

to the Commission Implementing Decision on the financing of the multi-country multiannual action plan in favour of the Western Balkans and Turkey for 2021-2022

Action Document for “Governance of public finances and economic reforms in the Western Balkans and Turkey”

1. SYNOPSIS

1.1. Action Summary Table

Title	Governance of public finances and economic reforms in the Western Balkans and Turkey Multi-country multiannual action programme in favour of the Western Balkans and Turkey for 2021-2022			
CRIS/OPSYS number	IPA III/2021/043-643/05			
Basic Act	Financed under the Instrument for Pre-accession Assistance (IPA III)			
Team Europe Initiative	No			
Zone benefiting from the action	Western Balkans (Republic of Albania, Bosnia and Herzegovina, Kosovo*, Montenegro, Republic of North Macedonia, and Republic of Serbia) and Republic of Turkey			
Programming document	IPA III Programming Framework			
PRIORITY AREAS AND SECTOR INFORMATION				
Window and thematic priority	Window 2: Good governance, EU <i>acquis</i> alignment, good neighbourly relations and strategic communication Thematic priority 1: Good governance			
Sustainable Development Goals (SDGs)	SDG 16 Target 16.6: Develop effective, accountable and transparent institutions at all levels; Target 16.7: Ensure responsive, inclusive, participatory and representative decision-making at all levels; Target 16.5: Substantially reduce corruption and bribery in all their forms			
DAC code(s)	15111- Public Finance Management – 100%			
Main Delivery Channel @	Multilateral organisations - 40000			
Markers (from DAC form)	General policy objective @	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence

	Gender equality and women's and girl's empowerment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Trade development	<input checked="" type="checkbox"/>	<input 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 checked="" type="checkbox"/>	<input 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 type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Internal markers	Policy objectives	Not targeted	Significant objective	Principal objective
	Digitalisation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Migration	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	COVID-19	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
BUDGET INFORMATION				
Amounts concerned	Budget line: 15.020101.01 Total estimated cost: EUR 26 000 000 Total amount of EU budget contribution: EUR 26 000 000 – year 2021			
MANAGEMENT AND IMPLEMENTATION				
Type of financing and method(s) of implementation	Project Modality Direct Management through Grants Indirect Management with -Centre for Excellence in Finance (CEF) -International Monetary Fund (IMF) -International Bank for Reconstruction and Development (IBRD)			
Relevant priorities and flagships from Economic and Investment Plan for the Western Balkans	Priorities: "Governance, Rule of Law, Public Administration Reform"			
Final date for concluding contribution / delegation agreements, procurement and grant contracts	At the latest by 31 December 2022			
Indicative operational implementation period	72 months following the adoption of the Financing Decision			

1.2. Summary of the Action

The enlargement strategy has put renewed emphasis on the need for the enlargement region to improve their economic governance. Good economic governance is key to sustainable social and economic development and stability. In the course of the EU accession process, the EU candidate countries and potential candidates are expected to further expand their policy and administrative capacities for the adoption and correct implementation of the EU *acquis*.

This action supports the development of administrations' and central banks' capacities to manage economic reforms, public finances and monetary policy with a view to economic recovery and more resilient sustainable socio-economic development. The action supports three areas:

Area of support 1 aims at fostering beneficiaries capacities to integrate structural reform measures into the medium-term budgetary frameworks and through this process at reinforcing the link between the Economic Reform Programmes (ERPs) preparation, IPA programming and planning of the central budget.

Area of support 2 aims at strengthening the capacities of the Ministries of Finance to plan, steer and monitor the implementation of their Public Finance Management (PFM) reform strategies. In addition, specific implementation capacities will be strengthened, in particular regarding fiscal responsibility frameworks, public investment and public asset management also in selected line ministries, local governments and state-owned enterprises, especially in the utility sector.

Area of support 3 aims at enhancing technical and administrative capacities of the central banks on key technical topics, hereby enhancing their important roles in mitigating the impact of the COVID-19 pandemic, preserving macroeconomic stability and building up economic resilience in a long-term.

2. RATIONALE

2.1. Context Analysis

The COVID-19 pandemic hit the Western Balkans severely in 2020, leading to a significant decline in economic activity. However, growth outcomes varied widely, depending, inter alia, on the evolution of the pandemic and the stringency of containment measures as well as the respective economic structure, available policy space and the strength of the policy response. Looking ahead, the outlook remains subject to unusually high uncertainty. The strength of a rebound in 2021 will depend on the further evolution of the pandemic, the availability of vaccines that allow for the normalisation of economic activity and the prospects of external demand, remittances and tourism, which are major drivers of growth in many economies.

Fiscal policy played an important role in the crisis response, with different degrees of policy space being available and external support often being required. Deficits and debt increased significantly, further eroding the limited policy space in most cases.

The well-coordinated structural reforms, in particular under the ERPs that are in line with the medium- and long-term strategic goals will remain critical to shape the policy response and to foster the inclusive and sustainable post-pandemic recovery.

At the same time, the implementation of public financial management reforms slowed down in the wake of the COVID-19 crisis. Many beneficiaries had to review and adapt their priorities and targets. Significant efforts will be necessary to ensure that PFM systems support the recovery, be it by managing heightened fiscal risks, ensuring sustainability of public debt and accountability for emergency spending, increasing the share of capital spending and the execution of the capital budget or by improving the management of public investment and public assets.

Against the backdrop of substantial monetary easing on a global scale, monetary policy was able to provide support to the economy in the Western Balkans within the available space, which is often constrained by monetary and exchange rate frameworks and high degrees of currency substitution.

Depending on the chosen monetary policy and exchange rate regime, the respective laws stipulate different main objectives for the central banks of the Western Balkans. Price stability features prominently in the mandates of all the monetary authorities, together with support for the general economic policies of the government and the stability of the financial system. Moreover, with respect to differences, the central banks conduct additional functions to monetary and exchange rate policy. These include, in particular, economic analysis and research, the issuance of banknotes and

coins, the regulation of payment systems, the compilation of statistics, safeguarding and analysing financial stability, the licensing and supervision of banks and/or the whole financial sector (in part), the management of the government's accounts, and foreign reserve management.

In accordance with their mandates, all central banks actively participate in the EU accession efforts of their beneficiaries. Several articles in the respective Stabilisation and Association Agreements and in the alignment process with the EU *acquis* (for example, those dealing with current payments and movement of capital, banking, economic policy, statistical cooperation, free movement of capital, financial services, and statistics) set out a number of mandatory reform priorities within the range of competencies of the central banks.

2.2. Problem analysis by areas of support

AREA OF SUPPORT #1: Budgetary planning of Structural reforms measures

The weak integration of the structural reforms under the ERPs into the budgetary planning and insufficient capacities for their costing lead to the delay and limited implementation of the reforms. The envisaged action will foster beneficiaries integration of the structural reforms (SR) measures into the medium-term budgetary framework (at all stages of the budgetary planning) and through this process, reinforce the link between ERP preparation, IPA programming and planning of the budget.

The top-down and bottom-up budgetary planning of SR measures is often not co-integrated with the ERP preparation process. Revenues and expenditure in the ERP's fiscal chapter must be aligned with SR priorities. The beneficiaries of the Action will be the ERP Coordinators and their teams, as well as the ERP working group members involved in the reform planning and implementation at different line ministries. To best possibly support the achievement of the envisaged outcomes, the Action will also involve the ministers of finance and line ministers (and their cabinets), budget and macroeconomic departments at ministries of finance, and accordingly finance and analytical departments at line ministries, relevant human resources and communication units, as well as EU integration and IPA units across the public sector.

AREA OF SUPPORT #2: Strengthening capacity for public financial management

PFM reform strategic framework, monitoring, evaluation and reporting: The legal frameworks for PFM are largely in place and largely *acquis* compliant. However, the capacities to implement them is very uneven. All Western Balkans, except Bosnia and Herzegovina, now have credible and relevant PFM reform strategies. However, implementation of reforms has been slow, partly due to weak steering and coordination by the ministries of finance. In addition, there is a need to develop the administrations' capacities to update these strategies in close coordination with economic reform plans, to formulate smart targets and indicators, adapt action plans to unforeseen circumstances or shocks, and to report on achievement of results as well as challenges and lessons learned in the process.

Budget preparation and execution: Medium term budgetary and expenditure frameworks exist in all Western Balkans. However, the budget processes need to be strengthened, i.e. integrating medium-term plans into the annual budget process, strengthening the budget calendar, forecasting, costing, linking planning and budgeting processes, comprehensiveness of budget documents and transparency of expenditure reporting. Arrears remain a significant problem in the region, mostly relating to inadequate expenditure planning, insufficient internal controls in investment and treasury management.

Budget transparency: Public access to information on how the central government raises and spends public resources remains insufficient for allowing an informed public debate on the budget in the region. Public participation in the different stages of the budget process is extremely low due to very few formal opportunities offered to the public for engagement. External oversight is adequate in most of the Western Balkans but parliamentary oversight very weak. In particular in the early COVID-19 fiscal policy response governments provided minimal or limited accountability to the public.

Fiscal governance: In the context of the COVID-19 crisis response and the recovery support, prudent stability-oriented fiscal policy planning is crucial for preventing worst case scenarios (debt distress and lack of fiscal space to cover needs in social sectors). Fiscal rules provide a helpful framework and guidance for this, also aligning fiscal support to the recovery with debt sustainability. All Western Balkans have introduced quantitative fiscal rules. However, they have often not been rigorously enforced. This can be attributed to insufficient understanding and

awareness within the administrations and the wider public, in some case very complex design of the rules, lack of provisions for their enforcement, insufficient cross-party political support, inadequate and incomplete fiscal information and data, poor macro-economic forecasting and medium-term budget planning. Finally, - with the exception of the Serbian Fiscal Council - independent monitoring institutions have not yet been established.

Public investment management (PIM) and public asset management (PAM): Shortages in both the quality and coverage of basic infrastructure investments are a significant barriers for higher economic growth and faster income convergence with the EU. The public sector in the Western Balkans – general government and state-owned enterprises (SOEs) – is leading in closing the gap in capital investments. In particular in the transport, water and energy sectors, most infrastructure investments are undertaken - and therefore public assets are managed - by the central government institutions and SOEs.

Stronger PIM and PAM governance are needed for efficient resource utilisation. This is of particular importance in the context of the large investment projects foreseen under the Economic and Investment Plan (EIP) for the Western Balkans¹ and the Western Balkan Investment Framework. Roles and responsibilities of key players should be clearly established across different government agencies – central government, regulators, local administrations and SOEs – and the capacity of line ministries needs to be improved. Fully functioning registries for public investment, PPPs, concessions and public assets are needed for an informed infrastructure investment strategy. In many Western Balkan there is a need to improve the link between strategies, planning and budgeting for successful PIM systems.

Deficiencies in asset management result in (1) measurement problems in the capital stock and public balance sheet, and, more importantly, (2) underfunding of maintenance expenditures. In many beneficiaries, the Supreme Audit Institutions (SAIs) are not used effectively for the monitoring of public assets.

The main stakeholders will be the Ministries of Finance and the PFM coordination units, as well as other selected key actors in the management of fiscal responsibility frameworks (independent oversight bodies, parliaments, supreme audit institutions, civil society) and public investment and assets (line ministries, local government and municipalities, state-owned enterprises esp. in the utility sectors).

AREA OF SUPPORT #3: Strengthening central bank capacities

The action will focus on the enhancement of technical and administrative capacities in the area of current central bank topics such as financial supervision, anti-money laundering/countering the financing of terrorism, financial stability, financial consumer protection and financial inclusion, payment systems, statistics, recovery and resolution, EU integration, compliance and governance issues, organisational resilience, crisis management, business continuity planning, fintech, digitalisation, sustainable and green finance, IT and IT security, cash management.

The central banks are key institutions for mitigating the impact of the COVID-19 pandemic, preserving macroeconomic stability and building up economic resilience in a long-term. The European Enlargement Package for 2021 identified a number of issues, including the continued need to implement (remaining) Basel III and Solvency II standards, the further alignment of legislation on central banks with the EU *acquis* to ensure full independence, continue to align financial accounts and quarterly national accounts with the European System of Accounts 2010 (ESA 2010), the continuation of implementation of macroprudential policy and resolution frameworks and financial consumer protection. Aside from that, assessments of the ERPs by the European Commission and the European Central Bank have highlighted several issues such as maintaining price stability, ensuring the adequate application and implementation of NPL resolution tools against the economic shock of the pandemic, reducing currency mismatches in the broader economy with a legal tender, and, in particular, a significant improvement of the overall business setting and institutional environment.

2.3. Relevance and complementarity with strategies supported by key stakeholders

The programme will support

- the public administration reform and economic governance agenda (part of the "fundamentals");
- the implementation of public financial management/tax strategies;
- the implementation of the structural reforms under the ERPs and the specific Policy Guidance under Joint

¹ COM (2020)641, 6.10.2020.

Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey; the European Green Deal² (specifically sections 2.2.1 and 2.2.2) and the Green Agenda for the Western Balkans³.

2.4. Relevance and complementarity with EU policy and EU and other donors' assistance

This action with an aim to reinforce economic governance in the enlargement region will contribute to the **EIP for the Western Balkans** which aims to spur the long-term recovery from the COVID-19 crisis - backed by a **green and digital transition** - leading to sustained economic growth, implementation of reforms required to move forward on the European path, and bringing the Western Balkans closer to the EU Single Market.

The main tools to support these efforts are the **ERPs** for which the Western Balkans and Turkey are requested to develop coherent economic strategies that aim at preserving macroeconomic stability, foster the post-pandemic recovery and building-up economic resilience. The structural reforms prioritised in the ERPs should contribute to a sustainable and inclusive economic growth by enhancing the competitiveness, job creation and social protection.

In particular, this action complements the development and implementation of the ERPs by providing support to strengthen the governments' capacities to effectively prioritise, design and implement structural reforms, including the implementation of the Green Agenda for the Western Balkans. It also supports the region in the implementation of the jointly adopted policy guidance within the framework of the annual **Economic and Financial Dialogue between the EU and the Western Balkans and Turkey**.

The action also supports **public administration reform (PAR)**, in particular public financial management (PFM) reforms, including such PFM reforms that promote green and digital transition, which are essential for an environment favourable to entrepreneurship, job creation and sustainable investment.

Furthermore, it supports the Addis Tax Initiative (ATI) goal of improving the effectiveness and efficiency of revenue administration systems.

The action also contributes to the **enlargement process** (Chapters 5, 9, 16, 17 and 32) and is in line with the European Commission 2020 Communication on "Enhancing the accession process – A credible EU perspective for the Western Balkans"⁴.

2.5. Lessons learned and links with previous financial assistance

On strengthening the Line Ministries' Capacities to assess Fiscal Implications of Structural Reforms'

Structural reforms are complex and go far beyond partial and micro level measures. To be effectively implemented, their measures must be realistically and fully costed and funds for their implementation must be secured. Spending priorities must be aligned with structural reforms measures; they need to create a policy mix which is capable of achieving the ERP objectives.

The costs and funding sources must be precisely and fully explained in the text and consistently presented in the costing tables. The generation of those tables triggers better specified structural reforms measures, which ensures that they are implemented more effectively. A stronger accounting system supports costing and financing efforts, so does monitoring of results (cash accounting, European System of Accounts).

Fiscal frameworks should mirror structural reforms measures presented in the ERP and guide the resource allocation. The respective costs and funding sources should correlate with the fiscal constraints of medium-term budgets, and this link should be strengthened. Viability of funding sources for structural reforms must also be clearly presented in the budgetary outlook; i.e., there must be clear explanation how and when the budgetary funding of the respective structural reforms will be assured. Risk assessment of implemented reforms measures should also outline financial risks where relevant, and how to mitigate them.

On public financial management

² COM(2019) 640 final

³ SWD(2020)223 final

⁴ COM(2020) 57, 5.2.2020.

Support under IPA II has shown the importance of

- *Effectiveness*: coordination of TA support, reform advice and policy dialogue at *central* level with all stakeholders in the framework of the PFM Strategies, led by the government and facilitated by the EU Delegations;
- *Sustainability*: supporting the implementation of policy advice with focused capacity building, a medium-term approach accompanying administrations with more *on the job training and advise* through the use of local experts (rather than short term missions and delivery of TA reports);
- *Relevance for MoFs*: facilitating peer exchange and learning within the region on current topics and challenges, e.g. managing the fiscal risks from loan guarantees provided during the COVID-19 crisis;
- *Accountability*: strengthen engagement with wider society – support and cooperation with academia, civil society, parliamentary committees etc – and ensure that this work feeds back into EU policy dialogue

On strengthening central bank capacities in the Western Balkans with a view to integration into the European System of Central Banks (ESCB)

Central banks of the region have benefited from technical cooperation programmes funded by the European Union, in particular several bilateral twinning programmes, short-term TAIEX support and regional cooperation programmes.

- The Bank of Albania received support from an IPA-funded twinning programme with a focus on the areas of banking supervision, statistics, payment systems and monetary policy, which was implemented in 2011-2012 by Banca d'Italia in a consortium with the Banque de France. The Bank of Albania and the Central Bank of Kosovo received assistance through a regional programme on central bank capacity building, implemented by the European Central Bank in cooperation with central banks of the ESCB in 2013-2014. This programme provided a needs analysis. The overall conclusion was that the core areas of banking supervision, financial stability, financial crisis management, payment systems, statistics, compliance and EU integration, and governance policies still needed to be further developed in order to be able to smoothly integrate the final beneficiary into the ESCB. A twinning programme for the Bank of Albania led by Banca d'Italia in a consortium with the Deutsche Bundesbank and in cooperation with Banca Națională a României and the Banque de France in the period from October 2019 to January 2021 focused on specific aspects within the areas of banking supervision, financial stability, monetary policy and statistics, payment systems, internal audit, human resources management and European integration.
- The Central Bank of Montenegro participated in the IPA-funded twinning programme “Strengthening the regulatory and supervisory capacity of the financial regulators”, which was implemented during 2009-2011 by Българска народна банка (Bulgarian National Bank), the Bulgarian Financial Supervision Commission and De Nederlandsche Bank. In 2014, the central bank was supported by an IPA-funded six-month Needs Analysis Programme coordinated by the ECB in cooperation with the central banks of the ESCB. In addition, the Central Bank of Montenegro – together with the Insurance Supervision Agency and the Capital Market Authority of Montenegro – participated in the twinning project “Regulation of Financial Services”. The purpose of the project, which was led by a consortium of the Deutsche Bundesbank, Hrvatska narodna banka and De Nederlandsche Bank was to further align the legislation for financial services with the EU *acquis* and to strengthen regulatory and supervisory capacities. It was successfully implemented between April 2018 and July 2020.
- The National Bank of Republic of North Macedonia (NBRNM) was supported by the IPA-funded nine-month needs analysis programme, which was coordinated by the European Central Bank in partnership with Eurosystem NCBs and completed in July 2013. The EU twinning light project “Strengthening the capacities of the system for fight against counterfeiting of EUR” led by the Deutsche Bundesbank was implemented in the period from November 2018 to June 2019. Furthermore, the NBRNM participated in a twinning programme headed by a consortium of the Deutsche Bundesbank and Hrvatska narodna banka in the period September 2019 to March 2021 that focused on specific aspects of payment systems, banking supervision, statistics and research.
- Both the National Bank of Serbia and the Central Bank of Bosnia and Herzegovina benefited from three technical cooperation programmes: a needs analysis programme and an IPA-funded follow-up programme, both implemented by the European Central Bank in cooperation with central banks of the ESCB, and IPA-funded twinning light programmes on human resources implemented by the Deutsche Bundesbank in a consortium with Česká národní banka. In addition, the National Bank of Serbia participated in a twinning programme led by a consortium of the Deutsche Bundesbank, Hrvatska narodna banka and Banca Națională a

României in the period from September 2018 to March 2020, which focused on strengthening institutional and human resources capacities of the National Bank of Serbia by aligning its functions and operations with the EU *acquis* and international standards.

- All central banks – including the two supervisory agencies of Bosnia and Herzegovina – participated in an IPA-funded regional programme on macro- and microprudential supervision, which was coordinated by the ECB in cooperation with central banks of the ESCB in the period January 2010 to January 2012.
- All central banks – including the two supervisory agencies of Bosnia and Herzegovina – are participating in the IPA II funded “Programme for Strengthening the Central Bank Capacities in the Western Balkans with a view to the integration to the European System of Central Banks” coordinated by the Deutsche Bundesbank in cooperation with central banks of the ESCB and to be implemented in the period March 2019 to December 2021.

Notwithstanding the continued efforts of the central banks of the Western Balkans towards improving their economic governance, the legislation concerning central banking activities has considerably expanded over recent years. In the context of a rapidly evolving legislative framework, the national central banks of EU Member States are required to perform an increasing number of complex tasks and to coordinate their actions in the context of the ESCB to ensure the smooth functioning of the monetary and banking unions.

For these reasons, and in line with the broad policy guidance provided by the assessment of the recent ERPs, the focus on core central banking topics such as financial supervision, non-performing loans, anti-money laundering/countering the financing of terrorism, financial stability, payments systems, financial consumer protection and financial inclusion, statistics and governance should be further intensified. Additionally, the topical focus should be amended by specific themes currently in the spotlight during the pandemic, such as crisis management, business continuity management, organisational resilience, fintech, digitalisation, sustainable and green finance, IT and IT security, and cash management.

A follow-up programme will build upon the main outcomes and lessons learned from the current and most recent EU-funded programmes, and will cooperate fully with other providers of technical assistance to the region. Due to the specific nature of this programme and its clear focus on the implementation of the European Union *acquis* in highly important central bank areas, no overlap with prior, ongoing or future planned projects is expected. The implementation of a follow-up programme will bring the existing institutional and operational framework of the final beneficiary institution closer in line with EU central banking standards and will create synergies with other projects in the future.

3. DESCRIPTION OF THE ACTION

3.1. Planned results and intervention logic (describing causal links between impact, outcome(s) and output(s) and including assumptions)

The impact of this measure is to contribute to just, sustainable and inclusive economic recovery and growth, building up economic resilience and to improve competitiveness for achieving the EU economic accession criteria.

The outcome to which this measure aims to contribute is *strengthened institutional capacity* of

- Ministries of Finance and line ministries in the Western Balkans and Turkey to coordinate, prioritise, design and implement structural reforms of their ERPs (including assessing and promoting resource efficiency), as well as comprehensive assessment of their fiscal implications;
- Ministries of Finance, tax administrations and selected line ministries, local authorities and state-owned enterprises & utilities in the Western Balkans for (1) public financial management and (2) domestic revenue mobilisation, including for mainstreaming environment and climate in processes and instruments.
- Central banks and supervisory authorities of the Western Balkans to further strengthen the resilience of the financial sector as well as to support macroeconomic and financial stability with a view to achieving the economic accession criteria and preparing the Western Balkans Central Banks for the smooth integration into the ESCB.

Regional approach

All partner beneficiaries share some common challenges, in particular increased fiscal risks from the fiscal response to

the COVID-19 crisis and a large public investment pipeline, and need to follow a similar agenda in terms of progressive alignment to the EU fiscal framework including the EU's budgetary directive. The required basic technical skills and institutional capacities are broadly similar for all final beneficiaries in key intervention areas such as costing of reforms, economic forecasting, fiscal risk assessment, investment project preparation. Hence there is an added value in organising the support at the regional level, but tuned to the specific situation in each beneficiary. In addition the regional approach promotes peer exchange and learning among the authorities within the region.

The ERP process applies to the enlargement region. It is more efficient to have regional support, building on previous and existing regional projects with the Organisation for Economic Cooperation and Development (OECD) and CEF.

In particular, a coordinated regional approach will ensure efficiency, effectiveness, and accelerated learning and results compared to approaches, via: institutional regional cooperation, advancing a shared vision among all stakeholders, better targeting of support, systematic cross-country benchmarking, economies of scale and synergies by developing common frameworks, methodologies or guidance, joint workshops, knowledge sharing and peer-assisted learning.

In the area of the central banks, the respective output can be verified by assessing the extent of upgraded processes in the aforementioned areas and could, in the longer term, impact on objectively verifiable indicators such as the ratio of non-performing loans to total loans, , the provision of central bank statistics.

3.2. Indicative type of activities

The action will indicatively include the following main activities:

Support to targeted and demand-driven **capacity development** activities incl. namely bilateral TA measures, training, regional knowledge sharing and networking, high-level policy workshops and internships for the following counterparts:

- Output 1 - Ministries of Finance and line ministries in the Western Balkans and Turkey: strengthening analytical capacities; preparing costing and budgeting of structural reforms; assessing fiscal implications of the structural reforms; prioritisation, designing and implementation of the structural reforms (incl. green finance and investment mobilisation); improving coordination between the Ministry of Finance and relevant line ministries; establishing a mechanism of public consultations on the prioritisation of the structural reforms under the ERP process; strengthening the learning capacities and establishing the digital platforms for sharing of the best practices at regional and regional levels; introducing the structural reforms for the post-pandemic recovery based on digital transformation and green transition in line with the priorities of the European Union.
- Output 2.1 and 2.2 - Ministries of Finance, tax administrations and selected line ministries, local authorities and state-owned enterprises & utilities in the Western Balkans:
 - (1) public financial management: improving macro-fiscal forecasting capacities, fiscal responsibility frameworks, fiscal rules and institutions, medium-term budget frameworks , fiscal risks management, expenditure control, fiscal accounting and reporting systems , debt and cash management structures; environmentally sustainable public investment and asset management; support on integrity of institutions and the demand-side of public accountability, raising public awareness, working with oversight bodies (Supreme Audit Institutions and parliamentary committees and budget offices), civil society and academia; strengthening 'resilience', incl. getting PFM systems ready for crisis management, climate change resilience, disaster preparedness and 'greening' in PFM.
 - (2) domestic revenue mobilisation: strengthening revenue administration structures and operations to better align with international good practices, including green taxation and the use of market-based instruments, such as environmental taxes, charges and subsidies to steer markets.
- Output 3.1 and 3.2 - Central banks in the Western Balkans: further enhance their analytical and policy tools, transferring best international and EU standards into internal practices; enhance macro-prudential and bank resolution frameworks; further develop tools enlarging the information set of central banks and, thereby supporting the decision-making process, incl. an inflation expectations and a bank lending survey, a proper forecasting framework where missing; Given shocks such as the COVID-19 outbreak, special attention should be given to financial crisis management, resilience to potential plausible future shocks, business continuity and contingency planning and operational risk management.

3.3. Risks and assumptions

Risks	Risk level (H/M/L)	Mitigating measures
Risk 1 Extended COVID-19 crisis poses challenges to the work of administrations and central banks, and to the implementation of project activities.	M	With parallel support to digital technologies, cooperation and coordination as well as a flexible approach the impact of the crisis on project implementation and monitoring shall be mitigated.
Risk 2 Lack of political support for economic and PFM reforms, and to a stability-oriented monetary policy.	M	The need for strengthening the economic governance and implementation of PFM reforms should be regularly emphasised during the various high-level policy dialogues with the partner beneficiaries.
Risk 3 Political interference prevents capacity development in the administrations (lack of merit-based recruitment, high turnover, lack of managerial accountability).	M	Through creating a regional knowledge hub and constant sharing of the best practices, the analytical capacities will be improved and business continuity strengthened in the central administrations and institutions.
Risk 4 Economic / debt distress forces administrations to ‘firefight’ and does not leave resources for reform.	M	Through the prudent reforms prioritisation and use of the EU support tools (MFA, Budget Support, guarantees etc.) reform implementation should be supported and the link between the reforms and the post-pandemic recovery should be established.
Assumptions (to be reflected in the Logical Framework Matrix above) – grouped by outputs and outcomes		
The main assumptions underlying this Action are the political, economic and financial stability of the Western Balkans and Turkey, the administrative capacity to raise their institutional and operational standards, and a political willingness to implement cooperation programmes with the EU.		

3.4. Mainstreaming

The principles and practice of equal opportunity and gender equality will be guaranteed to ensure equitable gender participation in the activities to be funded by the proposed action. The principles mentioned above will apply also in relation to the beneficiaries and training participants coming from the different administrations. In addition, the implementation partners ensure that during the capacity building and networking activities in the thematic areas, gender mainstreaming shall be discussed as a fundamental cross-cutting issue. Following senior level discussion, positive actions shall be considered to strengthen the understanding of gender related issues and relevant capacity building of officials to enhance gender mainstreaming into policies and programmes.

The proposed action shall make every effort to encourage administrations to consult widely, recognising the role of civil society in stimulating and monitoring economic governance reforms and holding authorities accountable for the use of public funds. Implementing partners cooperate with think tanks, academic institutions, research institutes and non-governmental organisations (NGOs) from the Western Balkan. In particular, implementing partners will envisage the participation of representatives of such civil society organisations (CSOs) in some of its events (especially regional conferences), and will invite CSOs’ representatives to participate at various networking events.

Moreover, the action will contribute to building-up climate change resilience and strengthening the crisis management. It will address the issues of the climate change by including new thematic areas such as the macro-financial and supervisory dimensions of environmental and climate-related risk (including carbon pricing and green tax reforms) as well as relevant developments in the area of digitalisation should also be taken into consideration in all components.

3.5. Conditions for implementation

In all three components of this action, there are many stakeholders active in the sectors at and regional levels. Stakeholder coordination needs to be ensured by the project management and facilitated by the EU Delegations.

3.6 Logical Framework for PROJECT MODALITY (3 levels of results / indicators / Baselines / Targets / Source of Data / Assumptions - no activities)

Results	Results chain: Main expected results (maximum 10)	Indicators (at least one indicator per expected result)	Baselines (2022)	Targets (2026)	Sources of data (1 per indicator)	Assumptions
Impact	Good economic governance to contribute to just, sustainable and inclusive economic recovery and growth, building up economic resilience and to improve competitiveness for achieving the EU economic accession criteria.	<p><i>Readiness of enlargement region on public administration reform</i></p> <p><i>Government effectiveness score</i></p> <p><i>Global Competitiveness Index</i></p> <p><i>Aggregate score on the core area of PFM</i></p>	<p>2019</p> <p>2022</p> <p>2022</p>	<p><i>Progress in a majority of IPA beneficiaries</i></p>	<p><i>Commission reports</i></p> <p><i>World Bank Worldwide Governance indicators</i></p> <p><i>World Economic Forum</i></p> <p><i>OECD/ SIGMA Monitoring Report against the Principles of Public Administration Reform</i></p>	<i>Not applicable</i>
Outcome 1 (Area of support 1)	Ministries of Finance and line ministries in the Western Balkans and Turkey have strengthened capacities to prioritise, design and implement structural reforms in the ERP process (assessing and promoting resource efficiency) and coordinate on structural reforms	<p><i>Completeness of ERPs</i></p> <p><i>Level of Structural Reforms Implementation</i></p> <p><i>Level of Policy Guidance Implementation</i></p>	<p>2022</p>	<p>2026</p>	<p><i>ERP assessment</i></p> <p><i>Commission reports</i></p>	
Outcome 2 (Area of support 2)	Ministries of Finance, tax administrations and selected line ministries, local authorities and state-owned enterprises & utilities in the Western Balkans have strengthened capacities for (1) public financial management and (2) domestic revenue mobilisation	<p><i>Scores on PFM principles 1-5⁵</i></p> <p><i>Budget transparency and accountability</i></p>	<p>2022</p>	<p>2026</p>	<p><i>SIGMA PAR Monitoring Reports</i></p> <p><i>Open Budget Index</i></p>	

⁵ Principle 1: The government publishes a medium-term budgetary framework on a general government basis that is founded on credible forecasts and covers a minimum period of three years; all budget institutions operate with it. Principle 2: The budget is formulated in line with the internal legal framework with comprehensive spending appropriations that are consistent with the medium-term budgetary framework and are observed. Principle 3: The central budget authority or authorised treasury authority, centrally controls disbursement of funds from the treasury single account and ensures cash liquidity. Principle 4: There is a clear debt management strategy in place and implemented so that the overall debt target is respected and debt-servicing costs are kept under control. Principle 5: Budget transparency and scrutiny are ensured.

		<i>Fiscal risk reporting PI-10</i> <i>Public Investment</i> <i>Management indicator (PI-11)</i> <i>Debt management (PI-13)</i> <i>Revenue management (PI-19)</i> <i>Implementation of related</i> <i>ERP policy guidance if any</i>			<i>PEFA</i> <i>ERP assessments</i> <i>Subcommittee meetings</i>	
Outcome 3 (Area of support 3)	Central banks and supervisory authorities of the Western Balkans have strengthened capacities to further buttress the resilience of the financial sector, support financial stability with a view to achieving the economic accession criteria and preparing the Western Balkans Central Banks for the smooth integration into the ESCB	<i>Non-performing loans ratio</i> <i>Extent to which financial services are in line with the EU acquis</i>	2022	2026	<i>CB statistics, Eurostat</i> <i>National Statistics</i> <i>ERP assessment and</i> <i>Commission reports</i>	
Output 1 (Area of support 1)	<p>Strengthened analytical capacities in:</p> <p>a) preparing costing and budgeting of structural reforms; in assessing fiscal implications of the structural reforms; in prioritisation, designing and implementation of the structural reforms (incl. potential phase-out of environmentally/climate-harmful subsidies, green finance and investment mobilisation through the right price signals in the form of suitable carbon pricing and environmental taxes);</p> <p>b) in improving coordination between the Ministry of Finance and relevant line ministries;</p> <p>c) in establishing a mechanism of public consultations on the prioritisation of the structural reforms under the ERP process; d) in strengthening the learning capacities and establishing the digital platforms for sharing of the best practices at regional and central levels;</p> <p>e) in introducing the structural reforms for the post-pandemic recovery based on digital transformation and green transition in line with the priorities of the European Union</p>	<i>Complete costing and budgeting information in the ERPs</i> <i>Comprehensiveness of public consultation and reflection of consultation results in the ERP</i> <i>Number of established coordination mechanisms or meetings between MOFs and line ministries in the context of the ERP preparation</i> <i>Number of staff trained (training events, high-level policy workshops, bilateral measures, internships) involved on the ERP</i>	2022	2026	<i>Project reports</i>	
Output 2.1 (Area of support 2)	Supported capacity development in	<i>Number of policy notes,</i>	2022	2026	<i>Project reports</i>	

	<p>(1) public financial management:</p> <p>a) macro-fiscal forecasting, fiscal responsibility frameworks, fiscal rules and institutions, medium-term budget frameworks (incl. green budgeting), fiscal risks management, expenditure control, fiscal accounting and reporting systems, debt and cash management; environmentally sustainable public investment and asset management;</p> <p>b) Strengthened 'resilience' of PFM systems to handle crisis management, climate change resilience, disaster preparedness and 'greening' in PFM and taxation;</p> <p>c) Enhanced public accountability by raising public awareness, working with oversight bodies, civil society and academia;</p>	<p><i>technical assistance reports;</i> <i>Number of staff trained</i> <i>(training events, high-level policy workshops, bilateral & regional measures;)</i></p>				
<p>Output 2.2 (Area of support 2)</p>	<p>Supported capacity development in:</p> <p>(2) domestic revenue mobilisation:</p> <p>a) Strengthened revenue administration structures and operations which are better aligned with international good practices, including green taxation and the use of market-based instruments</p>	<p><i>Number of technical assistance reports;</i> <i>Number of staff trained</i> <i>(training events, high-level policy workshops, bilateral & regional measures;)</i></p>	2022	2026	<i>PFM Project reports</i>	
<p>Output 3.1 (Area of support 3)</p>	<p>Analytical and policy tools of central banks in the Western Balkans enhanced. Enhanced macro-prudential and bank resolution frameworks</p>	<p><i>Number of participants per training curricula</i> <i>Operational risk management strategy in place;</i> <i>Functional business continuity and contingency plans;</i></p>	2022	2026	<i>Commission reports</i> <i>ERP assessments and</i> <i>Project reports</i>	
<p>Output 3.2 (Area of support 3)</p>	<p>Further developed tools enlarging the information set of central banks and, thereby supporting the decision-making process.</p>	<p><i>Inflation expectations and bank lending survey in place</i> <i>Forecasting framework in place</i></p>	2022	2026	<i>ERP assessments and</i> <i>Project reports</i>	

4. IMPLEMENTATION ARRANGEMENTS

4.1. Financing agreement

In order to implement this action, it is not foreseen to conclude financing agreements with the IPA III beneficiaries.

4.2. Implementation modalities

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures⁶.

4.2.1. Direct Management (Grants)

Area of support 2 - Public Finance Management (PFM)

(a) Purpose of the grant

This grant aims at contributing to public financial management reform and domestic revenue mobilisation in the Western Balkans (Outcome 2). In particular, the grant will target budget transparency and the demand-side of accountability as captured in the following actions (mentioned above under 3.2):

- raising public awareness: through the provision and dissemination of data and information on budget openness;
- working with oversight bodies, civil society and academia: through engagement at various points during the budget process;
- strengthening ‘resilience’, incl. getting PFM systems ready for crisis management: through provision and dissemination of data and information on how crisis funding is spent.

(b) Justification of a direct grant

Under the responsibility of the Commission’s authorising officer responsible, the grant may be awarded without a call for proposals to the **International Budget Partnership (IBP)**.

Under the responsibility of the Commission’s authorising officer responsible, the recourse to an award of a grant without a call for proposals is justified based on Article 195 (c) of the Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, i.e. “bodies with a de facto monopoly”. IBP produces a biennial Open Budget Survey (OBS) since 2006 producing high quality data on open budgeting and actionable recommendations that can be used by citizens and the public to engage with authorities, demanding accountability and contributing to better fiscal management and outcomes. Also DG NEAR services frequently use the Open Budget Index, that comes out of the OBS in the EU policy dialogue with partner countries. The Western Balkans have requested to be included in the survey, which currently is done in Albania, Bosnia and Herzegovina, North Macedonia and Serbia.

Area of support 3 – Central banks

(a) Purpose of the grant

This grant aims at strengthening the central banks’ capacities in the Western Balkans (Outcome 3).

(b) Justification of a direct grant

Under the responsibility of the Commission’s authorising officer responsible, the grant may be awarded without a call for proposals to the **Deutsche Bundesbank**.

⁶ www.sanctionsmap.eu Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

Under the responsibility of the Commission’s authorising officer responsible, the recourse to an award of a grant without a call for proposals is justified based on Article 195 (f) of the Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, i.e “for activities with specific characteristics that require a particular type of body on account of its technical competence, and its high degree of specialisation, on condition that the activities concerned do not fall within the scope of a call for proposals”. The direct attribution is based on the exclusive competence of the Deutsche Bundesbank and its high degree of specialisation as it is the coordinator of the enlargement cooperation of the ESCB in the area of central banking and supervision. The Deutsche Bundesbank (“Coordinator”) will take the lead, being responsible for the implementation and administrative part of the programme. “Co-beneficiaries” are those central banks of the ESCB that are willing to contribute to the action. The ECB may also contribute to the action. These entities will provide technical assistance based on their highly specialised technical experience as public institutions within the ESCB. The activities concerned - technical assistance to build the capacity of the beneficiary central banks, which is a strategic goal – do not fall within the scope of a call for proposals. On the basis of an identified need for assistance from a beneficiary central bank, the central banks of the ESCB cooperate in teams or groups to provide support packages.

4.2.2. Indirect management with international organisations

Area of support 1 - Structural reforms

Indirect management with the Centre for Excellence in Finance (CEF)

A part of this action may be implemented in **indirect management** with the **Centre for Excellence in Finance (CEF)**. This implementation entails undertaking all necessary activities to achieve Outcome 1 and its related Output by providing regional support to authorities in the ERP process and in coordination of structural reforms. The envisaged entity has been selected using the following criteria: its unique experience and thus expertise in training government officials in the region on how to calculate the budgetary implications of structural reforms, in particular the reforms included in the ERPs. CEF experts have developed the methodology for costing of structural reforms in the ERPs outlined in the ERP Guidance Note. The CEF is an international organisation based in Ljubljana.

Area of support 2 - Public Finance Management (PFM)

Indirect management with the International Bank for Reconstruction and Development (IBRD)

A part of this action may be implemented in **indirect management** with the International Bank for Reconstruction and Development (IBRD). This implementation entails undertaking all necessary activities to contribute to achieve Outcome 2 and its related Outputs by providing regional support to selected areas of *public financial management reform* in the Western Balkans. The IBRD has been selected using the following criteria: their leading role in global expertise on PFM; their operational capacity to cover the entire spectrum of PFM themes on a flexible and demand-driven basis; and their value added in terms of strengthening joint police dialogue with the authorities in support of the EU enlargement strategy and *acquis* alignment.

Indirect management with the International Monetary Fund (IMF)⁷

A part of this action may be implemented in **indirect management** with the International Monetary Fund (IMF). This implementation entails undertaking all necessary activities to contribute to achieve Outcome 2 and its related Outputs by providing regional support to *public financial management reform* and *domestic revenue mobilisation* in the Western Balkans. The IMF has been selected using the following criteria: their role leading in global expertise on

⁷ As the previous pillar assessment of IMF dates back to the 2002 Financial Regulation and cannot be considered as valid any longer, a new pillar assessment will have to be done by the end of 2021. The grant fall-back option will be considered in case of an unlikely unsuccessful pillar assessment or if the pillar assessment has not been completed in time for contract signature.

PFM; their operational capacity to cover the entire spectrum of PFM themes on a flexible and demand-driven basis; and their value added in terms of strengthening joint police dialogue with the authorities in support of the EU enlargement strategy and *acquis* alignment.

In case the envisaged entities (CEF, IBRD and IMF) would need to be replaced, the Commission's services may select a replacement entity using the same selection criteria given above. If the entity is replaced the decision to replace it needs to be justified.

If negotiations with the above-mentioned entity (IMF) fail, or if the pillar assessment cannot be ensured, that part of this action may be implemented in direct management in accordance with the implementation modalities identified in section 4.2.3

4.2.3. Changes from indirect to direct management mode due to exceptional circumstances (one alternative second option)

If pillar assessment on IMF under 4.2.1 cannot be ensured, that part of the support may be implemented in direct management through a grant in accordance with the implementation modalities identified as follows:

a) Purpose of the grant: The grant will contribute to the achievement of Outcome 2 and related relevant output.

b) Justification of a direct grant:

Under the responsibility of the Commission's authorising officer responsible, the grant may be awarded without a call for proposals to IMF selected using the following criteria: its role leading in global expertise on PFM; its operational capacity to cover the entire spectrum of PFM themes on a flexible and demand-driven basis; and its value added in terms of strengthening joint police dialogue with the authorities in support of the EU enlargement strategy and *acquis* alignment.. Under the responsibility of the Commission's authorising officer responsible, the recourse to an award of a grant without a call for proposals is justified based on Article 195 (f) for activities with specific characteristics that require a particular type of body on account of its technical competence, and its high degree of specialisation, on condition that the activities concerned do not fall within the scope of a call for proposals

4.4. Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions:

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the beneficiaries concerned, or in other duly substantiated cases where application of the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

4.5. Indicative budget

	EU contribution (amount in EUR) 2021	Indicative third party contribution, in currency identified 2021
Area of support 1 - Structural reforms (Outcome 1)		
Indirect management with the Centre for Excellence in Finance - cf. section 4.3.4	4 000 000	N/A
Area of support 2 – Public Finance Management (Outcome 2) composed of		
Indirect management with the International Monetary Fund	9 200 000	N/A
Indirect management with International Bank for Reconstruction and Development	8 200 000	N/A
Direct management with the International Budget Partnership	1 600 000	N/A
Area of support 3 – Central banks (Outcome 3)		
Direct management with the Deutsche Bundesbank	3 000 000	N/A
Grants – total envelope under section 4.2.1	4 600 000	
Totals	26 000 000	N/A

4.6. Organisational set-up and responsibilities

Strong policy framework exists in all the 3 area of support.

Area of support 1: The drafting of the ERPs is coordinated by the ERP coordinators in the Ministries of Finance and Economy with a close involvement of the central banks and in particular for the structural reforms part with the various line Ministries. The National IPA coordinators (NIPACs) are also important stakeholders in the process. Partner countries submit the annual ERPs to the European Commission, which prepares an assessment of the ERPs as basis for the joint economic and financial dialogue between the EU and the Western Balkans and Turkey This happens in the framework of a well established multi-stakeholder process, managed by the Directorate-General for Neighbourhood and Enlargement Negotiations)(described in detail in the ERP guidance notes). A close contact should be maintained with the EU Delegations/EU Office to ensure complementarity with other regional and in-country programmes.

Area of support 2: The PFM reform strategies are normally coordinated by a PFM coordination unit in the Ministry of Finance⁸. On a day-to-day basis the implementing partners need to follow the guidance from these units, as well as keep close contact with the EU Delegations/EU Office to ensure complementarity with other TA interventions, and joint messages on policy in the dialogue and advisory roles. At the higher level, the annual coordination meetings with all counterparts as well as annual project steering committee meetings will take major decisions. The obligations of the implementing partners regarding coordination, sharing of information and outputs, communication, visibility and reporting are noted in the ‘operational guidelines’ annexed to the contracts.

Area of support 3: Banking supervision and monetary policy are carried out by the central banks and the respective supervisory authorities. The independence of the central banks is hereby a key. For some activities and reforms a closer cooperation and coordination with Ministry of Finance and Statistical offices should be considered. For a coordination and complementarity with other regional projects, in particular the respective Twinning projects, regular contact should be established with the EU Delegations/EU Office. A Programme Steering Committee (PSC) will

⁸ In the case of Bosnia and Herzegovina, there are currently 4 PFM reform strategies coordinated at the 4 levels of governance. However, a country-wide strategy and M&E system are being developed.

review progress, give guidance and take decisions. The PSC will comprise representatives of the participating NCBs, the ECB and the final beneficiary institutions. The Programme Manager, who will be provided by the Coordinator, shall be based at the Coordinator's premises in Frankfurt am Main. He or she will be responsible for meeting the Action's overall objectives. He or she will be in charge of coordination with all co-beneficiaries, final beneficiaries and other institutions. A team will be set up on the Coordinator's premises to operate directly or to support other institutions in this action. Staff resources of the Coordinator may, in particular, be deployed to organise, prepare, participate and report on policy workshops and training events under Component 1, and to coordinate with NCB experts the preparation and implementation of bilateral measures under Component 2.

5. PERFORMANCE/RESULTS MONITORING AND REPORTING

5.1. Internal monitoring

The action will be monitored by the implementing partners on the basis of the logframe and guided by the project steering committees.

5.2. Roles & responsibilities for data collection, analysis & reporting

For area of support 1, the action will rely on data collected in the context of the ERPs. For area of support 2, the main framework for data collection, analysis and reporting are the M&E frameworks under the PFM reform strategies. For area of support 3, the coordinator at the Deutsche Bundesbank will rely on data used in the EU enlargement process.

5.3. Evaluation

Having regard to the importance of the action, mid-term and ex-post evaluations will be carried out for this action or part of it via independent consultants contracted by the Commission.

The mid-term evaluation will be carried out for problem solving and learning purposes, in particular with respect to sustainability, stakeholder coordination and taking account of political economy drivers and spoilers of reform processes, as well as for the purpose of informing future programming.

An ex-post evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision) with a view to strengthening coordination, complementarity and coherence of the actions.

The Commission shall inform the implementing partner at least 1 month in advance of the dates foreseen for the evaluation 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 action.

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

6. AUDIT

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 audits or expenditure verification assignments for one or several contracts or agreements.

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

7. COMMUNICATION AND VISIBILITY

Visibility of EU funding and communication about objectives and impact of Actions are a legal obligation for all Actions funded by the EU, as set out in the EU communication and visibility requirements in force.

In particular, the recipients of EU funding shall acknowledge the origin of the EU funding and ensure its proper visibility by:

- providing a statement highlighting the support received from the EU in a visible manner on all documents and communication material relating to the implementation of the funds, including on an official website and

social media accounts, where these exist; and

- promoting the actions and their results by providing coherent, effective and proportionate targeted information to multiple audiences, including the media.

Visibility and communication measures shall be implemented, as relevant, by the public administrations (for instance, concerning the reforms linked to EU budget support), entrusted entities, contractors and grant beneficiaries. Appropriate contractual obligations shall be included, respectively, in financing agreements, delegation agreements, and procurement and grant contracts.

The measures shall be based on a specific Communication and Visibility Plan, established and implemented in line with the EU communication and visibility requirements in force. The plan shall include, inter alia, a communication narrative and master messages for the Action, customised for the various target audiences (stakeholders, civil society, general public, etc.)

Visibility and communication measures specific to this Action shall be complementary to the broader communication activities implemented directly by the European Commission services and/or the EU Delegations and Offices. The European Commission and the EU Delegations and Offices should be fully informed of the planning and implementation of the specific visibility and communication activities, notably with respect to the communication narrative and master messages. It is the responsibility of the implementing partner(s) to keep the EU Delegations/Office and the European Commission fully informed of the planning and implementation of the specific visibility and communication activities.

Communication on this Action should also take into consideration the risks from misinformation and disinformation, and the ways of countering these in order to avoid undermining the Union's efforts and image in the Western Balkans and Turkey.

8. SUSTAINABILITY

This action is designed to support beneficiaries in the Western Balkans and Turkey in *developing their own capacities and systems*, precisely with the objective of increasing the sustainability of policy reforms in the area of economic governance. In addition to capacity development (CD), emphasis will be put on transparency and accountability to the wider public, by ensuring cooperation and engagement with civil society, academia, Supreme Audit Institutes, parliamentary committees, etc.

In addition to the overall strategy, there are complimentary efforts ongoing to address sustainability of both, capacity development and policy reform, in the framework of the public administration reform (PAR) agenda. PAR includes a pillar on human resource development and civil service, under which partners in the Western Balkans are developing capable public administrations that can manage complex reforms and implement technical advice. Also under the pillars of policy planning and development and accountability, partners build institutional processes and systems that can deliver while remaining accountable.

Under area of support 1, the action will support ministries of finance in developing their capabilities to regulate, enable, guide and challenge the ERP contributions of line ministries. And, in close cooperation with experts from beneficiary institutions, the action will support line ministries in informing, coordinating, planning and implementing their inputs to the ERPs. NIPACs and EU integration units will be also involved.

Under area of support 2, with regard to CD, capacity assessments and a training needs assessment will be among the first deliverables under the projects. Activities will include but not be limited to (i) knowledge transfer (ii) specific specialised training for a wide number of staff in each relevant beneficiary (iii) regional training and peer exchange (iv) mentoring opportunities. To ensure sustainability for the beneficiaries in the key disciplines of the programme, capacity will need to be built in such areas as change management, human resources development, and information technology. In the delivery of the agreed CD, specific attention will be paid to putting in place viable medium-term strategies that help sustain the reforms and achievements once the action is completed.

Key ingredients in a strategy to increase the sustainability of economic governance reforms and capacities for PFM are promoting increased levels of budget transparency, opportunities for the public to engage with authorities in all stages of the budget cycle and strengthened budgetary oversight, while at the same time strengthening the capacities of civil society organisations to allow them to make best use of the data provided to hold governments accountable for public funds.

Under area of support 3, the action is aiming at strengthening the institutional capacity of the central banks of the Western Balkans, notably by transferring best international and European standards into internal practices. To achieve the sustainable results, the programme will implement several bilateral measures that will improve internal processes of the respective institutions in accordance with the ESCB standards and strengthen their analytical capacities.