <li>○ When eligibility conditions allow, prioritize Sector Budget Support as the most “fit” type of policy support for economic governance and supplement it with properly timed complementary interventions (TA, twinning, et cetera);</li> <li>○ Enter as early as possible into and maintain regular policy dialogue on a limited number of conditionalities with representatives of national authorities, civil society and cooperating partners;</li> </ul>	<p>Whenever possible, a concerted roadmap to reforms will be agreed upon with relevant partners and authorities. A consultation with civil society is also beneficial to the process.</p>	<p>context of ongoing policy dialogue.</p> <p>Whenever budget support operations can be put in place, a common matrix is agreed upon with the authorities and the partners involved in budget support operations addressing a reasonable number of conditionalities and performance indicators.</p>
<p>2. Ensure that credible medium and longer term approaches needed to support structural reforms are prepared or in place in order to support sustainability of outcomes and reduce aid dependency. This approach should address specific issues influencing the sustainability of outcomes/results including transparency, revenue and investment In doing so;</p> <ul style="list-style-type: none"> <li>○ Build and maintain close cooperation with relevant economic governance-oriented programmes implemented by DG ECFIN and other international partners.</li> <li>○ Focus on supporting the implementation of reforms and conditions contributing to increase accountability and to counter corruption and tax evasion.</li> </ul>	<p><b>Accepted</b>                      Recommendation 2 is addressed to the European Commission. The recommendation is accepted with the caveat that there are no "economic governance-oriented programmes implemented by ECFIN". If we assume that the evaluator meant the Macro Financial Assistance programmes, then the recommendation makes sense.</p> <p>Closer coordination with ECFIN, beside IMF, World Bank and other possible partners to be ensured in those countries where there is Macro Financial Assistance (e.g. currently in Tunisia, Jordan and Ukraine).</p>	<p>Continued policy dialogue and coordination will be maintained between DG NEAR and DG ECFIN as well as with IMF and other IFIs. The new DG NEAR initiative under preparation "Structural Reform Facility for the East" will contribute to reinforce partnership and capacity development in support of economic governance and sustainability of public finance. In addition, ongoing high-level dialogue via meetings taking place in HQs (e.g., IMF spring meeting, April 2018) and in the field will maintain closer coordination.</p>
<p>3. Assist in better dissemination of knowledge base developed during policy dialogue and implementation of relevant economic governance programmes. In doing so:</p> <ul style="list-style-type: none"> <li>○ Foster incorporation of relevant lessons learnt and tools into national institutions training programmes.</li> </ul>	<p><b>Accepted</b>                      Recommendation 3 is addressed to the European Commission and partner countries.</p>	<p>In the Neighbourhood East, follow-up actions will depend on a country-by-country situation and be progressively undertaken in the context of ongoing policy dialogue</p> <p>In the Neighbourhood South coordination will continue in the</p>

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<ul style="list-style-type: none"> <li>○ Support the publications and sharing of this knowledge base via appropriate media networks.</li> </ul>		framework of the Luxembourg group, enhancing information sharing, joint analyses and strategic reflexion, and common messaging.
<p><b>4.</b> Support statistical offices via regional and/or national programmes aimed at the production (or timely publication when they are available) of such statistics [on inequality (e.g. Gini Coefficients) ...] although one has to be aware that the financial support needed to support the process is rather substantial.</p>	<p><b>Accepted</b>                      Recommendation 4 is addressed to the European Commission.</p> <p>Cooperation with national statistical offices will continue through regional programmes (e.g. MEDSTATS in the Neighbourhood South) and where relevant, at bilateral level.</p>	<p>A programme in support of statistics is under preparation in Neighbourhood East.</p> <p>ESTAT's expertise will also be called upon in this area.</p>
<p><b>5.</b> [...Economic governance requires strengthened national capacities dependent on the quality of human resources]. Provide support for effective human resources management improving the sustainability of outcomes. In doing so:</p> <ul style="list-style-type: none"> <li>○ Enhance EU actions and synergies between economic governance and public administration reforms at national and subnational levels.</li> <li>○ Better integrate revenue and expenditure constraints and requirements allowing to prioritize the implementation of shared reforms.</li> </ul>	<p><b>Accepted</b>                      Recommendation 4 is addressed to the European Commission.</p> <p>The interlink between economic governance and PAR reform is acknowledged. Improved PFM, strengthened policy making capacities and statistical systems, improved service delivery are critical to improve the business environment and the macroeconomic management. Domestic revenue mobilisation is central also in the High level dialogue with the Bretton Woods institutions.</p>	<p>Follow-up actions will be developed on a country-by-country basis and reflect ongoing policy dialogues. Given the evident complexity, such actions will be implemented gradually and over a medium-term period.</p>