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USING IPA AND OTHER EU FUNDS TO ACCELERATE CONVERGENCE AND INTEGRATION IN THE WESTERN-BALKANS

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Table of Contents

About the Contributors 5

Foreword 7

Overview
Tamás Szemlér
EU Financial Support for the Western-Balkans: Well-Suited to Real Needs? 9

Case Studies
Iskra Belceva – Darko Blazevski
The Preparations for IPA in the Republic of Macedonia 23

Ditmir Bushati
Albania and IPA 33

Arolda Elbasani
The Role of EU Assistance in the Balkan Countries: The Case of Public Administration Reforms 37

Dalibor Dvorny – Iva Frkic
Case of IPA in Croatia: Invitation to Strategic Thinking or 'Business as Usual'? 53

Mate Gjorgjievski
EU Instrument for Pre-Accession Assistance: The Path to a Successful Start 69

Lessons Learnt
Pavlina Nikolova
The Implementation of PHARE, ISPA and SAPARD in Bulgaria 89

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Foreword

From 2007 onwards, the financial instruments of the EU directed towards candidate and potential candidate countries of the Union are brought together under the umbrella of the Instruments for Pre-Accession Assistance (IPA). In the framework of the assistance, countries of the Western-Balkans and Turkey receive funding to prepare them for meeting membership criteria in the political, economic and legal realm. The extent to which IPA can contribute to the convergence of the Western-Balkans and Turkey will be decisive in determining the pace of the enlargement process in the near future. Therefore, in October 2007 the Center for EU Enlargement Studies of Central European University (CEU) held a workshop in Brussels with the aim of assessing the role of pre-accession funds directed towards Western-Balkans countries in their catching-up process. Participants of the event included researchers and public administration officials from candidate countries, potential candidate countries as well as new member states and European Commission officials.

The main aim of the one day workshop was to provide an overview of growth and convergence perspectives of the Western-Balkan countries; to evaluate the chances for the success of IPA based on beneficiary countries' experiences; to map out ways in which experiences of new member states can be used by pre-accession assistance recipients today. This booklet includes papers presented at the workshop dealing with the above subjects. With the publication of the papers CENS aims to contribute to the initiation of thinking about a still under-researched area, the use of EU financial assistance in triggering growth and convergence.

I would like to express our gratitude to the University Association for Contemporary European Studies (UACES) and Open Society Institute-Brussels, who made the event possible that brought together such a wide variety of experts on the issue.

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EU Financial Support for the Western-Balkans: Well-suited to Real Needs?

Tamás Szemlér

Introduction

EU financial support for the countries of the Western-Balkans can be divided into three periods. In the first period, between 1991 and 1999, the EC/EU has provided support (of € 4.4 bn) to these countries in the framework of various assistance programmes. As many of the actions have been of ad hoc nature (in most of the period, reacting to urgent needs of the countries in/after war), no structured approach could be seen; synergy effects could thus be very limited.

In the second period, between 2000 and 2006, the main instrument of EU financial support was CARDS (Community Assistance for Reconstruction, Development and Stabilisation) as part of the Stabilisation and Association Process. CARDS was characterised by a much more structured approach than the one used before. It included bilateral co-operation tailored to the specific needs of the Western-Balkan countries, as well as regional co-operation among them. In general terms, financial assistance to these countries (totalling € 4.6 bn (€ 5.4 bn including earlier commitments from PHARE and OBNOVA realised in the first year of this period)) has been concentrated on the areas of justice and home affairs, economic and social development, democratic stabilisation, environment and natural resources, administrative capacity building and other areas of assistance.

From 2007, a new instrument, IPA (Instrument for Pre-Accession Assistance) has replaced all previously existing pre-accession instruments, including CARDS. IPA provides a general framework for financial support (€11.5 bn between 2007–2013, including support for Turkey) for candidate and potential candidate countries. It has five components (transition assistance and institution building, cross-border cooperation; regional development, human resources development and rural development); all the five components are available for candidate countries, while potential candidates have only access to the first two components. Thus it has created an overall structure for pre-accession assistance, and found a form of differentiation based on the individual capacities of the countries concerned.

Looking at the three periods, there is a clear tendency from ad hoc actions towards a structured approach. This tendency also means that the forms and conditions of support are gradually becoming much more in line with the patterns of EU support used earlier (in the case of earlier enlargements). Especially the move to IPA seems to be a decisive step in this respect.

This, in itself, is good news. But it should also be seen that the resources for pre-acces-

sion are clearly less abundant than they were before the enlargements of 2004 and 2007 – and the tasks ahead seem to be by far more difficult now. In addition to this, the question arises, whether the assistance in its past and present form provides these countries what they really need. Even if it is too early to give an overall evaluation, comparisons with earlier pre-accession support frames and results can help to identify some critical points of IPA. The paper will try to contribute to this exercise, briefly presenting the main characteristics of the three periods mentioned above, and trying to foresee the consequences of the track chosen with the present form of assistance.

1. The 1990s: No Strategy, No System

During the 1990s, the EC/EU tried to follow the stormy events on the Western-Balkans, but it was generally lagging behind. The changes were enormous: on the ruins of the former Socialist Federal Republic of Yugoslavia, small countries emerged; in some cases, this process was relatively rapid (Slovenia), basically peaceful (Former Yugoslav Republic of Macedonia (FYROM), Montenegro), in other cases, it was a result of bloody wars (Croatia, Bosnia-Herzegovina). As a result, another relatively small country (Serbia) emerged, but in one special case (Kosovo), after armed conflicts and long negotiations, the status is still not clarified. One thing, however, was clear relatively soon: instead of dealing with the relatively developed and open old Yugoslavia with good chances of achieving EU membership soon, the EU had to build up a new system of relationships with newly establishing countries. Financial assistance was meant to be a part of such a system.

EU assistance until 2000, however, could not really fit into a coherent system of relationships – due to the simple reason that such a system did not exist at all. But EU financial assistance itself was far from being structured that time. EU assistance to the countries of the Western-Balkans between 1991 and 1999 totalled EUR 4.4 bn (see Table 1 for details).

Table 1: EU Assistance to the Western-Balkan Countries, 1991–1999 (EUR mn)

	ALB	BiH	SCG	KOS	CRO	FYROM	TOTAL
1991-1994	400.10	495.50	170.60		205.70	96.60	**1368.50**
1995	90.55	216.40	40.00		38.70	34.40	**420.05**
1996	55.30	441.10	24.50		33.60	25.00	**579.40**
1997	99.40	360.90	18.10		27.00	73.70	**579.10**
1998	54.30	295.30	27.10	13.20	24.10	25.50	**439.40**
1999	225.40	284.00	145.30	259.60	18.60	108.60	**1041.50**
TOTAL	**925.05**	**2093.20**	**425.60**	**272.80**	**347.70**	**363.80**	**4427.95**

Source: http://www.auswaertiges-amt.de/www/de/eu_politik/gasp/eu_aussenbez/balkan_html

In 1996, the OBNOVA programme has been launched to provide assistance for reconstruction in the successor states of the former Yugoslavia[1]. Its objectives „included

- regional cooperation and good neighbourhood projects as well as transborder projects;
- rebuilding of infrastructure and other individual or collective facilities damaged during the war;
- consolidation of democracy and civil society; return of refugees;
- integration and reintegration of refugees, displaced persons and former soldiers into working life;
- preparation of production apparatus for economic recovery;
- development of the private sector, primarily small businesses and promotion of investment;
- strengthening of NGOs and cultural and educational institutions"[2].

OBNOVA was the first – at least to a limited extent – general EU approach to financial support of the Western-Balkans. Due to the circumstances, the urging need of the (in most cases) post-war republics, and, not least, to the limited financial resources, its results could only be limited. In 2000, the system of EU approach has changed, and OBNOVA has been replaced by the new EU financial instrument for the Western-Balkans, the Community Assistance for Reconstruction, Development and Stabilisation (CARDS) programme has been launched.

2. CARDS: Part of a Structured Relationship

In the second period, between 2000 and 2006, the main instrument of EU financial support was CARDS as part of the Stabilisation and Association Process (SAP) launched in 1999 and reconfirmed in 2003.

CARDS was characterised by a much more structured approach than the one used before. It included both bilateral co-operation tailored to the specific needs of the Western-Balkan countries and regional co-operation among them. In general terms, financial assistance to these countries (totalling € 4.6 bn (€ 5.4 bn including earlier commitments from PHARE and OBNOVA realised in the first year of this period); see Table 2 for details) has been concentrated on the areas of justice and home affairs, economic and social development, democratic stabilisation, environment and natural resources, administrative capacity building and other areas of assistance.
CARDS was meant to be streamlined to the needs of the countries of the Western-Bal-

1 OBNOVA was set up in 1996; total support in the framework of this programme between 1996 and 2000 was € 400 mn. The package was open to Bosnia & Herzegovina, Croatia, SR Yugoslavia and the Former Yugoslav Republic of Macedonia (FYROM) (http://www.mvpei.hr/ei/default.asp?ru=234&sid=&akcija=&jezik=2).

2 http://www.mvpei.hr/ei/default.asp?ru=234&sid=&akcija=&jezik=2.

kans. The summary of the evaluation of CARDS has acknowledged that it "has been the most important source of financial and technical support to reconstruction in the region"[3]. The evaluation[4], however, identified a number of weaknesses: it criticised centralisation, the weakness of the regional dimension, the system of programming, the dual implementation of the programme and weaknesses regarding institution building, gender and minority rights and judicial reform. It also formulated recommendations for the (then) future functioning of CARDS. Box 1 contains the summary of main findings and recommendations of the evaluation.

Table 2: CARDS Programme allocation for 2000–2006 (EUR mn)

	2000	2001	2002	2003	2004	2005	2006	TOTAL
Albania	33.4	37.5	44.9	46.5	63.5	44.2	45.5	315.5
Bosnia-Herzegovina	90.3	105.2	71.9	63.0	72.0	49.4	51.0	502.8
Croatia (transfer to pre-accession from 2005)	16.8	60.0	59.0	62.0	81.0	–	–	278.8
Macedonia (FYROM)	13.0	56.2	41.5	43.5	59.0	45.0	40.0	298.2
Serbia and Montenegro[a]	650.5	385.5	351.6	324.3	307.9	282.5	245.5	2547.8
Interim Civilian Administrations	10.0	24.5	33.0	32.0	35.0	36.0	35.0	205.5
Regional	20.2	20.0	43.5	31.5	23.0	47.9	42.0	228.1
Other[b]	141.5	118.0	11.0	17.0	22.5	19.7	19.8	349.5
Macro-Financial Assistance (grants)[c]	70.0	120.0	100.0	15.0	16.0	33.0	50.0	404.0
TOTAL	1045.7	926.9	756.4	634.8	679.9	557.7	528.8	5130.2
Croatia: pre-accession 2005–2006						105.0	140.0	245.0
TOTAL (including Croatia 2005–2006)						662.7	668.8	5375.2

General remarks:

- Figures for the year 2006 are purely indicative and correspond to the multiannual indicative programming (MIP);
- Figures include assistance from PHARE and Obnova where relevant in 2000, and from CARDS 2001 and onwards;

3 EVINFO, 2004(a), p. 1.

4 Development Researcher's Network Consortium, 2004(a).

- 2005 budget implementation: Re-use of recoveries from 2004/5, i.e. above budget allocation 2005: 6 million euro for Macedonia (FYROM), 7.5 million euro for regional programme.

a) Includes the Republic of Serbia, the Republic of Montenegro and the province Kosovo, which is currently under UN administration. Amounts for Serbia in 2002–2003 include assistance from Regional Programme for Integrated Border Management destined for the whole of FRY/Serbia and Montenegro. In 2004, 8 million euro for that purpose is shown under the regional programme.

b) Until 2001 (incl.): Humanitarian aid, Specific Measures, Rapid Intervention Operations, EIDHR and GFSP; From 2002 (incl.): Administrative costs and the Western-Balkans' contribution to the European Training Foundation.

c) For 2000–2002: disbursements and not commitments.
Source: European Commission (http://www.europa.eu.int/comm/enlargement/cards/financial_en.htm).

Box 1 Main Findings and Recommendations of CARDS Evaluation

Main findings

(1) CARDS has been by far the most important source of financial and technical support to reconstruction and reform in the region. Through its support to the stabilisation and association process (SAP) it ensures linkage with the political perspective of EU integration, which for partners means a democratic and stable future.
(2) Centralisation in CARDS presents a significant obstacle to programme ownership by key stakeholders, and thereby threatens sustainability. More attention needs to be given to knowledge acquisition and capacity building needs among partners to satisfy their legitimate desire for increased involvement in programming and project design.
(3) The regional dimension of CARDS is relatively weak, lacking strategic guidance and perceived as inaccessible by local partners.
(4) The current system of programming, based around Country and Regional Strategy Papers and Multi-annual Indicative Programmes, is not best suited to the evolving framework of the Sap and Partnerships.
(5) The dual implementation model for CARDS (European Agency for Reconstruction and de-concentrated delegations) reveals inconsistencies, with key strengths and weaknesses on each side. These need to be addressed once a political decision on the future of the EAR is taken.
(6) The evaluation also contains a number of findings relating to specific sectors - these are generally favourable but reveal weaknesses in relation to institution building, mainstreaming issues (notably gender and minority rights) and judicial reform (insufficient strategic support and guidance).

Recommendations

(1) CARDS decentralisation should be pursued gradually and in accordance with the evolution of capacity in recipient institutions. The CARDS approach should in this connection pay more attention to partner institutions, with technical assistance supporting a learning capacity within national administrations and not simply focusing on advice and guidance on the *acquis.*
(2) A specific regional cohesion programme should be developed, building on existing local and regional development programmes, some of which are relatively advanced. This should be accompanied by a regional investment facility established in collaboration with EIB and EBRD, to facilitate mobilisation of non-EC funds and to improve the coherence of interventions from European financing institutions. Regional networks of stakeholders should be involved in definition and exchange of best practice and to encourage inter and intra-regional co-operation in key sectors.
(3) Linked to the above, reorganise management of the regional programme through transfer to a devolved body, with characteristics similar to those of the EAR, to ensure closer engagement with the region and resources in its countries/entities on the ground.
(4) A replacement for the Country Strategy Paper and MIP framework should be considered at the end of the current financial perspectives. Partnership documents and SAP reports should form the priority framework for the preparation of Action Programmes. Programme management based on the pre-accession model implies better use of existing accession expertise in the Commission.
(5) Ensure a common approach to implementation, the policy link of the de-concentrated delegations being extended to the EAR operational centres through changes to the annual programming cycle. Equally, the *de facto* operational autonomy of the EAR in certain areas should be extended to de-concentrated delegations after specific regional consultations.
(6) Finally, on specific sectors, suggestions on initial steps forward are described in relation to eight areas.

Source: EVINFO, 2004(a), 1–2.

The evaluation of CARDS mentions among others the dual implementation model: while EU assistance is managed by de-concentrated delegations in Albania, Bosnia-Herzegovina and Croatia, the European Agency for Reconstruction (EAR), is responsible for the implementation CARDS in Serbia, Montenegro, Kosovo and the FYROM[5].

5 The precursor of the EAR was the Task Force for Kosovo, responsible for the implementation of OBNOVA in Kosovo.

Box 2 Main Findings and Recommendations of EAR Evaluation

Main findings

(1) The EAR operates in an administratively sound fashion and is well-managed. Significant responsibility is devolved to Agency staff, who are consequently well-motivated, but at the same time there is a culture of accountability.
(2) The evolving focus of partnership with Western-Balkan countries now requires the EAR to manage change more closely and to retain a closer link with the SAP policy process if it is to ensure that the most relevant interventions and instruments are prepared.
(3) The EAR has given increasing attention to the quality of its programmes, but needs to adapt itself to sector goals, including through the updating of its evaluation approach.
(4) The EAR's current functioning does not yet allow an optimal level of involvement from partners in the project cycle.
(5) The Governing Board of the EAR has had a role in improved donor co-ordination, but has generally played an advisory rather than a governing role.

Recommendations

(1) The Agency should initiate a yearly donor synergy meeting with the major donors on regional matters, following the example of existing regional co-ordination mechanisms in specific sectors such as energy and transport.
(2) The Agency should prepare for each country and entity a strategic plan with specific objectives, and a human and financial resources plan, for the capacity building effort required to transfer the management of EU funds to country/entity authorities.
(3) The Agency should develop a human resources deployment plan for its own staff, reflecting the priorities of the multi-annual indicative programmes, to ensure that programme managers are fully involved as active participants in strategic dialogue with partner authorities.
(4) The Agency should continue its effort to harmonise project monitoring and evaluation across its centres but should now put greater emphasis in its reporting and evaluation on the progress towards achievement of wider goals, including those articulated in the Country Strategies.
(5) The regional dimension of assistance provided should be strengthened by the identification of "sector leaders" in the EAR operational centres or in de-concentrated CARDS delegations to promote and co-ordinate sector programmes across the region.
(6) The EAR Governing Board should hold dedicated programming meetings to allow a clearer feedback from Member States on the Agency's intentions and their coherence with the Country Strategy and MIP priorities.
(7) Finally, some specific recommendations are made relating to training of Agency staff, particularly to ensure a higher level of knowledge throughout the EAR of the evolving policy context of SAP and Partnerships.

Source: EVINFO, 2004(b), 1–2.

The activity of the EAR was also subject to a detailed evaluation in 2004[6]; its findings were overall positive, but it also contained critical elements (and recommendations) regarding the functioning of the EAR. The summary of the main findings and recommendations of the evaluation is presented in Box 2.

As a rule, the European Commission has responded to the recommendations of both reports cited above[7]. In the responses ("*Fiches contradictoires*"), the Commission services accepted most of the criticism expressed by the evaluations, and stressed that the improvement of the criticised aspects is regarded as a priority; in some cases, however, the responses underlined the difficulty to go ahead.

The responses also contain a follow-up from one year later; this part is generally a description of the most important events with regard to the specific aspect since the first responses. The follow-up section is (no wonder) very much in line with the generally positive responses of the Commission services. What may be more important here is that they also contain references to the design of the new pre-accession instrument to be introduced from 2007.

3. IPA: Single Framework, Different Clubs

From 2007, a new instrument, IPA (Instrument for Pre-Accession Assistance) has replaced all previously existing pre-accession instruments, including CARDS. IPA provides a general framework for financial support (€ 11.5 bn between 2007 and 2013, including support for Turkey) for candidate and potential candidate countries. It has five components (transition assistance and institution building, cross-border cooperation, regional development, human resources development and rural development); all the five components are available for candidate countries, while potential candidates have only access to the first two components. Thus it has created an overall structure for pre-accession assistance, and found a form of differentiation based on the individual capacities of the countries concerned. The Multi-Annual Indicative Financial Framework (MIFF) based on a rolling three-year programming cycle and containing the breakdown of the IPA envelope by country and component until 2010 has been proposed by the European Commission in November 2006[8].

6 Development Researcher's Network Consortium, 2004(b).

7 European Commission, 2005(a), 2005(b).

8 European Commission, 2006.

Table 3: Multi-Annual Indicative Financial Framework: Breakdown of the Instrument for Pre-Accession Assistance Envelope for 2008–2010 into allocations by country and component (EUR mn, current prices)

Country	Component	2007	2008	2009	2010
TURKEY	Transition Assistance and Institution Building	252.2	250.2	233.2	211.3
	Cross-border Cooperation	6.6	8.8	9.4	9.6
	Regional Development	167.5	173.8	182.7	238.1
	Human Resources Development	50.2	52.9	55.6	63.4
	Rural Development	20.7	53.0	85.5	131.1
	TOTAL	**497.2**	**538.7**	**566.4**	**653.7**
CROATIA	Transition Assistance and Institution Building	47.6	45.4	45.6	39.5
	Cross-border Cooperation	9.7	14.7	15.9	16.2
	Regional Development	44.6	47.6	49.7	56.8
	Human Resources Development	11.1	12.7	14.2	15.7
	Rural Development	25.5	25.6	25.8	26.0
	TOTAL	**138.5**	**146.0**	**151.2**	**154.2**
FYROM	Transition Assistance and Institution Building	41.6	39.9	38.1	36.3
	Cross-border Cooperation	4.2	5.3	5.6	5.7
	Regional Development	7.4	12.3	20.8	29.4
	Human Resources Development	3.2	6.0	7.1	8.4
	Rural Development	2.1	6.7	10.2	12.5
	TOTAL	**58.5**	**70.2**	**81.8**	**92.3**
SERBIA	Transition Assistance and Institution Building	178.5	179.4	182.6	186.2
	Cross-border Cooperation	8.2	11.5	12.2	12.5
	TOTAL	**186.7**	**190.9**	**194.8**	**198.7**
MONTENEGRO	Transition Assistance and Institution Building	27.5	28.1	28.6	29.2
	Cross-border Cooperation	3.9	4.5	4.7	4.8
	TOTAL	**31.4**	**32.6**	**33.3**	**34.0**
KOSOVO	Transition Assistance and Institution Building	60.7	62.0	63.3	64.5
	Cross-border Cooperation	2.6	2.7	2.8	2.8
	TOTAL	**63.3**	**64.7**	**66.1**	**67.3**
BOSNIA & HERZEGOVINA	Transition Assistance and Institution Building	58.1	69.9	83.9	100.7
	Cross-border Cooperation	4.0	4.9	5.2	5.3
	TOTAL	**62.1**	**74.0**	**89.1**	**106.0**

ALBANIA	Transition Assistance and Institution Building	54.3	61.1	70.9	82.7
	Cross-border Cooperation	6.7	9.6	10.3	10.5
	TOTAL	**61.0**	**70.7**	**81.2**	**93.2**
Total Country Programmes		**1098.7**	**1188.6**	**1263.9**	**1399.4**
Regional and Horizontal Programmes		**100.7**	**140.7**	**160.0**	**157.7**
ADMINISTRATIVE COSTS		**55.8**	**54.0**	**56.5**	**64.6**
GRAND TOTAL		**1255.2**	**1383.3**	**1480.4**	**1621.7**

Source: European Commission, 2006, 5–6.

According to the European Commission, "the new instrument takes into account the actual differences between potential candidates and candidates in terms of administrative, programming and management capacity"[9]. In concrete terms, it means that in the case of potential candidate countries (Albania, Bosnia-Herzegovina, Montenegro, Serbia and Kosovo) the management of IPA is centralised; in their case, the European Commission is responsible for the management of IPA. For the candidate countries, as said above, all five components are open; the three components available only for them aim "at preparing candidate countries for the management of Structural Funds and largely mirror the Structural Funds regulations"[10]. Similarly to the pre-accession funds available for the countries that joined the EU in 2004 and 2007, these components "are subject to the same requirements as those applying to Member States in terms of necessitating sound financial management structures and practices. Therefore, they can only be introduced for candidate countries operating under decentralised management and having demonstrated autonomous programming and management capacities"[11].

4. On the Right Track?

After the brief overview of the three periods, a clear tendency from ad hoc actions towards a structured approach can be seen. This tendency also means that the forms and conditions of support are gradually becoming much more in line with the patterns of EU support used earlier (in the case of earlier enlargements). Especially the move to IPA seems to be a decisive step – in the case of the candidate countries – in this respect.

This, in itself, is good news. But there are also question marks related to the actual approach of EU assistance for the Western-Balkans. Some of the critical points have already

9 http://ec.europa.eu/enlargement/questions_and_answers/assistance_ipa_en.htm.

10 Ibid.

11 Ibid. Regarding potential candidate countries, it continues: "Nevertheless, it is important to underline that under the regulation potential candidates will have access to funding for infrastructure, regional development, rural development and labour and social measures. Assistance in all of these areas will be available through the Transition Assistance and Institution Building component. The regulation explicitly foresees investments to promote economic and social development".

been identified during the functioning of CARDS, and some of them have been addressed – more or less successfully – by the European Commission.

Regarding the usefulness of IPA in helping the countries of the Western-Balkans reach their objective of progressing towards EU membership, there are two fundamental aspects to be observed:

- Is IPA in its present form an efficient tool to help the Western-Balkan countries to progress towards EU membership? Does IPA's present regulation contain the right incentives for progress?
- Is the financial framework provided under IPA in line with the needs of the Western-Balkan countries' development needs?

Of course, there are different answers from different points of view to these questions. Not surprisingly, the European Commission's approach to IPA is quite positive. The answers to the questions listed on the IPA page on europa.eu (see Box 3) are optimistic, and emphasise the flexibility of the structure, the differentiation according to preparedness, as well as the fact that assistance available for the Western-Balkans under the IPA exceeds earlier amounts of EU support.

Box 3 IPA – Frequently Asked Questions

Why does the IPA regulation make a clear distinction between candidate countries and potential candidate countries? Is this not going to contribute to isolate potential candidates in the Western-Balkans?

Why not open the five IPA components to potential candidates?

Isn't there a risk that this differentiation contributes to broaden the gap between countries in the Western-Balkans, with potential candidates lagging behind, and to reduce the opportunities for regional co-operation?

Potential candidate countries will only benefit from the first two proposed IPA components: can you ensure that this differentiation will not weight unfavourably the level of funding available for the Western-Balkans?

Isn't there also a risk that the differentiation increases the delays for the Western-Balkans to accede?

Source: http://ec.europa.eu/enlargenent/questions_and_answers/assistance_ipa_en.htm

A thorough and quite critical *a priori* evaluation of IPA[12] tackles about the same questions, but its answers are very different from those of the European Commission. It regards differentiation as a fundamental obstacle of rapid progress of the potential candidates: due to the differentiation between candidates and potential candidates, the least developed countries have no direct access to assistance in the most important fields of development. Due to differences in management, there is no efficient incentive for improving the functioning of the institutions of potential candidates. It also says that the amounts foreseen are not in line with the development needs of these countries; its calculations show stagnating or even decreasing amounts just in the period when fundamental issues in the region (like the long-term functioning of Bosnia-Herzegovina, the status and the long-term viability of Kosovo) should be addressed. The paper concludes that the method chosen for and the amounts devoted to IPA reflect the intention of the EU to make the prospect of EU accession of the Western-Balkan countries (at least of the potential candidates) as distant as possible[13]. In the long run, the costs of further underdevelopment and potential instability (as a consequence of the lack of credible EU prospects) can be far higher than the costs of an efficient, progress-oriented assistance, the paper says.

Despite the many differences between the countries concerned, a comparison between the pre-accession treatment of the countries that joined the EU in 2004 and 2007 and of the Western-Balkan countries can be interesting. The paper cited above uses the case of Bulgaria for comparison, and says that the opening up of all the pre-accession funds has contributed to a great extent to the dynamic progress of that country; it says implicitly that such a progress could not have been achieved without access to all the funds.

The actual debate on the design of IPA brings us back to the evergreen issue of differentiation. In 1997, the EU first divided the associated (mostly Central and Eastern European) countries into two groups (the "Luxembourg 6" and the "others"), but two years later, in Helsinki, the "regatta" principle has been declared. The composition of the two "subrounds" of the Eastern enlargement is a result of many factors, but it clearly showed the merits of the "regatta" approach: it contained incentives; important financial assistance was available, and, last, but not least, the commitment of the EU to enlargement was (gradually increasingly) credible.

In the case of the Western-Balkan countries (and especially of the potential candidates) all the above merits are – at least partially – missing. The present system (though embedded into the SAP) does not provide incentives for the potential candidates to modernise their institutional setup: as said before, in their case, IPA management is the task of the European Commission. Instead of this approach, decentralised management linked with a strict conditionality regarding institutional capacity would be more favourable. If the institutions of a country were not able to manage the programme, the country in question

[12] European Stability Initiative, 2005.

[13] The lack of real EU strategy for the accession of Turkey also contributes to foggy Western Balkans accession prospects, first of all for potential candidates.

could not get the amounts foreseen for it – it would be a clear incentive for the Western-Balkan countries (and also a very important external help in their domestic struggles for changes) on the one hand, and a guarantee for EU citizens that their money is not used inefficiently on the other.

The second problem is the amount of assistance foreseen. The resources for pre-accession are clearly less abundant now than they were before the enlargements of 2004 and 2007 – and the tasks ahead seem to be by far more difficult in the case of the Western-Balkan countries. While between 2000 and 2003, pre-accession funds totalled more than € 3 mn *per year*, the amounts foreseen for the Western-Balkans under IPA reach this level cumulating the yearly planned assistance for the whole 2007–2010 period[14]. Of course, by now, it would be very difficult to modify the figures; however, it is still worth noting that successful preparation (or otherwise expressed: successful membership-building) probably needs more resources on the long run, but still costs much less than instability in the heart of Europe.

Last, but not least, the credibility of the EU should be enhanced. With establishment of the SAP, the EU created a general framework for its relations towards the Western-Balkan countries. This commitment has repeatedly been reconfirmed since then, but relations seem to stagnate: Croatia's accession negotiations progress slowly; the FYROM, a candidate country has been waiting now for quite long for the beginning of its accession talks without any clear prospects; the progress of some potential candidate countries seems to slow down, and, as a result, the conclusion of Stabilisation and Association Agreements (SAA) with them is delayed; the actual situation regarding SAAs does not necessarily reflect the real preparedness and capacities of the individual countries.

In this situation, a clear signal would be necessary to enhance the EU's credibility regarding its intentions with the Western-Balkans. Even if the room for manoeuvre is (financially) limited, such a signal is conceivable: the declaration of the "regatta" principle for the candidate and potential candidate countries could be the starting point for a breakthrough. Although the question of Turkey is a tough one in this respect, too, the right moment for such a decision can come very soon after the clarification of the status of Kosovo: if the EU intends to be a stabilising factor (or more: the main stabilising factor) in the Western-Balkans, it has to be able to provide the region positive perspectives that are both realistic and credible.

[14] See Table 3; note that the "Grand Total" figures of the table also contain IPA assistance for Turkey.

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The Preparations for IPA in the Republic of Macedonia

Iskra Belceva – Darko Blazevski

Preparing for IPA has so far been a long and difficult task. When asked to address the issue of the readiness of Macedonia for this new instrument, I cannot help but wonder how it must have been for the current Member States when they were faced with PHARE, ISPA or SAPARD for the first time. They must have felt the same burden of having to face the unknown, unknown but as real as money at the same time. When IPA was first introduced in Macedonia, it appeared similar to the previous pre-accession instruments and the political commitment was immediate. But as the public administration began to really prepare for it, the challenges and difficulties emerged.

IPA is not the first pre-accession assistance instrument which has been available to the Republic of Macedonia. The country has so far been a beneficiary of PHARE and CARDS. In 1996, the first PHARE financial and framework agreements were signed, with which the country became part of the European countries receiving direct support for reforms by the EU. The other PHARE beneficiaries were countries with clear EU membership perspectives and countries with more advanced formal relations with the EU. It was a great acknowledgment of the efforts made since its independence and towards its EU aspirations. In some manner, this was the only way, beside trade relations, which Macedonia had with the EU and the roots of a fruitful cooperation in different areas in future. In December 1999, the decentralised implementation of PHARE assistance was introduced[1]. It implied a creation of structures within the national administration which would manage the assistance together with the financial and geographical units in the EC. The structures were different from those used for the Structural and Cohesion Funds, but were also not the same as today's requirements for the decentralised management of IPA. The system functioned until March 2002 when the mandate of European Agency for Reconstruction (EAR) was extended to Macedonia[2] and it was given the responsibility of management of all funds. Ownership of the processes of planning and implementing of projects was no longer an issue for the Macedonian authorities and thus, all responsibilities were transferred to the EC side again. Unfortunately, the country has to go through a much more lengthy and difficult accreditation process to establish a decentralised management system again, this time for IPA. The EAR in efficiently operational today and deals with all CARDS projects until their completion. The mandate of the EAR has recently been

1 Memorandum of Understanding between the European Commission and the Minister of Finance of the Republic of Macedonia.

2 Council Regulation (EC) No 2415/2001 of 10 December 2001 amending Regulation (EC) No 2666/2000 on assistance for Albania, Bosnia and Herzegovina, Croatia, the Federal Republic of Yugoslavia and the Former Yugoslav Republic of Macedonia and Regulation (EC) No 2667/2000 on the European Agency for Reconstruction (Official Journal L 327 , 12/12/2001).

extended to 2008[3]. EAR is very successful in what it was established to do[4], but its effect on the authorities' capacities has yet to be assessed. On one hand, it is most likely that the use of EU assistance would not have been as high without the Agency and not as many projects for capacity building would have been implemented. On the other hand, had management not been entirely done by the EAR, the ministries would have had to be more involved and not rely on the capabilities of EAR without building their own.

According to Commission's documents, the Multi-Annual Indicative Financial Framework[5] and the Multi-Annual Indicative Planning Document[6], Macedonia should receive around 300 million Euro for the period 2007-2010 under IPA. Around 80 million Euro will have to be contributed from the national budget or from the final beneficiaries. It is intended to increase ownership of the projects but also to demonstrate the country's commitment to the reforms supported by the projects. The national contribution has never been so high for Macedonia; moreover, most of the CARDS financed projects required no co-financing. It also implicated reforms in the budget system. Namely, the Macedonian national budget is planned for each year and the longer-lasting fiscal strategies are not as legally binding, but are mere forecasts. The EU requirements for multi-year budget planning have stirred an additional wave of reforms not considered before. It was one of the first indications that IPA would bring on more work and costs than net worth to the country, but the dedication of the authorities remained high. Macedonia, with its status of candidate country, is eligible to use funds under all five IPA components and it was motivation enough to start preparing for IPA in a rapid and vigorous manner.

The reforms in the budget system were not embraced warmly by all parties involved, primarily because not long has passed since the change from multi-year to yearly planning of the revenues and expenditures. During the years of planned economy, the state controlled the market and could calculate exactly the incoming and outgoing funds, but the free market led to a withdrawal of the state intervention and limiting the certainty of the budget calculations to one year. The reforms to change the budget planning are under way, and even if a new law has not been adopted yet, it will definitely be in line with the EU financial regulations and budgetary provisions. Currently, the yearly budget is adopted by Parliament and forecasts for the next three years are included in the Fiscal Strategy, a document not legally binding but representing forecasts.

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3 Council Regulation (EC) 1756/2006 of November 2006 amending Regulation (EC) No 2667/2000on the European Agency for Reconstruction.

4 Based on the evaluation available on: http://europa.eu.int/comm/europeaid/evaluation/document_index/2004/951651_docs.htm
Based on data from the website of EAR http://www.ear.europa.eu/agency/27-KeyDataWeb/mac/mac.htm

5 Communication from the Commission to the Council and the European Parliament - Instrument for pre-accession assistance (IPA) multi-annual indicative financial framework for 2008-2010 /* COM/2006/0672 final.

6 Internal EC document calculating the financial allocations under IPA for the Republic of Macedonia by component.

The Public Internal Financial Control (PIFC) system has to be amended for IPA purposes too. Currently, a Twinning project[7] is taking place in the Ministry of Finance which should reform the internal financial control in the state institutions, but has to have IPA in mind with all the requirements for internal control for external aid. Establishing a functional PIFC system is one of the preconditions for using the IPA funds.

However, none of the other reforms could compare with the impact which the introduction of the decentralised management system has on the administration and the perception of the EU funds to Macedonia. According to the IPA Implementing Regulation (IPA IR)[8], the country should introduce the decentralised manner of management in order to start using the funds. Macedonia is a candidate country and is thus eligible to use funds through all five components of IPA. The Regulation says that the first two components, Transition Assistance and Institution Building and the Cross-Border Cooperation could be managed centrally in the initial phase, whereas for the other three components the DIS has to be fully operational and accredited in order to start using them. The country has taken on this huge task of establishing DIS and has set a deadline for itself for August 2008. Varying on the experiences of other European countries, it might seem too loose for some and too strict for others. Some found the process easy and others must have struggled with it. For Macedonia it has been proving to be a difficult and very costly task.

We have been directing our efforts towards DIS for all components equally and conferral of management powers is expected to be achieved approximately simultaneously. The appointing of the persons responsible for the process of establishing and later for its functioning was the first thing to be executed. The bearers of the most senior functions for DIS are mostly political players and it was not easy to appoint them, have them approved, but later change them and have another group approved prior and just after the 2006 elections. Fortunately, the operating teams in each institution have not been significantly altered, so work could more or less continue on the same track. Of course, political turmoil always affects the work of the public administration because the entire scope of work depends on political decisions. Establishing DIS is also an increasingly political process because there are more stakeholders each day and it is becoming more popular. It is one of the processes most observed when progress towards the EU is assessed.

Additionally, as Macedonia is approaching the EU, the understanding of the importance of the grants which will be coming into the country is growing. For a long period of time, the country has largely depended on the arrangements for loans from the IMF and the World Bank, and the EU funds have been a somewhat ignored area of the foreign assistance activities by the national administration. The amount of approximately 70 to 80 million Euro per year of assistance which is not a loan have stirred up quite an interest

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7 Twinning Project "Strengthening the Public Internal Financial Control System". Beneficiary: Public Internal Financial Control Department in the Ministry of Finance. Contract signed on 13.04.2007.

8 Commission Regulation (EC) 718/2007 of 12 June 2007 implementing Council Regulation (EC) No 1085/2006 establishing an instrument for pre-accession assistance.

both with the political groups and in the wider public. It is evident that no matter how much the EAR has respected the principles of transparency and visibility, the EU funds for Macedonia have never been so widely known as now with IPA, before they have even started to be used.

Furthermore, the establishing of the institutions and the creating of new bodies playing important roles in the DIS system has proven not to be as easy as it appeared on paper. As soon as the EC announced that a new Instrument for Pre-Accession Assistance would be introduced, and that DIS would be required, Macedonia took the first steps. In December 2005 the Secretariat for European Affairs (SEA), which is a body directly lead by the Vice President of the Government responsible for EU affairs and which co-ordinates the process of EU integration of the Republic of Macedonia, presented the vision of the instrument to the rest of the public administration. The same month, the Ministry of Finance created the Central Financing and Contracting Unit and the National Fund as main bodies to cover tendering, contracting and payments (transfers from EC and back, and towards contractors) under DIS. The services of SEA have always been responsible for the co-ordination of the foreign aid and they became the services of the National IPA Coordinator (NIPAC). It was the clearest position in the system as the superiority of SEA in the governmental structure did not interfere with its position of most senior institution guiding the managing of IPA. However, the overall financial responsibility lies with the National Authorising Officer (NAO) which at first glance appeared to suit best the Minister of Finance, at the same time heading the National Fund. NAO is envisaged to be the person who bears personal liability for all financial management of IPA funds in the beneficiary country, but also guarantees the proper functioning of the system for management and implementation of the funds. The IPA IR does not explicitly say it should be somebody on ministerial level but such responsibility cannot be undertaken by any low level official. The first choice of Government was to appoint the Minister of Finance but as decentralised management is uncharted territory for Macedonia, it was altered soon. With the more recent introduction of the Competent Accrediting Officer (CAO) in the final draft of the IPA IR just before it was adopted, the Minister took on this role, whereas a State Counselor in the Ministry of Finance, the most senior non-political position in the ministry, was appointed as NAO. It was thought to be the best solution as it avoids the replacements which might happen with another change of power in government. NAO's position does not correspond to the appointed person's position in the hierarchy of the public administration, and it might cause difficulties while making the procedures for reporting and bearing of the final responsibility. The other stakeholders who should report to NAO and be accredited by NAO as parts of the Operating Structures may in some cases be superior to NAO. The procedures regulating these relations may not necessarily be in conflict with the legal provisions for the functioning of the public institutions, but these provisions will have to be bent or interpreted loosely in order to accommodate the new procedures concerning IPA.

The establishment of the brand new institution called Operating Structure (OS), responsible for the implementation of the programmes and projects, has proved to be an even

more lengthy and complicated process. The OS is envisaged as a body or a collection of bodies performing a number of functions concerning management and implementation, namely everything apart from the financial operations. The structures for the first component were the easiest; they copied the model followed for PHARE, used in Macedonia as well as in the other countries benefiting from EU's foreign assistance. The CFCU had a leading role as an implementing agency and the ministries appointed Senior Programming Officers in charge of their Programme Implementing Units. IPA is designed to gather all other former pre-accession instruments into a single manner of management and implementation and replace them all. In this way, it is brand new to the EC as well as to the beneficiary countries. This led the EC auditors to advise the Macedonian officials to establish a single structure based on the model for the first component, and later develop other OS for the separate components. However, as establishment took place, even with the lack of capacities in most ministries, a more decentralised manner of preparation became inevitable and now everybody taking part in the OS have to work towards accreditation together. It turned out that the CFCU can still take on the main responsibilities, but it should at the same time prepare to hand them over to the ministries at a sooner rather than later date.

On the other hand, even this has not held out in all cases. It was understood that the OS could be a collection of bodies so it was an easier option in order to respect the segregation of duties and cover all areas necessary. But in the cases of centralised management (before decentralization), for the transitional approach and the shared manner of management for the Cross-border component, it was only recently cleared that OS has to be a single body. This cannot be the CFCU even if it is the best prepared institution to be the implementing agency, simply because tendering, contracting and payments will be handled in a centralised way, by the EC Delegation in the country. Nonetheless, it may be the main cause for delays in the use of the first funds before accreditation. The ministries were not aware that they may have to be the OS as of the starting moment. In this practical case, the Ministry of Local Self-Government should now be the OS for the cross-border programmes with Albania and Greece as we are not yet operational under DIS. The situation will change as soon as management of funds is conferred to the national authorities, but in the meantime the implementation must go on in order not to lose time and money. Should any big delays occur, the contacting for 2007 will be delayed and may overlap with the amounts for 2008 which are already large enough.

During the setting up of the institutions it became evident that IPA was a work in progress even for the EC officials. They came up with a simplified model unifying all previous pre-accession instruments, but not all rough edges were smoothed along the way. As it started to emerge in practice, more situations than those predicted in the text appeared. It led both the creators and the users to work together, although with the lack of experience in Macedonia, we mostly have to rely on the clarifications from the EC. From the adoption of the IPA IR until now, all advisory missions and meetings with the EC were used for further explanations and interpretations of the Regulation. If the experience of the national institutions had been bigger and if they had worked under DIS before, perhaps it

would have been easier to grasp all the requirements under IPA sooner. But working on capacity building and setting up a brand new system simultaneously is bound to take time. Without fear of sounding defensive, delays were contributed by both the national and EC authorities. The Regulation may have been written by the EC, but many aspects had to be cleared for the EC along the way as well.

Regarding the hierarchy in administration versus the positions in the DIS system, even the highest level stakeholders, the two Vice-Presidents of the Government are placed in a subordinate relation for the purposes of DIS. The Strategic Coordinator should report to the NIPAC on the drafting of the Strategic Coherence Framework and be responsible for Components III and IV. It made some compromises difficult and brought to overlapping in the decision making. However, given the wide support for EU integration in all political groups and the dedication to use IPA, the newly formed relation was accepted by all involved.

For a country with very clear laws for the division of duties among the state institutions, another challenge was the regulation of the divisions and the joint activities among the institutions involved with IPA. The provisions for state institutions[9] define who does what and they expressly state that the Government co-ordinates their work. They all have to work together but in reality there are always problems with communication. The administrative requirements often take lots of time, and the administration in general has long been criticised for the slow functioning. Most recent secondary legislation prescribes shorter deadlines for execution of administrative tasks, but where more bodies are engaged together, time is still the most precious commodity. For the purpose of IPA, inter-institutional agreements should be signed defining in detail the joint activities and the segregated duties. Such agreements should for example be signed between the CFCU and the line ministries in order to regulate their actions for which the Programme Authorising Officers shall be ultimately responsible. They may have to also bend the current laws but are scheduled to be drafted and signed for IPA purposes. Their mere existence is counter to the laws concerning state institutions because the state institutions should cooperate by default, but as the entire legal system is changing in the process of approximating it to that of the EU, it is currently being negotiated what form and legal value they will have.

The establishment of entirely new institutions and bodies in order to make the DIS system operational has brought on costs beyond those primarily calculated in the yearly budgets of the Republic of Macedonia. Employment of new staff, trainings, premises, co-financing institution building projects and other similar costs have been noted by the Government as serious financial commitments and they need to be justified soon. So far, with the work of the EAR, the national administration did not have to contribute to the operational costs for the management of the funds, and the direct gains of the assistance were the only visible side. For approximately 80m euro per year which the country could use

[9] Law on the organisation and the work of the institutions of the state administartion OJ No 58/2000 of 21.07.2000. Law on the Government of the Republic of Macedonia OJ No 59/2000 of 22.07.2000.

from IPA, the national DIS system should employ a sufficient number of staff to be able to manage it properly. In the initial period during the centralised management, the EC Delegation should have about some staff working on the financial assistance, plus the additional staff in the national institutions. But once the decentralization goes even further, the implementing agencies for the different components should be well equipped to cover all aspects of the management of EU funds. It is not without purpose that the initial advice from the EC auditors was to focus on developing fewer bodies for DIS while involving a large number of stakeholders from all the institutions concerned, which would later take over more responsibilities. Liability should ultimately lie with the national authorities entirely, even without *ex-ante* control from the EC Delegation. It will confer ownership of the management and is envisaged to direct the system towards improvement. The accreditation may be revoked at any time the system is not functioning, but it is not an option any of us are considering at this point. The efforts to decentralise now are directed towards long-term use of the funds, and they are not merely plans for the moment. As envisaged and explained in both IPA regulations, IPA is a preparation stage for the use of the Structural and Cohesion Funds of the EU. Even the manner of implementation is more similar to the SF and CF than to PHARE or CARDS. Therefore, the Government had trouble to explain it to the administration and the public as such, but it is all worth in terms of its net value and in terms of the approaching closer to the EU.

The next report on Macedonia's progress on its way to EU membership will be delivered in November this year. The progress in the area of use of EU funds and preparation for structural instruments will be included. So far, the starting date was December 2005 and even if most of the structure has been set up, no progress can be noted in terms of starting the actual work.

Parallel to the decentralization, the process of programming is taking place. The EAR's mandate included the programming until now, while the ministries were partly involved in commenting the Project Fiches and Terms of Reference on a technical level. However, with the ownership being shifted to the national authorities, this is the most important part of the management cycle which they have to take over. They will have the opportunity to design and direct the assistance towards the areas they believe they need most help with. But due to the lack of time for preparation and tight deadlines from the EC, the project fiches for the first component of 2007 were programmed in the same manner as before, mostly by the EAR and with technical input from the relevant ministries. From now on, the authorities will have to live up to the ownership responsibility and hopefully from next year the programming will be entirely taken over by them.

The seven year Operational Programmes for all other components were drafted by the national institutions with help from Technical assistance, they have been submitted on time and are currently being reviewed by the Commission services. In this respect, the programming exercise was a test to the capacity of the national authorities to handle the burden of taking over the management of the EU funds. The requirements for programming were that each institution demonstrates what it needs, that they mobilise to perform

this activity on a tight schedule while respecting the newly established procedures for programming and respecting transparency, awareness how the EC distributes the money among priorities, which are the priorities supported by the EC as laid out in the programming documents, as well as dedication of human resources to it. The procedures were still not prepared, the people were newly employed or not trained enough, but the result is that the Operational Programmes and Project Fiches have so far received positive remarks and will be adopted hopefully soon. Regarding Component I, the procedures for programming and the trainings are currently taking place. It is intended that programming for 2008 successfully executed by the national authorities entirely.

Macedonia has also obliged itself to co-finance the IPA programmes as required. In my opinion, this represents the highest commitment from the country so far. The four year Fiscal Strategy[10], which is not a legally binding document like the Budget of RM, provides for the calculations concerning the national co-financing per year and per component. Even if this is a flexible document, the co-financing amounts are agreed on with the EC and cannot be lowered at the country's convenience. The flow of funds from the EC depends on the allocations from the country as well. The national contributions from the Macedonian side go up to over 27 million euro for 2010 and the total amount for 2007-2010 shall rise to about 80 million euro. The other side of the ownership aspect is that Macedonia has taken on the responsibility to use the IPA funds properly while supporting them with substantial amounts. It adds to the ownership of the process not only in terms of the implementation, but also to the political dimension of demonstrating support for the same reforms which are encouraged by the EC. In the case of Component II -Cross-Border Co-operation, the Government had options to choose whether the co-financing would come from the national budget or from the final beneficiaries, in this case the local self-governments or non-profit citizens associations. The commitment to IPA was once again demonstrated by allocating national funds to all cross-border programmes except the CBC programme with Albania[11].

Another costly process during the preparations for IPA are the public awareness campaigns which have begun to take place all across the country. The direct beneficiaries of the projects from the IPA components for cross-border co-operation, agricultural development and most of the human resource development will not be state institutions or other public bodies, but rather municipalities, citizens' associations, small farmers or individual persons. Only the NGOs and municipalities have had some experience with applying for EU funding, but it is scarce and only connected with the Cross-Border Programmes. So far they were involved in the Neighbourhood programmes with Bulgaria and Greece and it was indeed good practice for what EU funded projects look like. Those involved have been familiarised with the procedures for application, implementation, how monitoring is executed, incoming funds and sometimes reimbursements. However, the development of the areas of agriculture, regions and human resources is supported by EU assistance for

[10] Internal document of the Government of the Republic of Macedonia, not published.

[11] Not decided finally by the Government, but this is the position taken in the CBC programmes.

the first time, apart from capacity building projects. Public awareness is at the moment being addressed by campaigns organised through the Secretariat for European Affairs and the main emphasis is placed on the availability of the funds for all enlisted categories. The eligible persons have to primarily be aware that the funds are available to them as well, as opposed to the financing until now, which was available for the state institutions only. They need to know that IPA is brought closer to the citizens, especially groups like the small farmers or the unemployed who need trainings. Aside from the availability of funds, what must be explained are the conditions and procedures through which they can be obtained. It is an advantage that this was planned ahead and CARDS money is used for the campaign. Additionally, the funds for technical assistance projects can begin to be used now, so they will partly cover the preparations for IPA for all the stakeholders.

In conclusion, it is evident that Macedonia is doing its best to prepare for IPA. It is more of a struggle than an easy process. Neither the administration nor the final beneficiaries are well acquainted with it and are not certain of their functions and responsibilities yet. Even though the changes brought by IPA were announced some time ago, the time still turned out too tight to fulfill all the requirements. Capacity could not be build over night either. The years when the EAR was responsible for the management of the pre-accession funds from the EU for Macedonia have made the state institutions comfortable enough to rely entirely on the Agency. They never felt like they owned the process and now suddenly ownership is the key word in IPA. The beneficiary countries are supposed to take over all the phases of the management of EU funds, and in the case of agricultural development even without *ex-ante* control by the EC delegation. It is a very important precondition for membership, especially in the light of the future structural and cohesion funds from the EU.

IPA is a direct preparation for the use of much larger amounts which are allocated for the Member States, and since all the beneficiaries are potential members, it is mainly an instrument directed towards the prospect of membership. The procedures for programming and for implementation are very similar to the ways EU funds are managed in the Member States. This is most probably the waking up point for all the governments in terms of preparations for IPA. No matter how difficult or costly, it is an exercise done for the purpose of approaching membership. Apart from the many legal, administrative, economic and political amendments which have to be complied with in order to become members, the potential members have to demonstrate ability to manage the funds correctly and use them properly. Proper use is measured in terms of overall improvements of the country, whereas correct management means learning to play by EU rules. Macedonia could benefit immensely from IPA, but the test IPA poses for the country actually measures up to its value.

In addition, the IPA amounts are exceptionally significant for Macedonia. No matter how much it costs to start using them, the value of 70 to 80 million euro per year is not to be neglected on any account. The financial allocations per capita are much more important than from any other pre-accession assistance instrument. These are resources which will

not have to be returned with interest in future, but rather irreversible assistance defined by the goals it should achieve. Situations may always arise implying recovery of the IPA funds, but this is only for the cases of irregularities, which might be also understood as another lesson to be learned before membership.

On the other side, the point the EU is making when introducing IPA is vastly significant. As the instrument is aimed for the candidate and potential candidate countries, it clearly distinguishes them from the other beneficiaries of the other external aid programmes. They all get the vivid signal that their future can realistically be in the EU and are motivated to take on the responsibilities. As they start the preparations, they have to make self-assessments for how ready they are to take on the new role IPA is imposing. The countries are also supposed to assess where they need help and comply with the EU on plans and activities for plugging the gaps identified. It is an immensely beneficial exercise not only concerning the IPA funds, but more generally for assessing the preparedness for EU membership.

The impact which the EC has made with IPA on its relations with Macedonia is even more considerable. It has demonstrated once again its commitment to Macedonia's potential to be an EU member by opening up all five components. The total sums of funds increased since the initial drafts of the MIPD and covered more areas. The support from the Commission has been immense during the process of establishing DIS and is still continuing. It also shows that the EC believes the Macedonian administration has the capacities to manage IPA, and hopefully the funds for Member States as well. Compared to all the shortcomings and challenges IPA has brought on for Macedonia, it is positive and worth all the way. It just may as well turn out to be the most important reform yet.

Albania and IPA

Ditmir Bushati

What is IPA Envelope for Albania 2007 – 2009?

The main objective for the Instrument for Pre-Accession (IPA) is to help the country to face the challenges of European Integration, to implement reforms needed to fulfill EU requirements and progress in the Stabilisation and Association Process and to lay the foundations for fulfilling the Copenhagen criteria for EU membership.

The basic policy documents for setting down the priorities for programming of assistance under IPA are the European Partnership, the Strategy Paper, which presents the Commission's overall enlargement policy for the candidate and potential candidate countries, as well as the Annual Report on progress made on the road towards the EU, including implementation and enforcement of EU standards. IPA allows flexibility in order to respond to possible new priorities embodied in the revised European Partnership which will be delivered in early November together with the Commission Progress Report on Albania.

As Albania has signed last year the Stabilization and Association Agreement but does not have a candidate status yet, only two out of five IPA components are available (Transition Assistance and Institution Building and Cross Border Cooperation component, which applies to border regions between beneficiaries from Member States, candidate states and countries in pre-accession status). IPA envelope 2007-2009 for the above mentioned components is divided as follows: 186 million euro for Institution Building and Transition Assistance, and 26.6 million euros for Cross-Border Cooperation.

However, it seems that the key instruments of pre-accession assistance will not be available for Albania and other potential candidate countries for a while. Unlike candidate countries, the EU is not ready to help Albania put in place the structures for economic and social cohesion policies. To put it differently, at this stage the technical and financial assistance is not preparing Albania and other potential candidate countries for membership or to tackle the deep social and economic problems they are facing.

In terms of quality of assistance the IPA available components for Albania are similar with the assistance provided by CARDS programme. Originally, CARDS focused on reconstruction and then shifted to institution building and public administration reform. A clear example of this shift are the financial figures which shows a big gap between Justice and Home Affairs (104,8 million euro), public administration reform (16,3 million euro) and Agriculture (3 million euro).

It should be mentioned that institution building programme's supported by CARDS have been mainly broad, horizontal and not focused on key development topics such as rural

developments and regional policies. The unstable governments and the so called phenomena of "seasonal public administration" based on the color of the ruling majorities further buttress the argument which questions the impact of CARDS programme.

Although generally speaking the two IPA components available for Albania are perceived as a continuation of CARDS programme, IPA differs from CARDS because it provides certain elements which are related with the decentralised manner of management. Furthermore, IPA 2007 envelope for Albania has allocated approximately 24 million euro for implementation of *acquis* related infrastructure, which is an example that goes in favor of the social and economic development of the country. IPA tends to increase the local ownership by foreseeing an entry ticket for the country (10% of the total budget of the project), which is essential for the effective targeting of the support and for achieving the agreed result in line with EU standards.

What are the main challenges for Albania?

The IPA regulation sets out an EU policy towards the Western-Balkans that is essentially passive especially in a delicate period where important decisions for the region are at stake. On the other hand, the administrative capacities of Albania for the management of the whole package of pre-accession assistance remain scarcely limited. Therefore, it is very much needed that the assistance will prepare the country for decentralised management of EU assistance through capacity building of relevant administrative departments and institutions as well as by establishing internal control and audits.

Certainly administrative capacities cannot be built without a political willingness and vision. As the goal of the Albanian government is to manage IPA 2008 through a decentralised system, one of the urgent priorities that need to be addressed is the establishment of Central Financing Contracting Unit (CFCU) within the Ministry of Finance, which is in an embryonic phase. Now that the legal framework for the establishment of the decentralised system is in force, the introduction of the function of Senior Programme Officers within line institutions should be accompanied with a proper job description.

Leading role of the Ministry of European Integration in the programming process should provide the framework for transferring the responsibilities to the Government of Albania and avoid the unnecessary competition and confusion with the Department for Strategies and Donor Co-ordination within Prime Minister Office.

What about the EU?

There is no doubt that pre-accession assistance in the Western-Balkans would only strengthen the EU's political leverage in the region. However, EU needs to develop further the principle of conditionality which can be a useful instrument when dealing with

the suspension of financial assistance as sanctioned in the IPA regulation. IPA assistance should be gradually transformed into a forward looking strategy to push for governance reforms within the framework of pre-accession assistance. This would create a credible perspective on membership giving new incentive to all of those struggling for stability and prosperity in the region.

The Role of EU Assistance in the Balkan Countries: The Case of Public Administration Reforms

Arolda Elbasani

Introduction

At the turn of a decade of transitions, the EU has envisaged a new vision for the Balkans[1]: by 2010 it will be "a region of stable, self-sufficient democracies, at peace with themselves and each other, with market economies and the rule of law, and which will be either members of the EU or in the road to membership" (SAP in Balkans 2010: 28). This paper seeks to assess the propensity of the EU aid policy to contribute to its ambitious agenda in the region. It explores the effectiveness of EU funds to foster domestic reforms, drawing mainly on the supply side of analysis (EU aid policies and practices). Our examination of the EU aid focuses on the case of public administration assistance in Albania.

The main assumption of this research is that aid is only one of the instruments to realise the broader vision in the Balkans, and should therefore be studied within the comprehensive framework of the EU relations with the Balkan countries, it is embedded in. My main hypothesis, is that aid is hardy effective when it is part of ad-hoc strategies, un-coordinated policies and single projects that work within a short time span. The weakness of the broader framework is the main factor to inhibit the effectiveness of EU aid to push forwards domestic reform. Hence my analysis seeks to analyse EU aid in the broader context of EU policies towards the Balkan countries.

The analysis proceeds in three parts. The first part summarises the assumptions and findings of the vast literature of democracy promotion and informs the subsequent analysis of the specificity and commonality of EU aid policies. The second part outlines the features of the EU aid policy in the Balkans, explicating the significance and yet the weakness of the general frame of the Stabilisation and Association process. It argues that the EU strategy towards the Balkans might suffer from the loaded and sometimes conflictual agenda between stabilization and integration tasks. It also lacks the strong and clear commitment

[1] Balkans is a geo-political concept comprising the political units that compound the Balkan Peninsula. Although it refers to a precise geographical area, it is loaded with different mostly negative connotations (Todorova 1997) and often adopted to refer to different sub-regions. South East Europe does not define precisely a geographical area, but instead refers to a political grouping together with a loose geographical belonging. It was defined to include 7 Balkan countries –Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania, and Serbia and Montenegro –although it might occasionally include also other countries. The same applies to Western Balkans, which refers to a sub-region of Balkans, including five of the SEE countries, i.e. al South Eastern European countries except for Bulgaria and Romania. The countries belonging to the Western Balkans Grouping is a separate region in terms of EU integration -they share a common path to EU integration, which differs from that adopted in Eastern Enlargement including also Bulgaria and Romania. (Grigorov 2004:3).

to membership offered to the Central and Eastern European countries in the previous wave of enlargement. The third part analyses the nexus between EU assistance and domestic reforms to the messo –level of analysis, public administration reforms in Albania.

1. Foreign Aid and Democracy Promotion

1.1 Dilemma between Normative and Strategic Objectives of Assistance

The literature on the democracy promotion activities and second-generation political conditionality suggests that donors might have different foreign policy objectives, which motivate their democracy promotion activities. The combination of foreign policy objectives with more normative and altruist intentions to promote democracy are not easily combined and therefore can be an important impediment to the effectiveness of democracy promotion activities (Schraeder 33).

Although one might not doubt the whole policy and practice of democracy promotion as a flexing of donors' financial muscles to obtain certain desirable objectives, there is a strong belief among the analysts of first-generation that conditional lending that donors utilize their economic power as an instrument for pursuing their own foreign policy objectives (Stokke 1995: 1-2; Killick: 12-17). Democracy assistance was, thus, manifestly instrumental to Western countries power play in the international arena. The high ranking of Western countries self-interested objectives in the international arena implies that 'democracy promotion activities' could be easily 'trumped' by other more pressing foreign policy objectives (Schmitter and Brouwer: 2; Stokke 5). As Abele and Offe have noted, "Supranational and bilateral DPP actors are likely to pursue a hard to disentangle mix of normative and strategic concerns, with the former often serving as a convenient disguise for the latter" (Abele and Offe 15). In those cases when donors strategic interests become paramount to democratic concerns although the later might be a disguise to the former, democracy promotion and conditionality activities suffer from credibility and consistency setbacks.

The conclusion of the democracy promotion literature poses a general question on whether the donor's inconsistent pursuit of democratic concerns is also replicated in the case of EU democratic conditionality. In other words, does the conclusion drawn from the study of the 'second generation' conditionality that it is mostly "declaratory policy" (Stokke: 46) apply to the case of the EU conditionality? Or does the EU pursue democratic conditionality consistently and credibly over time and across different target countries?

1.2 Second-generation Political Conditionality and Strengthening of Normative Objectives

The breakdown of the communist threat and the division it imposed has seemingly strengthened the Western donors' genuine commitment to democracy support since it

diluted most of the previous reasons to instrumentalise aid according to security and/or geopolitical considerations (Guilhot &others 2003: 3; Schraeder 30). The post-cold war context helped to stimulate both the push and pull factors of democracy promotion. The fall of the communist regimes strengthened the status of democracy as a legitimate political alternative, which on the other hand increased the domestic pressures for political reform in the post-communist area, but also Africa and elsewhere (Schmitter & Brauwer 5). As other political regimes were discredited, democracy was the only alternative to emulate and, thus, created a strong pull for democracy promotion policies.

In addition, the failure of the neo-liberal economic prescriptions to generate economic recovery in the developing world led to a growing recognition that the economic reforms needed to be combined with genuine political and administrative reforms in order to deliver expected outcomes (Burnell: 43). In 1989 a World Bank report on Africa analysed the poor implementation of adjustment programs as a consequence of their political weakness including personalisation of power, widespread corruption, denial of fundamental rights and prevalence of unaccountable governments (in Crawford 2001: 13). To sum up, the idea that many countries faced a cruel choice between development and democracy was supplanted by the growing appreciation that these two goals are rather related and complementary to each other.

Furthermore, the elaboration of agency related perspectives to democratisation increased the space for re-assessing the role of international strategies to support democratisation. The new sub-discipline of "transitology" tended to reduce the determinant role awarded to constrains like social structure, economic necessity and cultural predisposition and instead emphasised the importance of human agency acting under imperfect information and contingent conditions (Schmitter and Brouwer 4). The contingent approach to regime change left much more space to the idea that foreign strategies may influence the path of democratic change. The transitologists, in fact, have become associated with the practice of promoting democracy in countries experimenting with regime changes (Guilhot 2004).

At the same time, the Western donors' activity have also shifted to complementing aid with additional, substantive benefits, most remarkably membership in an organization of states. It is the organisations, which offer membership, that have ultimately developed extensive political prescriptions intruding into the very core attributes of the states and the governing system (Checkel 6). The range of the policy prescriptions has thus increased proportionally to the offered benefits i.e. membership and institutional relations in addition to the traditional flows of aid. In any case, the 90's have witnessed the flourishing of democratic conditionality to an unprecedented geographical and thematic magnitude.

1.3 EU Enlargement Conditionality as a form of Democracy Promotion

The development of the EU enlargement conditionality fits well into the general evolution of aid conditionality in the second generation, which overtly emphasises political criteria

and expands into the basic political attributes of sovereign nation states. Furthermore, the EU conditionality is only one part of a much wider 'Western project' to encourage democracy in Eastern Europe (Smith 2001:31). It is, thus, one among the different European organisations and countries that picked up the political conditionality as an instrument to impact regime changes in Eastern Europe.

The EU similar to other regional organisations is expected to establish clear mechanisms to influence its target countries to the extent it tends to operate with small numbers, and higher levels of interaction. The regional organisations also have the necessary leverage to pressure on Member States since the majority of the economic and military incentives are organised under their auspices (Pavehouse 2002:520). However, the EU, arguably, leads among the other European organisations applying the notion of membership conditionality. In the course of the time the EU has developed a detailed list of political conditions (Smith 1997: 9-20; Sedelmeier 2003); they are more comprehensive comparing to those of other organisations (Checkel 2000;Vachudove 2001:11); they are operationalised simultaneously across a whole region of states (Hughes: 18); and regularly monitored through an institutionalised system (Grabbe 2001:7).

The EU has seemingly adopted a stringent strategy of democratic conditionality. The political conditions have become the foundation for the EU membership to proceed or not. They are further scrutinised through a wide range of instruments that serve to assess compliance. The general democratic requirements have progressively developed into specific and formal conditions apt to assess the concrete processes of democratisation. Finally, assessment of compliance is coupled with specified rewards in terms of climbing to the accession process and eventual membership. To conclude, the EU has become both more ambitious and intrusive about strengthening the trends towards liberal democracy, while developing spiky tools for conditioning and influencing prospective Member States.

The EU approach is increasingly considered as the most effective policy in pursuing democratic conditionality (Pridham 1999:10). A comprehensive study of international factors of democratisation similarly concludes that "by making membership contingent on the adoption of strict and detailed conditions, EU has done far more to expedite the transition process than the other external actors and their aid packages taken together" (Cooley Freedom House: 35) Moreover, the expansive set of democratic concerns, arguably qualify the EU as an agency active in the process of consolidation rather than exporting democracy in the first place (Tsingos 1996; Pridham 1999:5). Pridham argues that "the EU political criteria [have increasingly moved] from procedural conditions of formal democracy to include also criteria of substantive democracy" (2005:21). In any case both the Copenhagen criteria and their further elaboration to specific and formal political conditions to be fulfilled before the event of membership are attached a strong role to push forward target countries democratisation processes.

2. EU strategy in the Balkans

2.1 Early Ad-hoc Strategies Tailored to Manage the Crisis as they Arise

The problematic transitions across the Balkans and especially the violent breakdown of Yugoslavia have encouraged different forms of foreign intervention in the region. The power asymmetries that existed between the Balkan states and the outside world, not only opened up the possibility of intervention, but also left these countries with little choice but to invite outside assistance. Yet, the configuration of new interventionist policies proceeded only slowly, in the midst of Western countries conflicting interests, divisive attitudes, cumbersome co-ordination structures, and doubts on consequences of intervention (Woodward 1996:160). It was reflected in a series of ad-hoc interventions tailored to manage the crisis whenever they emerged rather than a longer-term comprehensive and preventive strategy toward the region.

It was probably these divisive political attitudes that until at least the Dayton Agreement limited the role of the EU to at best one of the actors involved, but incapable to take a leading role and even more so to resolve the conflict. Many studies have put forward the failure of the EU when it came to implement a UN mandate to integrate the city of Mostar in Bosnia back in 1994 (Gallagher 182-185). The war in Bosnia became a bleak chapter of the European common Foreign Policy since it showed the Europeans lacked both "the cohesiveness, the determination and the instruments to bring the crisis under control" (Lehne 111). That said, Europe contributed the lion's share of financial assistance, expertise and troops but its political influence was not commensurate to the strong turn of the US foreign policy in determinate moments of crisis (Lehne 111-112). It was the active engagement of the US government in the second half of 1995, which finally produced the Dayton Peace Accords in November 1995. The US special envoy, Holbrook would also complain about Europeans passivity to deal with the crisis: "You have to wonder why Europe does not seem capable of taking decisive action in its own theatre… Unless the US is willing to put its political and military muscle behind the quest for solutions to European stability nothing really gets done" (Holbrook in Gallagher 1998).

2.2 Regional Approach as the Beginning of a Comprehensive Strategy in the Balkans

The Dayton agreement became the turning point towards a rather comprehensive strategy for dealing with the Western-Balkans, in addition to the current deployment of foreign policy and crisis management instruments. The Royamount process of December 1996, first initiated the promotion of regional cooperation schemes and projects on good neighborly relations as a means to the implementation of the Dayton agreement. In April 1997 the EU General Affairs Council moved to clarify further the "regional approach" for all those countries with which the EU did not have any association agreements. It promised financial assistance, unilateral trade preferences and contractual relations in the form of bilateral cooperation agreements (so-called first generation' agreements essentially entailing provisions on economic and trade cooperation). The most crucial difference between

the EU parallel but distinctive strategies in WB and CEEC was that the former did not entail any explicit prospective of membership.

All in all, the Kosovo crisis prompted re- thinking on the part of the EU of new strategies that could break the cycles of Balkans crisis. On the part of wider international community, it strengthened common political ill for co-ordinated and comprehensive action in the region (Chandler 2003:5). The new Stability Pact was announced as a novel "conflict prevention policy" aimed to addressing the roots of the conflict through promoting "peace, democracy, respect for human rights and economic prosperity" in the whole region. It arguably serves as "a platform for international cooperation and includes a political commitment by the participating partners to engage in a process of promoting stability and growth in South Eastern Europe" (Pippan 227). In this way it is politically significant to show the internationals' long tern commitment to the region. At the time, many analogies were made with the post-1945 Marshall Plan, to the extent the Pact envisaged massive economic recovery and eventual integration in European Structures (Gligorov 2001:15).

Integration was to be the key word of the EU strategic shift in relation to the Balkans. The Council decision on Stability Pact for the first time declared its willingness to draw the countries of the region closer to the perspective of full integration into EU structures through a new kind of contractual relationship. The breaking point of the new policy is the inclusion of the promise of future EU membership for all target countries. That is done through a new strategy named Stabilization and Association Process (ASP)

2.3 Weakness of SAP

2.3.1 Stabilisation and Association–Conflicting Objectives and Loaded Agenda

The first issue that might inhibit the effectiveness of new EU strategy relates to its loaded agenda in the Balkans. The EU strategy consists of two different objectives –stabilisation and integration, which is translated into a complex agenda. Moreover, the link between stabilization as a regional element and integration as a bilateral process could be seen as conflictual rather than complementary for the involved countries (Bartlett and Samardzija 2004). The EU regional conditions put additional load and might slow down the association process, which advances in a bilateral basis. The bilateral approach whereas each country proceeds according to its own pace of progress, on the other hand, seeks to differentiate according to each country's capacity to reform and hence, goes against the promotion of regional approach (Papadimitrou 2001). Consequently, as several studies have warned, the inherent tension between the diverse EU agendas could become rather problematic (Kempe Meurs 2003 64).

At the EU level, the double strategy of stabilisation and association has meant a set of priorities and a jungle of conditionalities that does not fair well in terms of specifying the criteria for assessing reforms. In addition, the EU sensitivity to security issues has

arguably tipped the balance towards stabilization priorities to the expense of integration concerns. To quote Anastasakis and Bechev "the notions of Balkan Europeanization, modernisation, democratisation and institutional development have been completely subordinated to the issues of [ ] security." (2003:9) Most Balkan countries for their part, tend to regard regional schemes with suspicion (Dimitar Bechev 2003). They are sceptical to the benefits they bring and rather concerned they can contradict the principal goal of European integration. The conflicts have further damaged their already weak degree of economic cooperation and wider regional interrelations – Albania, Bulgaria and Romania each trade less than 10% of their total exports within the region, Croatia and Macedonia less that 20% and Yugoslavia less than 30% (Bartlett and Samardzija: 246-249). In addition, the Balkan countries seem to be afraid that the component of regional cooperation can turn into a substitute for European integration (Anastasakis and Bosisic 2002). The regional cooperation has, thus, been perceived as an extra load to domestic reforms with no immediate returns be it economic or political.

2.3.2 Weak Promise of membership and Vague Stages

The association framework in the Balkans seem to be looser when compared to the clear promise of membership offered to Central Eastern European countries in the previous wave of enlargement. It consists of a cautious promise of membership and indeterminate stages for its realisation when compared to the EU enlargement policy in CEEC. Altogether, it can arguably emasculate the power of EU strategy to foster change since the prospect of membership is seen as the only worthwhile carrot that the EU could offer in exchange for difficult economic and political reforms.

As regards the promise of EU membership, both the process of negotiation among the EU members and its final wording, show the EU hesitation to admit the SAP countries into its structures sometime in the near and/or medium term future (Phinnemore 98-102). During the negotiation of SAP several Member States opposed offering a firm perspective of membership, as suggested by the German presidency, on the basis that (1) it would overload the difficult enlargement process in CEE and (2) the target countries in the Western-Balkans faced a range of difficult issues that set them apart from their CEE counterparts and hence could not be offered the same thing as those (Friis and Murphy 772-773). The compromise reached avoided an explicit reference to the enlargement article of the Amsterdam treaty (article 49). Only one year latter, the Fiera Summit held in June 2000 rewarded to Western-Balkans the formal status of "potential candidates". Yet, studies of the SAP approach have warned that the status of "potential candidate" is a innovation that shows EU lack of unambiguous commitment to include Western-Balkan countries. The cautions reference to membership included in Stabilisation Association Agreements (SAA) is also in stark contrast to the ones included in the European agreements, which insert that: "[the associates] ultimate objective is to accede to EU and that this association will help [it] to achieve this objective" (Phinnemore 1999:68).

The Sap is similarly ambiguous on the necessary steps for realising the goal of member-

ship (Gligorov 2004). The EU does not clarify whether SAAs make a country eligible for membership or whether they realise the goal of membership. The SAP documents, including SAAs themselves are silent on how a country advances from "potential candidate" to "candidate" status and the real stages that will lead WB to eventual membership. The ambiguous language seem to reflect "the lack of consensus on what role the SAAs should play in realizing the membership perspective" (Phinnemore 100). The Thessalonica Summit has clarified that SAAs were to be the first and the last contractual agreements up to membership, avoiding previous allusions that they would serve as intermediate steps towards some new EA (Council Conclusions June 2003). It seems to assume that the process of accession takes over immediately after the implementation of the SAAs. The summit has also enriched the SAP with new instruments such as EP[2], twining programs, and country's participation in community programs which were all used during the pre-accession phase of enlargement in CEEC. Still, the SAP lacks those pre-accession tools that played an important role to prepare the Eastern European Countries for enlargement, most notably additional pre-accession funds (Gligorov 2004: 5).The adoption of a new Instrument for Pre-Accession Assistance (IPA), on the amount and the type of support available for the Balkans in between 2007-2013, establishes that potential candidate countries will continue to receive assistance along the lines set out in Cards regulation and they will not be eligible for additional assistance not to speak about cohesion funds (ESI 2005). The EU also fails to specify what is the role of new pre-accession tools in a country's progress towards accession except of maybe putting deadlines for the adoption of EU standards. In short the SAP lacks specifying intermediate rewards be it institutional or financial relations, which are tied to a structured and well clarified process of accession.

Not surprisingly, the countries of the region has not relied in the SAP mechanisms to realise the goal of membership. The most advanced countries in the region, Croatia and Macedonia have applied for membership aiming to access faster the status of full candidate and gain pre-accession funds. The positive avis on the membership application for both Croatia (June 2004) and Macedonia (April 2005) have contributed to tide up the path to membership for WBs. The process of strengthening the membership commitment might be seen as conforming to what Friis and Murphy predicted after the negotiation of SP: "this promise however vague and conditional can not be withdrawn. It will force the Union to increase its level of engagement within the region and to advance the ongoing enlargement process". Yet, the level of EU engagement remains an indeterminate process that is clarified along the process and on the basis of the concurrent dynamics within the Balkans and the EU itself. As Gligorov notes, the EU strategy is one where "integration, association, neighbourhood and accession are used again often with some ambiguity and confusion" (2004:5)

[2] In the initial proposal they were referred to as European Integration Partnerships, but reference to integration was dropped in the final proposal. The change might still reflect the ambiguity inherent in the Sap.

3. The case of EU assistance to Public administration

How has the aid improved under the new comprehensive framework in the region? Can these artifacts of the broad EU strategy in the Balkans still implicate the effectiveness of EU assistance in the Western-Balkans? We now draw on the empirical case of the public administration reform[3] to assess the effectiveness of EU aid within the broad strategic parameters it is embedded in.

3.1 PHARE Assistance and Allocation to Public Administration in the Period 1991-2000

In the period 1991-2000, the EU is widely recognised to pay the lion share of the international assistance to Albania becoming the largest multilateral single donor. During this period the country received approximately 1,020 billion EU assistance. Aid provided under PHARE program counted for 63% of total aid (613,5 million), while the rest came from specialised EU Units such as DG agriculture, ECHO and DG Development as well as horizontal programs such as Democracy and Human Rights. In the first phase of transition 1991-1993 the EU aid concentrated on emergency and food aid, which attracted 318 million Euros from both PHARE and other programs of assistance. In the next stage, 1994-1996, PHARE assistance concentrated to supporting economic restructuring. During this period, the EU targeted around 190 million euros for economic reform. The first Country Strategy Paper adopted in 1995 elaborated a strategic shift of assistance from humanitarian to reconstruction targets. The Multi-annual indicative program, which layed out the priority areas of assistance for the period 1996-1999, insisted that "the main role of the PHARE programme will be to assist in completing market reforms and the medium term restructuring and modernisation of the economy" (1996:1). The evaluation report completed in 2001 was very critical to overall PHARE allocations in Albania on the bases they were "unrealistic, unfocused and anyway hardly implementable" (Evaluation of Country strategy 2001:13). In addition, although EU assistance proved indispensable to the survival of the country, at least until 1997 crisis, the EU remained a marginal actor with no real political influence except for the attraction of aid and trade concessions,

The unexpected dramatic crisis of 1997 forged the EU to rethink both its role as a donor in general and its priorities in the country. The new strategy adopted after the crisis in 1997 was founded on the acknowledgement that "the institutional development remains weak" (1997:2). The 1997 strategy contributed to focusing the distribution of EU assistance to new priority areas. Accordingly, the focus of assistance was clearly put on infrastructure projects, which amounted to nearly 60% of assistance (taking the support for transport, water and local community development together); the new institutional priorities attracted around 20% or around 8% more than in the previous strategy (includ-

[3] Public administration reform includes civil service reform, supreme audit institution, police, statistics, customs, judiciary, approximation of legislation, SAA preparations source

ing support to customs, police, justice, public administration reform, public awareness, aid co-ordination and statistics. Although the strategy did not radically improve the lack of attention to institutional-building, the 1997 crises was a new start for strengthening the EU role in the country. The EU together with the WB and partly IMF came up with a major common document, "Directions of Recovery and Growth" which could serve as the key document for the co-ordination of the international assistance. In addition, the EU in cooperation with OSCE, created and chaired an informal group "friends of Albania" which intended to create awareness among donors about urgent needs in the country. Parallel to the growing of EU attention, the post-1997 period marked a new phase of the Albanian transition whereas international intervention, be it in the forms of political mediation or/and technical and financial assistance became an indispensable component of the Albanian politics.

Assistance to public administration has been one of the consistent categories of PHARE program in Albania. It is one of the few sectors that figures among the PHARE allocations each year from 1992 on. In addition, with a total of 64.6 thousand euro it is one of the most expensive PHARE sectors coming fourth after the transport and energy allocations (159.3m euro), balance of payment support (105m euro) and humanitarian assistance (67m euro). The yearly public administration allocations, moreover increase each year from 2% of PHARE assistance for the period 91-94, to 20% in 1994-1997 and 18% for the period 98-00. The total allocations to public administration sector, thus, mount to 10% of total PHARE annual assistance and 12% if one adds the euro 14.5 million ad hoc targeted support to the budget, given as PHARE Special Assistance for Public Administration reform, although it is disbursed in 1999 and 2000 (Country strategy paper 18)

Table 1: PHARE allocations in Albania in between 1991-2000

Types of Assistance	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	1991-2000
Public administration		**1.6**	**1.2**	**2.6**	**8.5**	**8.6**	**9.7**	**8.9**	**11.3**	**12.2**	**64.6**
Budgetary assistance							14.9				**14.9**
Overall Phare assistance	10.0	110.0	75.0	49.2	88.0	53.0	68.9	42.5	101.5	33.4	**613.5**
Overall Other Assistance	0	122.3	1.1	2.8	31.6	2.3	29.0	34.8	126.0	39.8	**307.1**
Overall EU assistance	**10.0**	**232.3**	**76.1**	**52.0**	**119.6**	**55.3**	**97.9**	**77.3**	**227.0**	**73.2**	**1020.6**

The public administration allocations reflect the strategic orientation to institution building and public administration reform starting from the elaboration of country strategy in 1995. First, the 1995 strategy encouraged substantial increases of yearly allocations to public administration reform from 2% for 1991-1994 to 14% for the period 1995-1996 when the new strategy became operational. Second, the new PHARE concept paper, which became a new EU strategy and MIP in conjunction with the common donors strategy in

the aftermath of the 1997 crisis has inserted "democratisation process, institution building and administrative reform" among the three broad areas of concentration and identified Albania's weak state institutions as an urgent priority to deal with (in 2001 evaluation). Accordingly, the EU has increased its support for public administration, while withdrawing from other areas like health, education and private sector (Country strategy 2001:18). In addition, the Community has supported Albania's short- and medium-term adjustment and reform program with targeted support to the budget: EUR 14.5 million through the PHARE Special Assistance for Public Administration Reform (disbursed in 1999 and 2000). The funds assisted the development and implementation of a comprehensive State Institutions and Public Administration Reform (SIPAR) Package aiming at creating the basic preconditions for implementing the rule of law. The funds allocated to institution building have, thus, shown consistent increase with 35% of annual PHARE allocations in 1997 and 18% of total allocations for the period 1998-2000.

Yet, the program on public administration reform allegedly consisted in overambitious fragmented projects rather than parts of an overall public administration reform strategy (IDC 15). Moreover, public administration projects were focused on different sectoral administrative capacities rather than horizontal administrative capacities or general civil service system components. The horizontal capacities could only marginally benefit form their indirect crosscut with general administrative capacities of sectoral oriented projects. Thus, no special attention or any separate project was dedicated to general administrative reform, including civil service system.

3.2 Cards Program and Assistance to Public Administration

The important shift for the EU assistance in Albania came with the invention of SAP and the new assistance programme, CARDS. The new programme, provided for the shifting of assistance from previous transition oriented priorities to new integration goals. According to its regulation it aims to "building up an institutional, legislative, economic and social framework directed at the values and models subscribed to by the EU" (CARDS 2000). The following Country Strategy Paper adopted in 2001 sets five priority areas of assistance: (1) justice and home affairs notably through the strengthening of judiciary; (2) administrative capacity building, particularly with regard to areas of future SAA; (3) social development; (4) environment; (5) democratic stabilisation, notably through support for the improvement of the electoral system and strengthening of civil society.

The CARDS commitments in between 2001-2006 show a curious propensity to stabilisation goals. Justice and home affairs, including sectors such as police, judicial reform and border management receive 43% of total CARDS funds. Economic and social development, including sectors like trade, local community development and education, come second receiving 37 % of the total CARDS allocations. Administrative capacity building, which consist of sectors like public procurement, competition and state aid, customs, taxation and statistics, received 15% of total CARDS allocations The heavy allocations

to justice and home affairs seem to reflect the particularities of the Albanian case and the priority of stabilisation issues. This shift of assistance reflects the heavy load of stabilisation in the integration agenda as well as the particular needs of reconstruction and development in the country (Hoffman 12).

Table 2: CARDS Annual Commitments in Albania by Macro sector, 2000-2005 (in million Euro)

Yearly allocations according to MIPs	01	02	03	04	01-04 %	05	06 Aprox	05-06 %
Justice and home affairs	16.0	21.0	20.0	30.0	49.4	13.8	17.2	34
Socio-economic development	12.5	12.9	18.5	11.5	29.8	14.7	12.9	30
Administrative capacity- building	8.8	6.0	7.0	3.0	11.1	12.8	14	18
Democratic Stabilisation	0.2	1.0	1.0	1	2.1	2.4	2.4	5
Environment and natural resources	–	4.0	–	7.0	7.6	0.5	2.7	5
Total for Albania	37.5	44.9	46.5	52.5 63.5	187.4	44.2	49.2	

Sources annual program 2001; MIP 2002-2004[4]; MIP 2005-2006;

Yet, the 2001 country strategy strengthens PHARE focus to public administration. The amounts committed to public administration in 2000-2004 have increased comparing to the same allocations before 1997. The public administration allocation was as high as 23 % in the 2001 annual program, it decreases to 11% or annual average of 5.5m euro in the period 2002-2004, which is subject to the country strategy paper and the first subsequent MIP allocations. The public administration allocations increase again to reach 18% or annually 13.4m euro average in the 2nd MIP covering the period 05-06. However, public administration allocations remain far lower comparing to the allocations for Justice and home affair receiving 49,4%, and socio–economic development receiving 29.8% of the 02-04 allocations. The second MIP manages to create a better balance between the strategic macro-priorities, with public administration receiving 18% following justice and home affairs that still comes first with 34% and socio-economic development with 30% of total allocations for 05-06.

As far as the distribution of allocations among the sectors of public administration is concerned, there is a general acknowledgement from 2000 on that assistance should go to the future SAA sectors. The evaluation of EU assistance to Albania had a critical stance to the informal shift, even before the outline of new county strategy in 2001, while finding an uneasy relation between the EU priorities and country real challenges to reform. The

4 The allocations for 2004 have increased from 52.5 to 63.5 after the Thessalonica summit. The percentage for 2002-2004 is accounted according to the MIP allocations

report assesses that the shift resulted to "inappropriate sequencing and overemphasis of the formal requirements for an SAA rather than the implementation of urgently needed reforms" (IDC vi), which is to say that the EU integration priorities was more at the expense rather than complementary to assisting horizontal administrative capacities. The EU assistance is, thus, not exception to the mismatch between the donor's and domestic concerns identified after 1997 producing programs that are 'ill thought out, and insufficiently grounded in the understanding of the Albanian context'(idc:16).

The consequent strategy elaborated in 2001 establishes that the EU support to administrative capacity building should address in parallel two complementary issues. First, the EU should enhance the overall administrative capacity through both the development of systems/tools and strengthening of key bodies of the Albanian public administration at large; Second, the EU support should focus on increasing the administrative capacity in specific areas which are essential for the implementation of a future SAA agreement i.e. management of public finances, public procurement, competition and state aid, statistics and co-ordination capacities (26).

Table 3: Cards Annual Allocations by sectors of Public Administrations (in million euro)

Sectors	2001	2002	2003	2004	2005-2006
Public Procurement	2.3	3.0			
Competition and State aids		2.0		3.0	
Customs	2		4.0		6.3-7. 7
Taxation	2		3.0		
Statistics		1.0			
PA reform	0.7			1	4.3-5.3
Decentralization					11.8-13.8
Total of PA	7.0	6.0	7	3	22.4-26.8
Total Cards	**37.5**	**44.9**	**46.5**	**63.5**	**91-95**

Sources annual program 01, MIP 02-04; MIP 05-06

The first MIP 02-04 allocations, however, seem to advantage the second component opting for channeling assistance to the specific sectors relevant for the approximation of Albania to the aquis and adequate implementation of SAA key areas -public procurement, competition and state aids, customs, taxation and statistics (41). MIP 2002-2004 allocations to public administration focus almost exclusively in key SAA-related areas with competition and state aid rating first with 3.4% of total allocations, customs 2.8%, taxation and procurement 2.1% each and statistics 0.7% of the total. Only one project of 1 meuro is added in the 2003 annual program with a view to strengthening the administrative horizontal capacities and civil service system by assisting the public administration institutions Department of Public Administration (DoPA), Training Institute of Public Ad-

ministration (TIPA) and Civil Service Commission (CSC) to implement reform objectives (DoPA 2004). The other projects targeting specific areas related to the SAA agreement do only crosscut with overall administrative capacities. The "twinning" mechanisms, which seek to make the Member States' public sector expertise available to the partner country through the long-term secondment of civil servants as well short-term expert missions and training, functional after 2003, reinforce the emphasis of EU assistance on particular sectors related to SAA.

The new MIP 05-06 has slightly shifted the balance towards support for the overall administrative capacities, which receive 4-3-5.3m euros or 5% of total allocations to administrative capacity together with a general increase to 18% of total allocations for public administration assistance. So, we can expect an overturn to overall administrative capacity concerns along the direction of assistance towards European partnership priorities.

Conclusions

The case of assistance to public administration shows that until the turn of EU policy by 2000, the EU certainly lacked both political power and the leadership capacity to push forward reforms, although it provided the lion's share of assistance. Aid alone can not do much to push forward reforms except for the output of isolated single projects. In addition, especially after the breakdown of state institutions during the 1997 crisis, the international actors became an indispensable part of reforms, but they also mushroomed to a variety of different multilateral and unilateral actors - the European Union, the OSCE, EBRD, the World Bank, UNDP, CoE, the United States Agency for International Development, and different Governments. As Sigma admitted in one of its reports 'it is generally recognized [ ] that there are too many plans, too many monitoring matrices, too great a reporting burden on Ministries, too little real co-ordination, and too much competition between donors (Sigma 2004:4) . The SAP strategy has strengthened the push of the EU in the country. As the EU, has in fact recognized, "there is a clear official policy in favor of EU integration, which is frequently presented as a reform facilitator" and might well serve as central strategy around which future dynamics will be constructed. In fact, the EU push owes little to amounts of assistance and much more to the framework of other awards that are put in the table, most notably membership. The EU assistance is much more potential when embedded in a framework of enlargement. Yet, the weak and vague promise of membership in the case of Western-Balkans might water down the EU potential to push forward domestic changes.

Our analysis of the EU assistance to Albania confirms the EU prioritization of security issues through the funding of justice and home affairs areas which altogether constitute by far the most funded sector according to both PHARE and CARDS allocations in Albania. The allocations to public administration (PA) have increased under the new CARDS program, but they have always remained far lower comparing to sectors like Justice and Home Affairs. One can only remind about the literature on democracy promotion, which

warns that foreign assistance to democratization sectors could be easily 'trumped' by other more pressing foreign policy objectives (Schmitter and Brouwer: 2; Stokke 5). The stabilisation component of the broader SAP, may thus well be a factor that slows down if not conflicts with the association tasks.

In addition, the consistent allocations to PA show relative commitment of EU aid towards institution building. Yet, the analysis shows that EU assistance has consisted of fragmented projects focused on different sectoral administrative capacities at the expense of general horizontal ones. This was very much the case with the previous PHARE program, which moreover lacked an overall public administration reform strategy. The CARDS program has strengthened the EU commitment to fostering PA reform to the extent it is identified as one of the strategic sectors of assistance. Yet, also CARDS allocations focus almost exclusively in key SAA-related areas like competition and state aid, customs, taxation and procurement and statistics. Only one project of 1m euro has targeted more general administrative horizontal capacities. As the EU evaluation of its own programs assesses, the shift resulted to "inappropriate sequencing and overemphasis of the formal requirements for an SAA rather than the implementation of urgently needed reforms". The EU assistance is, thus, not exception to the often identified mismatch between the donor's and domestic concerns, which translate into programs that are "ill thought out, and insufficiently grounded in the understanding of the Albanian context"(idc:16). Overall, the analysis puts forward an uneasy relation between the EU strategic priorities and country's real challenges to reform.

Case of IPA in Croatia: Invitation to strategic thinking or 'business as usual'?

Dalibor Dvorny – Iva Frkic

The purpose of the paper is to assess the extent to which Croatia is effectively using EU assistance in the pre-accession period to improve its administrative capacity in policy-making and policy delivery. The focus of the assessment is on qualitative rather than quantitative indicators i.e. on administrative and policy impact of the process of using and managing EU funding rather than on mere absorption figures for this funding. After all, value added of EU Cohesion Policy – of which pre-accession funds and IPA are a predecessor – lies primarily in the policy logic behind the EU structuring funding rather than in mere sums involved. Consider that impact in terms of socio-economic development is not (strictly) related to the Structural Funds allocations to which a Member State is entitled; the development/economic growth «formula» is much more complicated and involves to a significant effect quality of the policy mix as well as of the system operating development schemes.

By insisting on objectiveness, involvement of all relevant stakeholders, and a long-term approach, the EU Cohesion Policy seeks to do more than "fill in" development gaps and achieve a spatially equal development. Rather, it seeks to enhance the value of public investment in general, as a lever on which hinges Europe's competitiveness. The extent to which candidate countries perceive this wider challenge and wider prospect inherent to the Structural Funds and the EU pre-accession assistance indicates the extent to which much more significant (future) funding – both, structural and domestic – will be placed in the service of competitiveness, and with what success.

IPA – a policy instrument half way between the pre-accession logic and the logic of the Structural Funds – offers a particularly appropriate context in which to look at the approach the state administration is taking with regards to socio-economic development. What is the effect of this funding in terms of policy making and policy delivery practices? In other words, are lessons learned and implemented – "spilled over" – into domestic policy sphere?

Croatia has shown high absorption rates of EU assistance so far and expects these to remain high. The question is – can the current system take the extra (work) load? What is required is, by the way, not only more work but also different work – especially if the assistance is to have a real impact and value added in relation to domestic policy efforts. The paper looks at the accomplishments so far and particularly at capacity with which the Croatian state administration faced IPA (programming and accreditation), in order assess to what extent IPA is understood and consequently also applied as an instrument with potential of moving Croatia towards a more effective and sustainable approach to socio-economic development.

Studying Croatia's case, we learn that the potential of IPA depends on the context in which it is applied. The relevant context is that of the Croatian state administration and of the relevant counterparts in the European Commission. By examining more closely issues involved, it is hoped to direct policy makers' attention to the underlying structural weaknesses as much as to identify solutions based on other countries' experiences and best practice.

1. Pre-Accession Assistance in Croatia – The State of Things

Croatia features as the country in Southeast Europe with the most promising prospects of EU accession. Since 2005 Croatia is officially a candidate country and is successfully carrying on the accession negotiations process started two years ago[1]. Croatia's efforts at legal alignment with the *acquis communautaire* are supported by significant EU assistance extended to it since 2001 through a number of pre-accession programmes. A total of 262 million EUR has been allocated to the purpose of (post-war) reconstruction, stabilization and preparation for EU membership since, through CARDS. Most of this funding has gone to central state administration bodies, which for the most part carry the burden of legal and regulatory alignment. Since the opening up of the pre-accession instruments PHARE, ISPA and SAPARD, another 252 million EUR were allocated to Croatia, with a somewhat wider investment scope. Under IPA, Croatia is entitled to a little over 590 million EUR during the period 2007-2010.

National level institutions feature not only as beneficiaries of EU assistance; they are also in charge of managing this assistance and ensuring its absorption by final beneficiaries outside the state administration (eg. NGOs, local and regional self-government, public and private enterprises, other non for profit institutions). With the onset of the Instrument of Pre-Accession Assistance (IPA), the management of EU assistance is in fact taking on features of classical public policy making and policy delivery, with individual line ministries and their agencies becoming more directly involved in the management of sector-specific EU funding. In this context, as significant and gradually increasing amounts of EU assistance flow into line ministries' budgets, state administration bodies become ever more conscious of the administrative burden of this "money with strings attached".

The challenge behind the pre-accession assistance – well known to all practitioners and beneficiaries of EU financed projects – is difficult to perceive from mere absorption figures which are in case of Croatia very high. The latest figures available indicate that almost 97% of funding allocated to Croatia through CARDS has so far been contracted. Similar high figures are witnessed for assistance allocated to Croatia under PHARE and ISPA programmes, where entire allocations have been allocated. Absorption figures for

[1] By October 2007, Croatia had opened a total of 15 chapters of the *acquis* and has provisionally closed 2 of them. The Government envisages the opening of the remaining chapters and the completion of the accession negotiations sometimes during 2009.

Croatia are given in the table below. The available data at this point concern allocations under CARDS 2001, 2002, 2003 and 2004, while the contracting period for other EU assistance programmes is still ongoing.

Table 1: EU Assistance to Croatia – Absorption Figures

Programme and programming year	Percentage contracted	Implementing body
CARDS 2001	96,4%	EC Delegation in Croatia
CARDS 2002	96,1%	EC Delegation in Croatia
CARDS 2003	98,4%	EC Delegation in Croatia / Central Finance and Contracting Unit
CARDS 2004	96,7%	Central Finance and Contracting Unit

When talking strictly about absorption capacity, figures can only be given for the CARDS programme, as the contracting deadline is now behind us. The absorption rates tend to be very high, and for the "real" pre-accession programmes PHARE, ISPA and SAPARD, it is now too early to make any estimates. CARDS was the first of the EU programmes introduced in Croatia, and as such a very important part of the story. Its particularity was the responsibility over the implementation and the choice of eligible activities. CARDS is predominantly a technical assistance driven programme, with tendering, contracting and payments dealt by the Delegation of the European Commission in Croatia, with exception of some CARDS 2003 and all of CARDS 2004 projects. With latter programmes and especially with pre-accession programmes, the implementation has been delegated to the national administration but remains subject to *ex-ante* approval by the EC Delegation. This was an important step forward for Croatia, especially from the point of view of the public administration that earned in this way much greater responsibility over the processes in which it is already very much involved. Moreover these programmes added new sectors to the process and more importantly allowed more supply and works contracts, which require more elaborated procedures and new approaches.

A more telling indication of the challenge behind this money is the implementation process which follows. Thus fairly long periods of time pass between project approval and its launching, (signing of contracts through which the money committed is to be drawn down by the final beneficiaries) often due to long legislative procedure that has to be carried out in compliance with the current Croatian legislation. The time "lost" in the process of tendering and contracting significantly can in fact endanger the absorption of funds committed, as very limited time remains for project implementation. In such process, where public administration needs to adapt to somewhat different rules than usual it is perfectly understandable that difficulties appear along the way, as long as there is clear understanding what these problems are, and how to cope with them. In that sense the Croatian administration, as a very general remark, does fit, in rather positive sense, into the class of other former candidate countries' administrations. Generally, this is a positive remark,

when we know that former candidate countries' administrations today successfully operate the Structural Funds and Cohesion Funds with available resources that by far surpass current Croatian allocations. There are also external influences that sometimes reduce the absorption capacity, as it is under SAPARD programme, due to its very strict eligibility criteria, reduced number of potential applicants fulfilled the criteria, so that the absorption of funding remains unsatisfying, even as the deadline for contracting this funding rapidly approaches[2]. In the case of SAPARD, the reasons for this can be found far from the administration itself.

The challenge of implementing EU projects/programmes no doubt stems from the high number of projects and programmes on the one hand and the limited number of institutions i.e. staff charged with these tasks across the state administration. Well known under the term "administrative (in)capacity", this phenomenon is characteristic of Croatia as it is in the other previous pre-accession countries. Croatia is faced with the challenge of managing five pre-accession programmes in parallel – CARDS, Phare, ISPA, SAPARD and IPA – all with their specific programming and implementation rules, and managed by pretty much the same administrative structures. Only with IPA is the implementation structure beginning to widen somewhat but the involvement of a larger number of bodies is for the time being a source of additional pressure rather than of institutional or administrative relief. The new "players" have entered the stage rather abruptly, within the context of changing legal requirements and against the backdrop of tight accreditation deadlines which – if missed – would most certainly endanger the absorption of IPA funding.

It is worthwhile considering the administrative capacity issue against this background. In the EU funds management system there are currently some 250 central state administration staff involved, of which some 100 are most directly involved with those tasks on a daily basis[3]. This is a tight figure for the moment for all the tasks currently at hand, let alone for the management of IPA assistance which implies additional administrative tasks and procedures for the state institutions involved. The sheer amount of work involved as well as the fact that it is carried out mostly in English language and more often than not under tight deadlines set by the European Commission, is proving a significant obstacle in terms of staff retention. It is therefore not surprising that the staff turnover rate seems to be higher in these particular posts than elsewhere in the state administration, this however, to a certain extent can be accounted to the fact that very often younger people are employed for these tasks, i.e. people at the beginning of their professional carriers that are naturally more flexible when it comes to regular changing of jobs. The problem of administrative (in)capacity is the most visible in institutions charged with tendering and contracting – the bodies having the responsibility of financial management of the system.

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2 Ministry of Agriculture, Forestry and Water Management, information from end of August 2007. One reason for very low absorption figures lies in the fact that 10 million EUR of Croatia's SAPARD allocation of 24,7 million EUR are allocated for a measure (rural infrastructure) for which the EC accreditation is still pending.

3 Source: CODEF report on the EU funds management system to the Croatian Parliament, summer 2007.

They tend to be more vulnerable in cases where employees leave in course of the implementing process.

The system, as a consequence is suffering from an overload, and the central state will have to deal with this growing pressure from now on. Mere technical assistance with EU funds management and implementation, extended to relevant institutions through an increasing number of EU financed projects, is not sufficient to enhance the capacity and the ownership of beneficiary institutions.

The problem of administrative (in)capacity characteristic of the pre-accession system so far is exacerbated by two new processes which are taking place in parallel to the management and implementation of previous EU assistance. These are the preparations for IPA and the accession negotiations on Chapter 22 of the *acquis* – Regional Policy. Given the interrelatedness of all three of these processes, it is natural and recommendable that they are to a large extent carried out by the same institutions. This fact could potentially slow down the processes and due care has to be taken of it.

The dynamics of the process of preparations for IPA and the Structural Funds are led by a committed coordinative body – the Central Office for Development Strategy and Co-ordination of EU Funds (CODEF), but the actual work and preparations are to be undertaken by line ministries and central state bodies whose administrative capacity still needs to be strengthened in order to cope with specific tasks. Bogged down with individual EU projects, the operative level in charge has little time, occasion or even mandate to consider the ensuing wider policy issues (eg. the importance of preparing for IPA in the context of the upcoming Structural Funds).

Concerning Croatia's current preparations for the Structural Funds, the latter require commitment and readiness on the side of a large number of institutions covering aspects as diverse as programming, implementation, evaluation, financial management and control, legal alignment with several chapters of the *acquis*, etc. In a situation where no single institution can carry out the task single-handedly and where tasks are increasingly many and increasingly complex, the commitment of the CODEF as a coordinative body has to be complemented by the line ministries. What is also needed are strategic planning and co-ordination skills, in order to get the process moving and to sustain its progress. Managing to set up a functional and effective Structural Funds management system will be, in the longer run, the crucial indicator of Croatia's successful use of the pre-accession assistance.

In the particular context set out above, IPA has a special role to play. It is an instrument half way between the pre-accession assistance and the EU Cohesion Policy. As such, it features elements of both, the pre-accession and the post-accession logic. This mix is intended to make candidate and potential candidate countries come closer to the Structural Funds principles but is also a source of additional administrative burden and complications on a practical level. As a compromise instrument, IPA is bound to leave most stake-

holders unhappy. Firstly, it is more like the Structural Funds but not quite the same, so that additional institutional and administrative adaptations will be necessary later – perhaps even very soon, depending on the date of Croatia's EU accession.

Secondly, IPA is an exercise in the Structural Funds principles, which are, however, applied to very limited funding and subject to other limitations under IPA, so that the likely impact does not seem to justify the effort. Finally, institution and capacity building activities necessary for preparing for IPA and the Structural Funds coincide with the need for timely contracting and implementation of a number of projects under earlier EU pre-accession instruments. In the context of limited administrative capacities, a dilemma arises as to what is more of a priority – ensuring the absorption of funds which are under an upcoming contracting deadline or investing into the IPA management system and ensuring the absorption of much more significant funding at a later date.

The real value added of IPA lies, however, not only in preparing the ground for the Structural Funds. Should the principles of funds management valid under IPA come to be applied to national development funding, the impact would be much more significant than IPA alone (or even the Structural Funds) could ever achieve. What the principles of strategic programming, consultations, monitoring, evaluation enhance is the quality and hence the impact of public investment. Because IPA money that could be absorbed is too little for real, noticeable impact on socio-economic development, the real value added of this pre-accession instrument cannot be measured in terms of absorption figures but of more qualitative indicators. An indication of the real impact of IPA is the extent to which state administration absorbs IPA programme implementation and funds management principles, applying it to domestic budget and policy, of course where applicable in the first place.

2. Policy impact of EU projects and programmes

When looking for policy impact, the assumption is that there is something valuable to pass to other areas of the policy in question. Indeed, the principles of programming and implementing EU assistance, as a different approach represent a valuable contribution to the usual domestic policy practice. Again, this does not go for Croatia alone, but generally for all candidate countries. In order to assess policy impact in these two areas, will therefore assess firstly the commitment of the beneficiary institutions/stakeholders to an improved policy approach. This commitment is related to the quality of the programming process under IPA as well as to the quality of programming and implementation process under previous EU assistance.

Secondly, the section looks at signs of positive spill-over effect into domestic policy/ programmes i.e. application of EU policy-making and delivery mechanisms on domestically funded schemes. This latter is an indication of the extent to which beneficiaries at state level approach EU projects and funding as a learning exercise. That said, it must be noted

that commitment of the operative level engaged with EU projects does not suffice for policy improvement; it must go beyond that and requires significant policy efforts at the level of the entire ministry/body in charge. The presence or absence of policy spill over is therefore a good indicator of strategic commitment to sectoral policy improvement more generally and of a commitment to improvement and "learning" at the state administration level altogether. In the section which follows, the causes of presence or absence of this commitment are traced back to structure of the Croatian state administration on the one side and on the other to issues arising from the particular timing of IPA on Croatia's path towards the EU.

In this section, policy impact is looked for in sectors which will be the focus of the Structural Funds upon accession – in particular of the European Regional Development Fund and the Cohesion Fund. These policy sectors feature as investment areas under IPA component III Regional development: SME development, regional development, technology and innovation (all feature under Operational Programme IIIc, Regional Competitiveness) and transport infrastructure (Operational Programme IIIa, Transport). The choice of policy focus also enables us to explore if and how the impact of EU funding may vary in light of a particular domestic policy context. The domestic policy context of the areas of investment encompassed by these two Operational Programmes (OPs) – regional development and transport – are quite different. While regional development is characterized by a large number and type of policy stakeholders, transport is rather straightforward in that sense. On the other hand, while regional development is in search of a policy approach, transport policy in Croatia is well established and even successful by domestic standards.

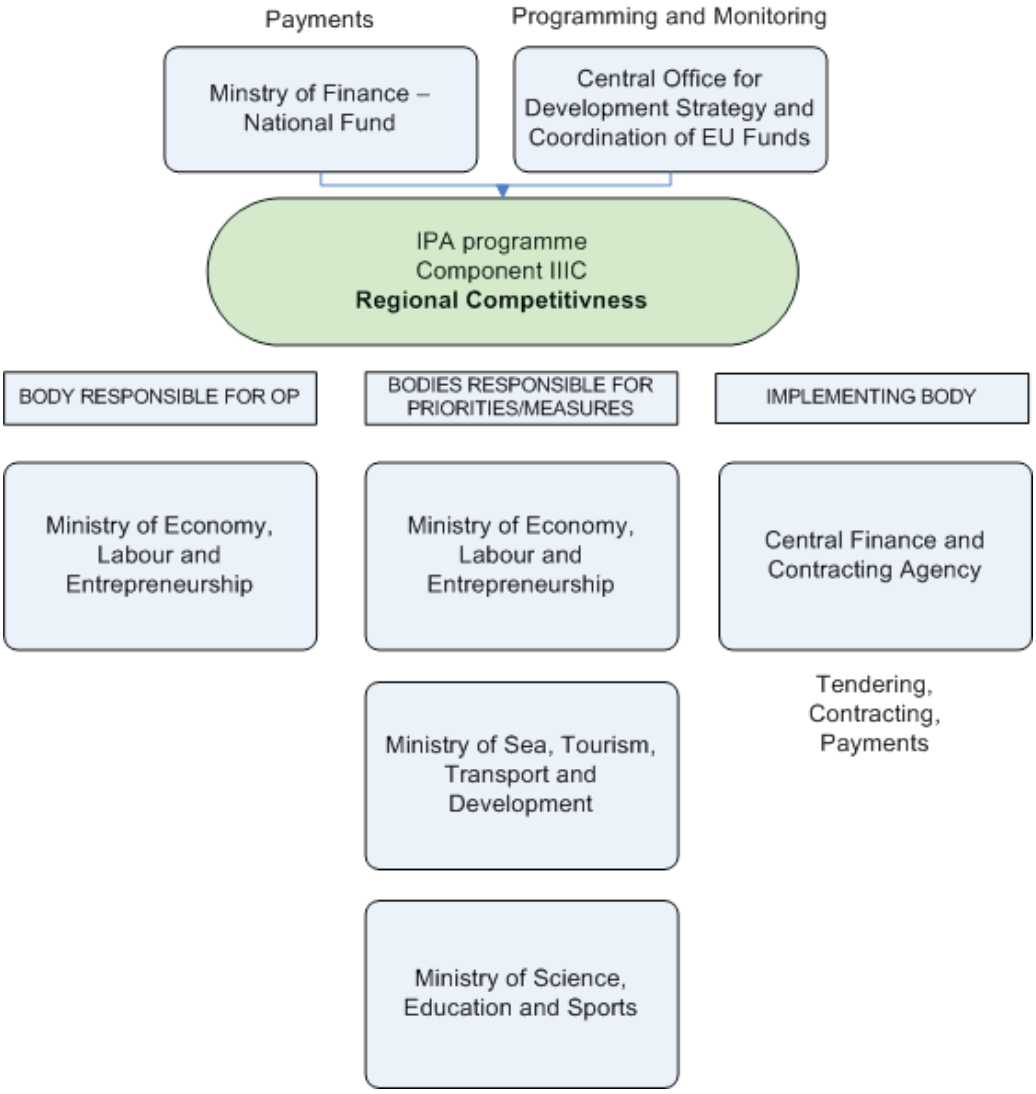
There are different ways in which EU project and programmes can influence domestic policy-making and delivery. Policy-making can be enhanced through using and integrating project results into domestic policy – e.g. strategies, guidelines, Acts, methodologies, etc. The purpose of the latter is to align policy with the *acquis communautaire*. In the process, often standards are introduced which are higher and in line with the good European practice. Policy delivery on the other hand can be enhanced by adopting EU rules on project selection, implementation and financial management and applying them to other, domestically funded development schemes. These EU rules enhance objectivity, transparency and sound financial management of public funding. They can be "learned" through the management of EU grant schemes and other projects involving tenders (works, supplies, services). Policy-making on the other hand can benefit more directly from technical assistance with strategy development and such.

2.1 Regional competitiveness

There is in Croatia at the time no compact approach to achieving regional competitiveness i.e. cohesion through competitiveness. The idea behind the Structural Funds and consequently behind IPA Component III is that these two aspects of development – cohesion and competitiveness – are not irreconcilable and may in fact reinforce each other.

A precondition for this is inter-ministerial dialogue and policy co-ordination in order to arrive to a policy package, which fits the needs of a particular territory and enables and stimulates its endogenous growth potential. The current Croatian approach to the subject of regional competitiveness is logically not fully in line with the needs that arise from this Operational Programme. For that reason and for the purpose of innovative and proactive approach a new structure[4] has been set for the programming of IPA assistance under Component IIIc, Regional Competitiveness in Croatia. In terms of the policymaking this could be a beginning of a new, improved approach, with very strong spill over potential on the national policy.

Organigramme: Operating structure for the "Regional Competitiveness" OP (IPA IIIc)



4 Or it would more precise to say a working group has been formed, as no new administrative bodies were established exclusively for this purpose, but the existing bodies are now working just under a new constellation on this policy

A draft national strategy for regional development as well as the accompanying draft Act on regional development take a holistic approach by involving all line ministries whose investments are relevant to local and regional development. The new approach envisages regular vertical (national – sub-national) as well as horizontal (cross-sectoral) consultations and policy co-ordination, structured as inter-ministerial fora at the national as well as at the regional (county) level. These consultations would serve as input into multi-annual sectoral programming documents on the side of the ministries and into similar programming documents on the part of the counties. On the basis of these documents, financing of individual investments by the two sides would be agreed. When adopted, the Strategy and the Act will form a sound basis for the programming also of EU assistance.

To foster the cooperation among the line ministries and across different directorates involved in the programming the first Regional Competitiveness OP was probably one of the first tasks carried out within the sector. The OP encompasses a wide variety of investments, and efforts had to be made for the different policy areas to cooperate on the satisfying level to each other, but this was an unavoidable intermediate step. Line ministries have for the most part opted for financing projects, which are in line with their earlier EU projects or alternatively struggled to think up new projects and schemes and consequently arrived at a fair number of projects relatively small in size.

The potential problem lies in the overlap of activities of all three ministries involved with the OP. The overlap in itself is natural in an area – regional development – where a holistic approach is necessary to spur socio-economic development. However, the overlapping can easily cause misunderstandings with regards to the different ministries' approach and responsibilities. This is where a very cautious approach has to be taken therefore. The Ministry of Economy, Labour and Entrepreneurship (MELE) and the Ministry of Sea, Tourism, Transport and Development (MSTTD) both support business-related infrastructure, but so far on the national level only partially common approach exists that should extend such support to the less developed area. Some of the more sophisticated business related infrastructure is, on the other hand, supported by the Ministry of Science, Education and Sports (MSES). Again, a functioning co-ordination always appear to be the central point of interest and definitely an area that could strongly benefit from such approach and the wanted spill over effect.

Another challenge facing ministries in the programming process is the potential question whether they can fully assess the actual needs of the final beneficiaries. Partnership consultations that could provide valuable input and more detailed insight to policy makers in this regard make an important step in that direction. In the process of drafting the OP the partnership consultations took place – a large number of partners were invited and introduced to the OP. The OP partnership consultation however reflects the fact that the line ministries involved have experience with similar consultations through their standard policymaking but what potentially needs to be improved is more active and practical interaction with these partners, and an interaction of equal foot. This would mean that the partners are always welcome to make suggestions even outside the official consultations.

Such a reformed cross-sectoral approach to regional development that begins to develop within this OP can as a model ensure better quality of the programming process virtually in every sector.

Reformed approach to regional development should be accompanied in the near future by a reformed approach to the policy on small and medium enterprises (SMEs), as well. Both reforms are in fact outputs of EU financed projects, resulting from the need to align the domestic policy to the *acquis communautaire*. Of the two CARDS projects in question, one has been successfully completed yet it remains to be seen to what extent the beneficiary institution (MSTTD) will integrate project outputs into the domestic practice. The other CARDS project – on SME policy reform – was launched recently yet some concerns arose from the very nature of the project. Recommendations for a reform of SME policy making and policy delivery implies changes to the roles and responsibilities of the main actors involved (MELE and the National Agency for Small Enterprises) as well as to the content and delivery method of measures on which public funding for SMEs is currently being spent. Change to the current system implies some important changes for both actors, learning to do work differently to a certain extent and much closer cooperation between these two institutions and between the national level and the final beneficiaries across the country (e.g. SME support centers, etc).

The integration of these project outputs into the domestic policy practice is of a great importance and value. These one and other similar projects could be then used as an example of a good practice for other future reforms that are on the way in this pre-accession period. This programming phase has also other positive sides, ministry staff involved in the working group has come to know each other and can draw on these acquaintances in their regular, mainstream work, opening up the door for more efficient communication and at most policy co-ordination in the future. They have also engaged in a genuine dialogue on the types of investments proposed by different ministries and the logic behind them.

2.2 Transport

The transport sector structure, in the light of pre-accession programmes could even seem very simple – one ministry managing the overall structure, a very narrow number of potential beneficiaries (actually only one so far apart from the ministry itself), limited number of large projects – when we translate this into practical procedures, we can see that there is no need for long and complicated sectoral agreements, extensive cross-sectoral consultations over the decision on choice of priority measures and activities. Also, unlike the regional competitiveness sector, transport is a core, and compact national policy of every single country. In spite of these obvious advantages simplicity is not always the most typical aspect of this sector, situation is in general complex and deserves full attention.

Direct and indirect implications of IPA and other European pre-accession programmes on the sector appear in different forms. Similar to many other national policies in Croatia

the transport sector is the beneficiary of technical assistance measures for capacity building. These however include mostly assistance and support in setting up of new structures, i.e. new administrative bodies required for the transposition of the European transport policy in the national legislation. Apart from these "soft" measures, since 2005 and the introduction of ISPA programme in Croatia, transport sector jointly with the environment protection sector has become eligible for "heavy investments" projects under pre-accession funds.

Croatia alone has been investing in the transport sector in the last decade far above average. However, these high investments are not spread equally across different transport modes. Although a considerable amount of resources was invested in basic infrastructure throughout all transport modes, this is hardly comparable with investments made in the road sector, more notably in the highway system[5]. As a direct result of such approach we have nowadays a state-of-the-art highway system and fairly underdeveloped other transport modes in Croatia.

We must emphasize here that the parts of the line ministry that were directly focused through some aspects of the technical assistance projects show certain progress, usually in form of betted educated and trained staff, or in form that all preparatory measures for new structure had been carried out. The annual EC Progress Report on Croatia has however reported for the transport sector that: Administrative capacity for the implementation and enforcement of legislation remains limited[6]. Indeed, the progress is here rather slower, but the process itself is still ongoing. The policymaking has only slightly changed as a result of implemented CARDS projects, whose main goals were anyway more of the technical nature and very sector specific and thus could not contribute to a larger extent to improved policymaking in the first place. PHARE and ISPA projects are still being implemented, but here the outputs are expected to be much more significant. In that sense the Progress Report also states: Croatia needs to make increased efforts to align with the *acquis*, notably by further adoption of implementing legislation. Reinforcement of administrative capacity (both in staff numbers and in level of training) also remains a matter of priority for most transport sectors[7].

On the other hand, if we take a closer look at the preparation of the national IPA structure, we can see that many changes are expected to occur in the upcoming years. In other words, the administrative capacity within the sector will have to improve before the start of implementation of the whole of Transport OP. Within the proposed structure the line ministry will get much wider responsibility, as follows:

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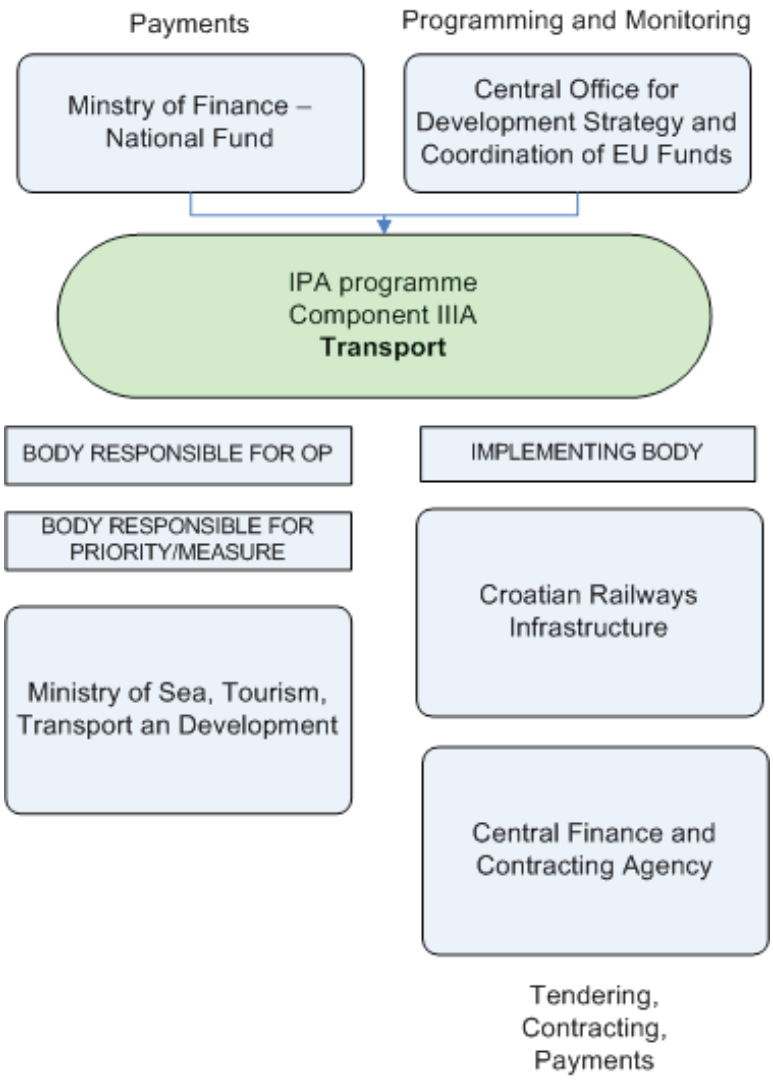
5 We can take a look in last two year's figures, they mirror trends in last 7 or 8 years: invested in roads: 1.197 million € in 2005 and 1.089 million in 2006, while in the same years investments in railways were: 94 million and 161 million subsequently. Other transport modes follow rather the same pattern as the railways.

6 Croatia 2006 Progress Report {COM (2006) 649 final}, page 39

7 Croatia 2006 Progress Report {COM (2006) 649 final}, page 40

Organigramme: Operating structure for the "Transport" Operational Programme (IPA IIIa)



It has become clear what are the challenges in front of the line ministry, this concern is therefore clearly articulated in the Transport OP: Weak institutional capacity on a national and sub-national level has proven to be the greatest obstacle in project implementation. Therefore improvement of technical assistance and capacity building at all administrative levels must be secured[8]. The following recommendations are given: It is essential to have skilled and motivated staff and further efforts are needed to identify, train, develop and retain a body of such staff[9]. The essential problem, as well as some other potential future problems are now detected and the line ministry is now on the move to establish a strong core within its structure that would be able to cope with IPA today and tomorrow with Structural funds.

8 Transport Operational Programme for 2007-2009, IPA programme in Croatia, 28

9 Transport Operational Programme for 2007-2009, IPA programme in Croatia, 28

Beside the ministry there are other issues with direct implications on the policy-making, especially those concerning the need to establish necessary regulatory bodies for the envisaged liberalization of the national railway market. The process was triggered with support of few CARDS measures, and now needs to be put in realization through a Phare 2006 project[10]. Its main objective is to ensure the free market principles in the railway sector and to lay down the preconditions for successful interoperability of the Croatian railway infrastructure. This one and other similar projects should have a direct impact on Croatian policymaking by default.

In line with other IPA Operational programmes, a new approach has been taken in the process of drafting of the Transport OP, some procedures were introduced, among others the partnership consultations and a dedicated multi-annual planning. Both of the procedures are absolutely well known to the Croatian administration, not to make any mistakes here, they are an unavoidable part of any planning process in the country, but our point of interest lies in the fact where, when and how it is used in this place. Logical answer would be - wherever the need for investment arises, but this approach goes beyond that - the planning is done in details, meaning that clear budgets are calculated and clear implementation periods set in beforehand. Without any prejudice to existing national planning procedures, these new details will certainly make the process more foreseeable and effective. It can only help the Croatian administration on one hand to broaden the aspects to be taken in consideration and especially to change slightly its orientation towards Pan-European Corridors and interoperability, and on the other hand to set clear goals and clear deadlines for certain activities. The planning concept introduced in this Operational Programme is binding and involves the planning that time-wise will not be dependent in any way with issues on the political level.

The n+3 rule has been introduced for the IPA programme in Croatia. In contrast to the ISPA programme[11], the whole of the given projects will have to be implemented within the three years period after a signature of relevant agreements. This strategy promises the projects not to be left unaccomplished anywhere on their implementation path causing money to be decomitted. Again, in this way potential issues that could appear on the political level can be omitted, especially knowing that n+3 rule will be an ambitious target for Croatia in general and for the projects in the transport sector.

Up to now Croatia has obviously showed fairly good results in using and managing different assistance and pre-accession programmes, and therefore "earned" the confidence to go to the next level in this process. Today, as a part of even more elaborated Decentralised

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[10] Phare 2006: Restructuring and Development of Croatian Railway system in the Framework of EU Legislation The project will provide technical assistance, support and training to the Ministry of Sea, Tourism, Transport and Development and stipulated bodies and institutions in the area of rail restructuring and regulation.

[11] In the framework of the ISPA programme a n+2 rule is applicable, meaning that after the signature of the Financing Memorandum in the period of two years a tender for the major works contract needs to be published,

Implementing System (DIS), Croatia is entrusted to set up a new structure for IPA programme. The differences to the actual system mostly regard managing and implementation aspects. By bringing new tasks and responsibilities to the Croatian administration, IPA now demands much wider "accreditation" process. This means that new administrative bodies will soon have to embark on the accreditation process. It is hardly foreseeable what will be the outcome of the forthcoming accreditation process in terms of qualitative improvements within the administrative structure, but to that end the best insight could offer us the example of the Croatian Central Finance and Contracting Unit, at the moment the only accredited implementing agency in the country[12]. There are a number of reasons behind the idea of only one contracting body for all programmes, sectors and contract types. Today the CFCU has succeeded to overcome the initial objective difficulties and is today successfully tendering and contracting projects in all of the sectors included in the process. Obviously, the CFCU has evolved since accreditation process into highly specialised and very dedicated state agency, with high level of autonomy. This is a sound example that might be translated in all of the other bodies that need to be accredited by the EC.

3. Explaining the challenges, in particular under IPA

This section looks at causes of findings under the previous section and identifies them in the structural issues specific to the Croatian state administration on the one hand and on the other hand in issues of IPA and of IPA in the particular Croatian context.

Given that IPA is half way between the Structural Funds and pre-accession funds, its requests are a mix of rules, which apply to these two sets of assistance instruments. Beneficiary countries of IPA are in an unenviable position because they face principles which are new to them, responsibility for properly implementing them but which they are not allowed to interpret but are in every aspect directed by "strong recommendations" of the European Commission or the EC Delegation. (*Nota Bene*: the EC Delegation will remain an actor in the process of implementation, as well, where its obligatory *ex ante* approval of each step of the contracting procedure will inevitably add an additional requirement to the compliance with the n+3 rule).

The Commission itself is finding IPA a challenge for a number of reasons. The first part of preparations for IPA has overlapped with the accession of Bulgaria and Romania which has absorbed much EC attention, time and staff. Delay in agreement and adoption of the IPA Implementing Regulation can possibly be ascribed to this same reason. This delay later made the Commission's life more complicated, as the absence of firm facts on IPA implementation modalities resulted in varying interpretations across the Directorate Generals (DG) involved. Indeed, the second challenge of IPA is that, although a single instrument, it consists of components whose modalities are rather different and must con-

[12] Apart from the Sapard Agency, which has a very specific function within the system

sequently be agreed between a number of Commission services (DG EMPL, DG REGIO, DG AGRI, DG RELEX). This requires timely consultations and co-ordination across the DGs, which at least in case of Croatia proved to be a challenge for the Brussels administration.
As stated before, the IPA legal provisions had remained unclear for long into the preparation period, with the beneficiary institutions unclear as to whether they will need to change their approach to programming and accreditation at a later date. For example, it had been long unclear what was the programming period for the Strategic Coherence Framework (SCF) and the four OPs under components III and IV - three or seven years long. The issue for the line ministries was in deciding how wide their investment focus ought to be, as the capacity for investing IPA funds across different sectors will grow with time. The EC also provided definite instruction on the content of the programming documents in a later phase so that the content and the level of detail provided in OPs had to change accordingly. This has placed CODEF in a difficult position *vis-à-vis* the line ministries. It remains unclear to what extent OP measures may be changed on the occasion of annual OP revisions i.e. how flexibility on the one hand and continuity on the other will be ensured.

Perhaps more importantly, some elements of programming which were not defined in detail in the IPA Implementing Regulation were open to interpretation even late into the programming process. Interpretations often varied across the DGs and the Commission's interpretation at times varied from that of the beneficiary country. Other divergence in interpretation occurred for example with regards to the scope and spirit of an IPA "regional competitiveness" OP. This OP is a combination of two "classical" OPs under the Structural Funds – OP for economic competitiveness and OP for regional development. Under IPA, these two themes are addressed in a single OP, leaving a lot of possibility for different interpretations.

To conclude the overview of the EC context on IPA programming, it can be said that the EC services provided programming guidance to the Croatian counterpart relatively late, due to the fact that IPA had been evolving as a new pre-accession instrument. On the Croatian side, the quality of the programming and the whole IPA preparation process reflected the administrative capacity of the beneficiary institutions involved. The staff involved in EU funds management and project implementation shows a steep learning curve, but constant improvements in the system will nevertheless have to become more common.

4. Lessons from Croatia's experience

The case of EU funds management in Croatia is interesting as six pre-accession assistance programmes are managed in parallel and that preparations for IPA are taking place just few years prior to the country's EU accession. By all means, Croatia features as a successful candidate country, absorbing EU assistance at very high levels and accomplishing

accreditation preparations in fairly short time periods. However, this is an ever-changing and evolving process that obviously require constant monitoring of the current situation, the whole system must be ready at any point in time to adapt to new circumstances. And the real challenge is yet to come – the management of the Structural Funds upon accession. A closer look at the quality of the process of programming and implementation that has been taking place under IPA and the previous EU projects suggests there has been so far a moderate policy improvement spill-over into the national policy practice, but it is exactly under IPA programme that most of the improvements might take place. This is of course a long, ongoing process, nevertheless IPA programme has already triggered some important changes, and most certainly it will continue to do so in next few years.

By focusing on IPA, the paper has sought to explore to what extent a changed policy approach is taking place under IPA. In theory, the new policy instrument offers much scope for coming closer to the logic of the Cohesion policy. In practice and in these circumstances this scope is fairly limited by the context in which the instrument operates now. On the one hand, there are limitations specific to the European Commission and on the other there are those specific to the state administration of the beneficiary country. The challenge ahead is in addressing issues which have surfaced or perhaps re-surfaced in the programming process under IPA.

EU Instrument for Pre-Accession Assistance: The Path to a Successful Start

Mate Gjorgjievski

Introduction

It was at the Copenhagen European Council in June 1993 when the historic decision on eastward enlargement was taken by agreeing that "the associated countries of Central and Eastern Europe that so desire, shall become members of the European Union"[1]. It was since then that a pre-accession process of unprecedented length and complexity took place. In the course of this process for the first time, specific political, economic and legal conditions have been applied, regular Progress Reports have been produced and a pre-accession strategy has been developed, comprising bilateral treaty commitments, Accession Partnerships, technical assistance and participation by the candidate countries in Community programmes. "Pre-accession" has become more than merely an adjective referring to a strategy or a process: it has become an experience of change and adaptation by the candidate states and the European Union, as well.

The overriding challenge of the ongoing accession process for remaining Balkan states is continuing. When it comes to the countries of Western-Balkans[2], it was the EU-led Stability Pact of 1999 that promised candidate status to these countries, as soon as democratic standards were upheld and economic requirements met, as well as the Feira summit in June 2000 when the European Council confirmed again another historical decision, this time for the EU and the Western-Balkans: "The European Council confirms that its objective remains the fullest possible integration of the countries of the region into the political and economic mainstream of Europe through the Stabilisation and Association Process. All the countries concerned are potential candidates for EU membership."[3]

The Stabilisation and Association Process can not be regarded as substantially different from the pre-accession process that applied to the Central and Eastern European countries. Pre-accession process in general has some very distinctive common features that give it the qualification of a "process."

To start with, it encompasses the "EU initiatives whereby candidate countries for EU membership are brought closer to the EU in political, economic and legal terms so that, in the end, accession is not too abrupt for both the candidate countries and the EU to absorb[4]. When countries applying for EU membership need to undertake radical political, economical and legal adaptations before their accession can be considered, formulating

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1 Conclusions of the European Council, Copenhagen, June 1993

2 Albania, Bosnia-Herzegovina, Croatia, Macedonia, Montenegro and Serbia

3 Conclusions of the European Council, Fiera, June 2001

4 M. Marceau, "Pre-accession", in *The Enlargement of the EU* , ed. M. Cremona (2002), 10

pre-accession strategies is an absolute necessity, taking into account the extremely large volume of the present *acquis communautaire* that needs to be transposed, which implies for the candidate countries strong basis of EU know-how before they smoothly integrate.

Furthermore, the pre-accession process is clearly characterized by the use of the conditionality as its legal cornerstone. By constituting a key part of the Union's enlargement strategy, conditionality has become a successful element of the Union's foreign policy. The conditionality refers to the fulfilment of the conditions determined by the priorities of the promise of technical and financial assistance, association agreements, and ultimately membership to influence the conduct of both non-member and non-candidate countries[5].

Another fundamental principle of pre-accession is the individual approach of the assessment of the candidate countries' own progress towards accession that is reflected in the individual Commission's opinions, individual progress reports and negotiations conducted with each country separately.

Having said that, it is not difficult to conclude that the pre-accession process itself is an exceptionally and immensely perplexed process. It is not just about political will and effective negotiations. It is much more about instruments and strategies, about the Accession or European Partnerships, screening process, harmonization of the laws, the ability to manage the EU accession-related funds and technical assistance, and at last, but not at least, it is about improving the management capacities and building up more effective institutional structure on both sides.

This paper is intentioned to focus on the new pre-accession financial assistance, as the core and inevitably integral element of the entire pre-accession process which main aim is to achieve convergence of the pre-accession countries. It is clear that a strategy can not be put into practise without financial means. It is also clear that by providing financial assistance, pre-accession strategy is shaped and further carried on.

In order to help the candidate countries duly prepare for membership, the EU assists them by providing financial assistance channelled into these countries through pre-accession financial instruments. They take significant part of the so-called "external" instruments for implementing EU cohesion policy aiming at reducing economic and social disparities between Member States and EU candidate countries. The Pre-Accession strategy under the new medium-term Financial Perspective (2007-2013) has brought in radical readjustments. This paper is devoted to the new EU Instrument for Pre-Accession Assistance (IPA), which is introduced as one of the new instruments of the revised External Aid framework for the new financial perspective from 2007 to 2013, established by the IPA

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[5] K.Smith, "The evolution and application of the EU membership conditionality" in *The Enlargement of the EU*,ed. M. Cremona (2002), 105-9

Framework Council Regulation No.1085/2006. The new EU approach deserves special attention, as the new IPA will replace all so-far existing instruments, thus creating a single framework for assistance.

1. The Instrument for Pre-Accession Assistance: What are the Novelties?

The new EU Instrument for Pre-Accession Assistance (IPA) supports the entire edifice of European Union strategy towards South Eastern Europe, which rests on the promise for eventual integration of the countries of the Western-Balkans into the EU, as explained in the introductory part. Therefore, its overall objective remains- approximation to the European Union, with membership as a potential final goal. In that context, a novelty is that IPA beneficiary countries will be divided to two categories, depending on their official status, recognized by the European Council, as either candidate countries (Croatia, Macedonia and Turkey) or potential candidate countries (Albania, Bosnia-Herzegovina, Montenegro and Serbia)[6]. This division is crucial from the point of view that it did not exist under the financial CARDS assistance and that furthermore, shapes the type of assistance by determining the eligibility for full package of the five IPA components or for first two of them, as explained bellow. They will, therefore, receive a level of funding less than that the one for candidate countries.

A country can move from Annex I to Annex II only after the decision of the Council giving it candidate status and such a decision would then authorise a formal, albeit "light" procedure for amending the Regulation. According to the Commission, countries being kept separate according to their status seem like an appropriate approach, so that they can each be judged on their individual merits.

The IPA target areas for assistance are set up in a way to ensure coherence with earlier Community assistance, allocated either under the CARDS or the Turkey Regulations by globally targeting the same objectives set down in these two Regulations. Some of them are identical for both groups of beneficiary countries: support for democracy, rule of law, public administration reform, economic reform, respect for human and minority rights, civil society, reconciliation in the widest sense, as well as regional and cross-border cooperation.

However, a split of objectives is recognized, too. For candidate countries, assistance shall target the adoption and full implementation of the *acquis communautaire*, whereas for countries which are not yet candidates, the mandate is more limited, and oriented towards progressive alignment with the *acquis*. Also, for potential candidate countries, economic and social development is targeted in a more generic fashion, whereas for candidate countries, IPA is strongly oriented towards the support for implementation and management of

[6] Council Regulation (EC) No.1085/2006 of 17 July 2006 establishing an Instrument for Pre-accession assistance (IPA), Annexes I and II

the Community's agricultural and cohesion policy after accession, thereby progressively adopting the rules and principles of Structural Funds/Rural Development Funds management. The aim of these components is to follow the Structural and Rural Development Funds' rules including their institutional framework (e.g. Comitology) as closely as possible, while at the same time laying the groundwork for a national framework promoting economic and social cohesion as well as viable agricultural structures.

Given these over-arching objectives, the Council Regulation establishing Instrument for Pre-Accession Assistance in Article 3 sets up five components:

1. Transition Assistance and Institution Building. This component will provide both "soft" support, in terms of know-how, and "hard", in terms of physical investment in order to help countries meet the accession criteria and improve their administrative and judicial capacity
2. Regional and Cross-Border Co-operation. This component will support cross-border activities among beneficiary countries and between beneficiary countries and Member States, by continuing to support Regional Co-operation previously supported under CARDS.
3. Regional Development, which will help prepare the beneficiary countries for Structural Funds- ERDF programmes- and for Cohesion Fund
4. Human Resources Development, which will help prepare for Structural Funds-ESF programmes
5. Rural Development, which will help prepare for Agriculture and Rural Development Funds

When it comes to the methods of implementation, it shall take place according to the rules set down in the Financial Regulation[7], and IPA Implementation Regulation[8] .

These provisions give sufficient flexibility to the implementation process, because they make a whole range of implementation methods available (from centralised to full decentralisation of financial management to the beneficiary countries, as well as joint and shared management). It is likely that different modalities will apply for different components of this Instrument, with full decentralisation as the ultimate objective. Moreover, the speed at which beneficiary countries are able to move down the road of decentralisation is also likely to vary from component to component. The last three IPA components aim at preparing candidate countries for the management of Structural Funds and they are subject to the same requirements as those applying to Member States in terms of necessitating sound financial management structures and practices. Therefore, they can only be introduced for candidate countries operating under decentralised management and having demonstrated autonomous programming and management capacities. The Commis-

[7] Council Regulation (EC) No.1085/2006 of 17 July 2006 establishing an Instrument for Pre-accession assistance (IPA)

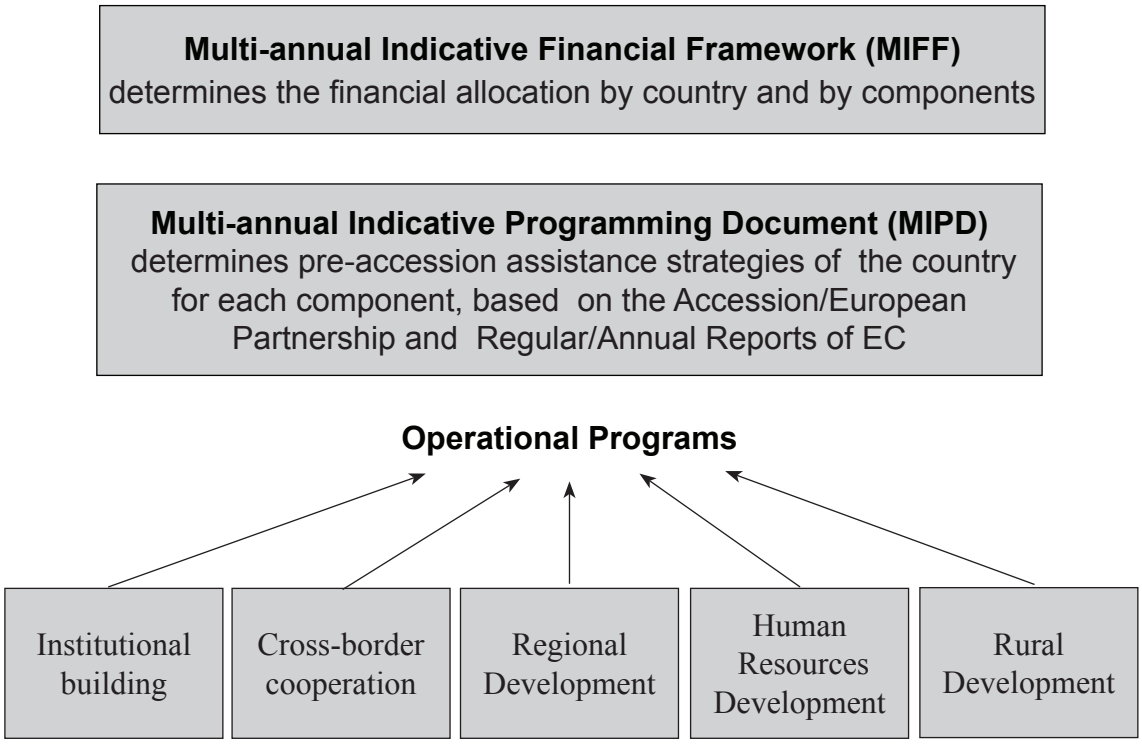
[8] Commission Regulation (EC) No.718/2007 of 12 June 2007 implementing Council Regulation (EC) No 1085/2006 establishing an instrument for pre-accession assistance (IPA)

sion will in particular support the countries in their progressive move from centralised to decentralised management of assistance. The Commission will confer the management of the EU pre-accession funds on the national authorities (decentralised management of EU funds) once the relevant programming and implementing structures have received accreditation. Until then, components 1 and 2 will be implemented under centralised management, where the Commission manages the assistance as contracting authority, either centrally, or through the delegations or European Agency for Reconstruction, while for the last three components, actual implementation of operations and disbursement of funds may start only when decentralised management has been conferred by the Commission. This is reflected also by the financial allocation for each component: appropriations for components 3, 4 and 5 will be small in the beginning but will then increase over the years.

The essence of the decentralised implementation system of management of the EU assistance is that, whilst the Commission retains overall final responsibility for general budget execution, the beneficiary national administration is the principal for the underlying complementation contracting. Under the decentralised system for IPA the Commission never undertakes *ex-ante* controls over payments by the national administration, but may retains the right and duty to carry out *ex-ante* controls over some or all of the tendering and contracting and grant project selection contracted at the level of the National Authority (decentralisation with *ex-ante* controls) or it can waive all *ex-ante* controls (decentralisation without *ex-ante* controls). This process is intended to lead to the decentralisation without any *ex-ante* controls over the underlying contracting by the Commission. However, conferral of management involving continued *ex-ante* controls by the Commission will typically be appropriate at an initial stage. The objective of decentralising management in the context of the pre-accession strategy is to improve ownership and to enable candidate countries and potential candidate countries to implement EU funds themselves and to thereby demonstrate their ability to assume the responsibilities of membership in this respect. It must be pointed out that in line with ownership principle, National Authorities have permanent obligation to provide continued quality of delivery of the system, and subsequently to improve the system: *ex-ante* control by the Commission is no substitute for any failings by National Authorities.

Regarding the framework for assistance and allocation of funds, IPA Regulation envisages reinforced pre-accession strategic approach. This will start with the system of European Partnerships and Annual Reports, introduced for pre-candidate countries, and of Accession Partnerships and Regular Reports, in place for candidate countries. From these a Multi-annual Financial Framework (MIFF), to be reviewed annually, with an allocation of funds by component and by country will be prepared. The allocations will be made on the basis of certain set of criteria, including absorption capacity, needs assessment, respect of conditionality, and capacity of management, whilst providing for flexibility to adapt to the specific pre-accession needs of the individual countries. On the basis of a Multi-annual Indicative Financial Framework the European Commission and the beneficiary country prepare Multi-annual Indicative Programming Document (MIPD) which sets out

a pre-accession assistance strategy for three years period on a component-by-component basis. For each component separately, the beneficiary country prepares the Operational Programmes. The scheme is presented bellow[9]:



Finally, the principle of conditionality applies to IPA, too, as Article 21 directly links the grant of assistance with the respect for the principles of democracy, the rule of law and for human rights and fundamental freedoms, including minority rights, as well as with the conditions defined by the Council Conclusions of 1997, in particular as regards the recipients' undertaking to carry out democratic, economic and institutional reforms. Moreover, a suspension of the assistance is envisaged: "Where a beneficiary country fails to respect these principles or the commitments contained in the relevant Partnership with the European Union or progress toward fulfilment of the accession criteria is insufficient, the Council, acting by qualified majority on a proposal from the Commission, may take appropriate steps with regard to any assistance granted under this Regulation".[10]

9 Kaj Mortensen, "Pre-accession Assistance for Rural Development", (paper presented at the IPA mission of the European Commission, Skopje, July 26, 2006)

10 Council Regulation (EC) No.1085/2006 of 17 July 2006 establishing an Instrument for Pre-accession assistance (IPA), Article 21(2)

2. Rules, Principles and Best Practices for Effective Usage of IPA Funds

2.1 Legal and Institutional Framework

Adequate legislation and institutional set up is to be put in place in each of the beneficiary country for the purposes of effective and efficient use of the IPA funds. They include the EU rules for transparent and non-discriminatory public procurement, in order to avoid corruption and conflict of interests, the EU rules on state aid, multi-annual budget planning, environment protection, as well as the entire institutional mechanism for implementation.

The latter is especially in relations to the decentralised management of EU funds, which requires entire edifice of new system and procedures, capacity building of relevant administrative departments and establishing internal controls and audits. Certain requirements under the EC Financial Regulation and IPA Implementing Regulation will have to be met before the Commission may confer decentralised management of EU funds. The national administration must be endowed with the necessary structures, as well as the management expertise and capacity to assume full responsibility for the decentralised management of IPA. Above all, mobilisation, strong involvement and leadership by the National Authorities from the very beginning, is an absolute precondition.

Regarding the structures, the beneficiary country shall designate the following bodies and authorities:

- a National IPA Coordinator (NIPAC) for the overall co-ordination of the assistance
- a Sectoral Coordinator for the 3rd and 4th component (regional development component and the human resources component),
- a Competent Accrediting Officer (CAO), accountable for implementation of programmes approved by NIPAC, so must actively and constantly supervise the effective functioning and accreditation of the whole implementation system
- a National Authorising Officer (NAO) who is financially responsible for the management of EU funds and submits an annual statement of assurance to the Commission,
- a National Fund (NF) also accredited by the CAO and reporting to the NAO, acting as the central treasury and in charge of the financial management,
- an operating structure by IPA component or programme, responsible for managing and implementing the programme in accordance with the principle of sound financial management,
- an Audit Authority, which is functionally independent from the management and control systems and which fulfils its tasks in compliance with internationally accepted audit standards. It should conduct regular checks to ensure correct implementation, and be able to take appropriate measures to prevent irregularities and fraud and if necessary recover funds wrongly paid.

The beneficiary country shall ensure the appropriate segregation of duties between the NIPAC and the NAO in accordance with Article 56 (2) of the Financial Regulation.

Upon establishment of the management and control systems (Stage 0), there are five procedural stages that have to be undergone before DIS can be granted. The first four are responsibility of the Candidate countries and contain a Gap assessment, a Gap plugging, a Compliance assessment of the management and control systems and a National accreditation and submission of application for conferral**.** The fifth and final stage is the Preparation for a Commission decision, which remains responsibility of the Commission services that analyse the DIS application to enable them to decide whether to confer decentralised management. This decision is taken following an in-depth review of the Compliance Assessment Report, including a verification audit in order to check compliance with key conditions for DIS. There is one extra stage, that is, *conferral of management responsibilities without ex-ante controls* by the Commission, which is practically the final objective for all components and areas of decentralisation. However, the timing of attainment of this objective may vary depending on the IPA component concerned.

In the previous pre-accession period, the delays in the administrative procedures in the beneficiary countries have had impact on the time needed to set up the system, but on the other hand, this was largely influenced by the delays of the European Commission, which failed to prepare on-time detailed principles and rules which would have clarified the policy and accelerated implementation. The delays are evident in the case of IPA, too. Namely, the adoption of IPA Implementing Regulation, that is suppose to serve as a basis for all national activities of beneficiary countries related to the programming and implementation of IPA, has been delayed by the Commission and the Council from October 2006 until June 2007, which has been a substantial delay from a point of the beneficiary countries which needed to program the assistance for 2007 and to develop their DIS structures on the basis on unofficial documents and frequent changes, but moreover, it consequently postponed their roadmaps for conferral of management and all other related activities.

2.2 Administrative and Absorption Capacity

The absorption capacity of one country to use the EU funds represents the extent to which the country has the capacity to spend the funds which are attributed to it, on an efficient and effective way. From a national level, it has three dimensions: the macro economy (overall development of the state), abilities to participate with its own funds (co-financing), and administrative capacity, taken as a competence of the national and local authorities to formulate viable plans, programmes and projects on- time, to deliver timely proper decisions, to co-ordinate the main partners and to administrate the entire process on a transparent and accountable manner [11].

[11] Vasko Hristovski "Positive experiences and practices for the candidate countries and recommendations for the Republic of Macedonia" in *Successful use of IPARD finds,* Macedonian Center for International Cooperation (Skopje: Macedonian Center for International Cooperation, 2007) 34-8

The capacity to create projects is the crucial factor for the absorption of the funds. Despite the common indication of the problem of little wages of the civil servants, due to which, experienced specialist resign from the service, the major problems for better absorption of the funds lies in the lack of the high-quality investment projects. Project development does not only require time (sometimes even more than a year), as well as project documentation preparation (somewhere even up to 5% of the project value), but also requires huge administrative skills.

The absorption also depends on the size of the funds to be paid and whether they are planned on such a way that meet up the local and regional problems identified with active participation of the relevant stakeholders. Above all, as stated before, the appropriate legal and institutional framework is also precondition for the absorption capacity of the country, as it adds up to the process of learning-by-doing. Recognising the extreme importance of this process, IPA beneficiary counties should try to ensure that their authorities and administrations anticipate few causes that might limit the absorption capacity, if not understood well from the beginning, such are:

- the IPA funds "are not given", but they need "to be earned"
- readiness to undertake a risk
- capacity to plan the resources well in advance
- ability to be pro-active in entering partnerships with local actors for purposes of joining and mobilising funds

One of the issues that deserve duly attention of the national and regional authorities in the context of effective absorption of the funds is establishing the mechanisms for distributing information for IPA. It is recommended that the national authorities, as they hold the final responsibility for the usage of the funds, prepare information-communication strategy related to the IPA, to launch national public information campaign and to establish a special unit responsible for managing the information and for transparent distribution of reliable and updated information.

With regards to the administrative capacities, the state and the local authorities must realize that the strengthening of the capacities of their administration and the capacity building of the employees is primarily their responsibility and therefore, they need to allocate finances for these purposes. Although most of the countries usually have developed a Plan for recruitment and trainings of the personnel in the administration, the experiences show that employment of the new personnel frequently takes place with delay. In spite of this, the intermediate bodies generally suffer from underemployment. Especially, the lack of administrative capacities is evident for the local governance[12]. In addition, the process of recruiting the staff is sometimes done in a rush and without transparent procedures. The revision of the recruitment process in Bulgaria, Poland and Lithuania exposes that this is done in a

[12] Vasko Hristovski "Positive experiences and practices for the candidate countries and recommendations for the Republic of Macedonia" in *Successful use of IPARD finds,* Macedonian Center for International Cooperation (Skopje: Macedonian Center for International Cooperation, 2007), 27

non-transparent way. In Lithuania, there have even been cases where the tests for selection of the candidates had been intentionally destroyed[13]. This certainly does not guarantee that the management of the funds would be done by a competent and proficient administration.

Although slightly less important in this regard, yet not even far from being disregarded, is the fact that on the side of the Commission, few staff has been assigned to monitor the implementation of the pre-accession funds. For instance, a single EU official was responsible for overseeing the implementation of both the Romanian and the Bulgarian programmes amounting to 1 442 million euros of Community assistance[14].

Regarding the trainings of the staff, as essential to build-up the administrative capacities and skills, in some former candidate countries, the introductory trainings of general content were predominant over the tailor-made and practical trainings for developing projects and project cycle management. The latter must not be neglected now by the IPA beneficiary countries. In fact, more pragmatic trainings for development of project proposals, elaborating project fiches, filling in application forms, monitoring etc. are expected to address the need of the administration, as well as of the business sector, local partners and NGOs.

The basic principle, to which the programme for capacity building should be laid on, is that beside the transfer of knowledge and experiences, skills to apply the knowledge and trust building are necessary, too. What is more important is that this programme needs to lead to change of attitudes, perception and mentality towards creating more pro-active administration and more inclined to initiatives, innovative approach and partnerships. Within its scope of work activities, the administration has to be guided clearly by the fact that the project planning and preparation is its essential role, and not some additional imposed burden. The Irish experience confirms that the good quality of the administrative personnel has been substantial factor for high absorption of the Structural Funds. Moreover, the authorities must avoid to rely strictly on the consultancy expertise, by undermining the knowledge of the administration, and to find modalities for keeping its motivation on considerable level.

Finally, the role of the private sector is noteworthy. The programmes for strengthening the capacities must contribute to further and greater understanding that consultations with and participation of the private sector has to be compulsory in the whole process. It is of utmost importance to reinforce the model of public- private partnership (see also Chapter 3.3).

2.3 Principle of Partnership

The principle of partnership is one of the main principles in the process of preparation the national plans and programs, i.e. in the programming phase, whose main aim is to adapt

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13 Court of Auditors Special Report No 2/2004 concerning pre-accession aid (2004/C295/01), 10.

14 Court of Auditors Special Report No 2/2004 concerning pre-accession aid (2004/C295/01), 8.

the planning and programming to the real needs and resources, to provide for effective implementation and to build up capacity for development.

Apart from the partnership with the European Commission, there are partnerships on national level among the competent national, regional, local and other public authorities, economic and social actors, civil organisations and other representatives of the civil society. The principle of partnership requires all relevant partners mentioned above to take active participation from the very beginning of the planning, by presenting their opinion and suggestions, through the whole process of preparation, financing, monitoring and evaluation of the activities. This can be achieved by participation in public debates, forming working groups and committees. Application of this principle contributes to gaining greater credibility and trust of the state administration by the citizens, as partnership relation between them and inclusion of the citizens, reflects to better understanding and perception, thus to a greater sense of ownership over the whole process and subsequent development.

The application of the principle of partnership itself represents also a mechanism for increasing the absorption capacity of the country, since it depends on the mobilisation of the efforts of wide range of local and regional partners for the purpose of determination of more and numerous quality projects and their implementation. Having in mind the low financial standing of the regional and local actors in most of the pre-accession countries, it will be important therefore to establish a strong co-ordination with all stakeholders, including external donors and International Financial Institutions (IFIs), with a view to maximise complementarities and additionality in the use of limited resources. Private sector involvement also need do be actively sought, particularly through public-private partnerships (PPPs), to complement and replace public financing whenever feasible. Strong partnership with private sector enables substantial co-financial arrangements, which may further improve the overall national capacity for co-financing and allow freed national funds to be allocated for other projects.

The experiences from the previous candidate countries, but also from the Member States regarding their use of Structural and Cohesion Funds confirms that whenever consultations with local partners were not been made, the chances for successful implementation of projects had been less likely.

The local authorities and economic-social partners, as well as other stakeholders must not be excluded from the process of programming for IPA, too. In fact, it is obligatory to be actively involved, since the results of the consultations made with the relevant bodies and social and economic partners, including those ones in the environment sector, are consistent part of the Operational Programmes for different IPA components[15].

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[15] Mate Gjorgjievski and Marija Stambolieva "Comparative experiences in the use of pre-accession funds: How to avoid the mistakes? " in *Successful use of IPARD funds,* Macedonian Center for International Cooperation (Skopje: Macedonian Center for International Cooperation, 2007), 18-9

2.4 Lessons Learned

For the reasons of effective usage of the IPA funds and avoiding the mistakes made within the previous pre-accession process, apart from the basic principles presented above, a sublimation of some lessons learned and comparative experiences of the former candidate countries is presented bellow.

The implementation and general operation of the previous pre-accession instruments: PHARE, ISPA and SAPARD have been far from smoothly. One of the most notorious issues related to the distribution of the assistance is the discrepancy between the actual amount of aid delivered and the sums allocated under each of the three instruments. Just as an example, out of 4.3 billion which has been committed under ISPA for the period 2000-2003, by the end of 2003, slightly more than 1 billion has been paid out[16].

According to the Commission, the blame is on the governments of the beneficiary countries. As far as the Commission is concerned, it took the view that nothing can be paid out until a country has demonstrated that it is capable of managing the funds. It is necessary to build up a bureaucratic infrastructure which will be able to manage the implementation process, liaise with EU officials and exercise a coordinating function within the country concerned. The creation of this infrastructure is required for inter-facing with the pre-accession funding process but is also a prerequisite for attracting inward investments[17]. Moreover, national administrations need to be strong and capable to guarantee the rule of law, accountable to the public and structured in such a way as to assure independent oversight and public review.

In fact, precisely the limited capacity to absorb the allocated funds has been the persistent problem during the implementation of the pre-accession assistance and although institution-building and strengthening the capacities of national administrations were among the main objectives of these instruments, mainly of PHARE, supported by expenditure of paramount sums of money, yet, the progress has been weak and slow in some countries.

This also calls into question the role of experts in the preparation of projects and the conduct of impact assessments. The relatively high incidence of rejected, failed or withdrawn projects raises doubts about the quality of their contribution to the process.

Concerning the extent of civil society involvement, it appears that in many of the candidate countries, there was a lack of true public participation. Also there was often a lack of involvement by regional administrations. This is variously attributed to apathy and weakness in the regional administrations and a desire by national authorities to retain these matters within their own purview.

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16 The mini ISPA report 2000-2003, DG REGIO, February 2004

17 Opinion of the Economic and Social Committee on Financial Assistance for Pre-accession, PHARE, ISPA and SAPARD, CES 1023/2002

As a prerequisite for obtaining pre-accession funding, the former candidate countries must have had prepared national plans and strategies for sectoral development. However, National Development Plans have been often prepared in a rush, with inadequate consultation between the responsible ministries and other government departments and even less consultation with the representatives of civil society[18].

In short and in general, the key problem areas identified by the EU are:

- the undeveloped nature of the business environment;
- the lack of administrative capacity;
- the weakness of the judiciary;
- the lack of neutrality and accountability in the civil service

On the other hand, according to the public perception in most of the candidate countries, the fundamental problems with the operation of the pre-accession funds are deriving largely from the overly-bureaucratic nature of the structures laid down by the EU and the extremely demanding, expensive and time-consuming process of project preparation.

Even the Court of Auditors, has confirmed this in its Special Report in 2004 by elaborating few examples[19]. After the first nine months of SAPARD implementation in Poland, 977 applications were received, of which astonishing 472 (48 %) were rejected. An analysis of these figures showed that the main reason for rejection was that the applications were not prepared properly, mainly due to the large number of documents to be provided and the difficulty in obtaining them. The same problem was found in Bulgaria, where for relatively simple project for the purchase of a combine harvester and a plough, the number of pages in the application file was 2 477 and for the file with the payment request 601 pages. The relevance of some of these documents is not always clear, and there is a need to simplify the procedures and relieve the burden for beneficiaries, which will, in turn, speed up implementation.

Additionally, we have also seen that the lack of preparation by the Commission and the tight time frame led to difficulties with decentralization.Furthermore, what we can learn from the previous faults by the Commission is that targets should be clearer and that objective criteria and indicators for success are needed for measuring the progress towards achieving objectives and priorities. The Court of Auditors Report' concerning pre-accession aid under SAPARD programme demonstrates that precisely because of absence of indicators for quality, instead of indicators for quantity, there was little contribution to achieving 'EU standards'. Despite the fact that the countries should have ensured that priority is given to improving market efficiency, quality and health standards and measures to create new employment in rural areas, in compliance with the provisions on the protection of the environment, SAPARD often supported projects which increased the general

[18] Friends of the Earth Europe/CEE Bankwatch: Billions for Sustainability? Second briefing on the EU pre-accession funds and their environmental and social implications.

[19] Court of Auditors Special Report No 2/2004 concerning pre-accession aid (2004/C295/01), 14.

agriculture production over the projects which improved the quality of the agriculture production incorporating the health or environmental standards[20].

One of the greatest concerns of the civil organisations, though, among the others, is the lack of transparency and subsequently, the presence of corruption. In both candidate countries and the EU, many officials placed little importance on transparency, accountability and public participation in decision-making, thus providing for fertile soil for abuse of the funds.

3. Case Study: The State of Play in the Republic of Macedonia

3.1 Pre-Accession Strategy of the Republic of Macedonia Regarding the Assistance for 2007-2009

In view of its candidate status, the overall objective of pre-accession assistance to the Republic of Macedonia is to support the country's efforts to comply with the accession criteria. These comprise the political and economic criteria as well as the ability of the country to assume the obligations of EU membership based on the assessment of strategic needs and priorities, the pre-accession assistance strategy for the period 2007-2009 is concentrated on four areas of activity[21]:

1. Support Institution Building
2. Improve cross-border cooperation
3. Prepare the beneficiary for participation in the Community's cohesion policy and rural development instruments
4. Prepare for decentralised management of EU funds

In the planning period 2007-2009 the major share of IPA assistance will be oriented towards institution building, which is delivered through Component I. Assistance under this component will focus on:

- improving governance and the observance of the rule of law, in particular through support to the public administration reform, the judicial reform and the reform on police;
- supporting economic development and enhancing social cohesion; in particular by strengthening the business environment, especially as regards the SME sector
- adopting the *acquis* as well as administrative capacity-building for transposing, implementing and enforcing the *acquis* in line with the priorities identified in the European Partnership, Progress Report and National Programme for Adoption of the Acquis

[20] Mate Gjorgjievski and Marija Stambolieva "Comparative experiences in the use of pre-accession funds: How to avoid the mistakes? " in *Successful use of IPARD funds,* Macedonian Center for International Cooperation (Skopje: Macedonian Center for International Cooperation, 2007), 13-14

[21] Multi-annual Indicative Planning Document (2007-2009), Republic of Macedonia, February 2007

Cross-border cooperation, managed through Component II, will, most of all, concentrate on creating closer links between border regions, supporting joint environmental protection activities and improving the potentials for tourism. Furthermore, through participation in the European Regional Development Fund trans-national and interregional programmes, pre-accession assistance is aimed at familiarising future Member States with rules and procedures governing the European Territorial Cooperation objective under Structural Funds.

Through the IPA third, fourth and fifth Components, EU assistance will help to prepare the beneficiary to take full ownership of the Community's cohesion policy and rural development instruments from the day of accession. Therefore, the approach to be followed in the programming of components III and IV must take account of the framework and guidelines for the EU Cohesion Policy for the period 2007-2013 as established in the "Community Strategic Guidelines on Cohesion", where two complementary sets of conditions need to be satisfied. The first is the existence of a suitable endowment of both basic infrastructure and a labour force with appropriate levels of skills and training. The second is that research and innovation should be accorded high priority and that information and communication technologies should be widely accessible. However, the volume of funds available under IPA for Components III and IV is not sufficient to have by itself a significant, direct, macro-economic impact on national development indicators. It is essential therefore to ensure a strong concentration and synergies with other funding, in order to achieve some impact in the areas of intervention. Nevertheless, even with a high degree of focus, the direct impact of the programme will be limited.

For these reasons, according to the MIPD for the Republic of Macedonia, support under Component III will be concentrated exclusively in the transport and environment sectors, whereas support for a regional competitiveness programme will be considered in a subsequent phase. Component IV will support system actions and pilot projects in the areas of employment, education and social inclusion.

Component V is aimed at, step by step, upgrading the agricultural production and processing sector to Community standards, and at improving employment and income opportunities in rural areas, helping the country to get ready for effective implementation of programmes under the European Agricultural Fund for Rural Development (EARDF) upon accession.

As outlined in the Multi-Annual Indicative Financial Framework (MIFF), the allocations for each component for the period 2007-2009 are (in million EUR):

Component	2007	2008	2009	Total
I – Institution Building	41.6	39.9	38.	119.6
II – Cross-border cooperation	4.2	5.3	5.6	15.1
III – Regional Development	7.4	12.3	20.8	40.5
IV – Human Resources Development	3.2	6.0	7.1	16.3
V – Rural Development	2.1	6.7	10.2	19
TOTAL	**58.5**	**70.2**	**81.8**	**210.5**

3.2 What has been done so far?

The Government of the Republic of Macedonia has been strongly committed to the complex process of preparation by undertaking all required activities related to IPA, in order to receive accreditation of the decentralised system of implementation and to conclude the first programming documents for the first programming period (2007-2009).
This has been proved, among other things, by the fact that the Government established a Ministerial Committee for over-viewing and coordinating the entire process of setting up DIS headed by the Minister of Finance. The Government has placed also significance to the so much needed inclusion of the relevant regional partners and stakeholders, by formation of permanent bodies comprising both high-level national and local authorities in order to create the required strategies, thus setting out the initial framework for vertical partnership.

Besides creating the necessary climate of internal cooperation and inter-ministerial share of responsibilities, this period has been used for building excellent channel of communication with the relevant EC services, as main external partner, which is an important milestone in the co-operation between the Commission and the Republic of Macedonia regarding the Road-map to DIS for IPA.

The entire national structure (bodies, entities and functionaries) for all phases of the cycle for implementation of EU funds (programming, implementation, monitoring and evaluation) were officially designated in line with the Implementing IPA Regulation:

- National IPA Coordinator
- Competent Accrediting Officer
- Strategic coordinator for the third and forth component of IPA
- National Authorising Officer
- Head of National Fund
- Head of Operating Structure-Central Financing and Contracting Department (CFCD), responsible for the first four components

- IPARD Paying Agency responsible for financial support of the agriculture and rural development (in charge of implementation of the fifth component)
- Audit Authority

Furthermore, the Republic of Macedonia has successfully completed the assessment stage and started the gap plugging stage. Following the introduction and developing of the structures and procedures for decentralised system for implementation of EU assistance, it is expected that it is continuously upgraded and advanced, in order to be fully accredited and functional in the Republic of Macedonia.

To comply with the requirement of planning the resources well in advance, as of 2005, the system of medium-term strategic planning of budget beneficiaries has been established and applied. The first phase of IPA programming, which is consisted of preparation of the Multi-annual Indicative Planning Document 2007-2009, as a basic for the operative programming, has been finished and MIPD has been adopted. Furthermore, the Strategic Coherence Framework and the Operational Programs for all components have been prepared and submitted to the Commission for adoption.

In this preparation period, huge emphasis has been given to recruitment of personnel, defining the training needs and also performing trainings, courses, study trips etc. to the employees of the National Fund, CFCD, IPARD Agency, as well as to the entire operating structure for IPA. Technical assistance has been also provided for DIS. In addition, there is on-going process of transferring the competences from the European Agency for Reconstruction to the EC Delegation in the Republic of Macedonia. Moreover, the Government started an IPA Information Campaign, aiming to raise awareness of possibilities and mechanisms for utilization of IPA to four target groups: citizens, NGO sector, businesses and municipalities.

Despite all realized activities, pointed out above, there is still much to be done. In that context, it is very important that the Republic of Macedonia, as the other beneficiary countries, should learn from the experiences from the others, few of which elaborated in Section 3.2. This applies to the countries as same as to the European Commission. Even though, it is evident that the use of the IPA funds would be delayed, it does not necessarily have to be taken as a negative indicator. Having in mind the previous experiences and practices, both, the European Commission and the Republic of Macedonia can smartly use the forthcoming period in order to be ready enough once the IPA programme starts running.

Conclusions

One of the main characteristics of the pre-accession assistance under the new instrument IPA is that it follows the rules of the Structural and Cohesion Funds, as well as Agricultural and Rural Development Funds, including their institutional framework (Commitol-

ogy), while in the same time it prepares the basics for national framework that promotes economic and social cohesion and viable agricultural structures. An early assembling of this complex process is of primary importance for proper usage of the funds, thus requiring intensive and sustainable process of learning.

In that process, the beneficiary countries are not alone. There are many tasks and obligations that are shared between the European Commission, the beneficiary countries and the local authorities. The principle of partnership remains the crucial one for developing and increasing the absorption capacity of the states. Linking economic efficiency with subsidiarity and decentralisation, with the involvement of local and regional actors in the design and implementation strategies, should be reinforced.

Therefore, firs and foremost, the countries need to change their intellectual approach toward using the IPA funds. The experiences have shown, that it is equally important the amount of money that will be spent and how it will be spent. Focussing on the former, without creating policies and opportunities, as well as co-ordinated actions for enhancing entrepreneurship, innovative businesses, research and skills of the work force, would not foster development and drive economic growth and employment. However, the latter can not be achieved by the amount of money allocated for the first programming period to the IPA beneficiary countries. Naturally, this period is intended to strengthen the necessary infrastructure in the countries, as well as the administrative capacities. Nevertheless, if aware of the Lisbon Strategy goals, both sides must, as soon as possible, to firmly embark the challenges arising also for the IPA beneficiary countries from the need to advance competitiveness, to boost GDP, to create employment and by that to decrease the regional disparities compared to other EU regions.

Looking at the benefits from the new pre-accession policy and instrument, one can conclude that it is designed in line with the EU Cohesion Policy that goes beyond the sheer size of the investments which it supports. It gives opportunity to citizens to get more involved in the core of the process of European integration. It encourages an integrated approach to development which improves the overall impact of the sectoral policies. It promotes partnership as a key element of good governance.[22]

The Pre-accession policy and the Instrument for Pre-Accession Assistance are based on the fundamental European value-solidarity. It is the solidarity to which European Union owes that it has become stronger, united, more integrated. Due to European solidarity, the countries that are in greatest need of it, may catch up the EU average. The economic and social cohesion is shared responsibility. The European Union and the countries of the Western-Balkans have common obligation to live up to the expectations of their citizens and to write another successful story.

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[22] Danuta Hubner, foreword to *"Growing Regions, growing Europe",* Forth report on economic and social cohesion (European Communities, 2007)

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The implementation of PHARE, ISPA and SAPARD in Bulgaria

Pavlina Nikolova

Introduction

This paper evaluates the implementation of the pre-accession instruments PHARE, ISPA and SAPARD in order to provide some conclusions and recommendations for future applicants and beneficiaries of EU aid. The EU applied two markedly different approaches to financial assistance in the case of Bulgaria and other central and eastern European states (CEECs). In the early years it helped via the PHARE programme general economic and democratic reforms, infrastructure projects, regional development and agricultural restructuring. The breaking point was 2000 when PHARE became accession oriented and two more financial programmes, ISPA and SAPARD, were added as part of the Union's enhanced strategy for preparing CEECs for membership. Yet it has to be noted that only SAPARD fully emulated the funding programmes available to Member States while ISPA and parts of PHARE were a hybrid between financial instruments for Member States and programmes for third countries. The framework for the Instrument for Pre-Accession Assistance (IPA) seems to consolidate the approach adopted by the EU *vis-à-vis* Bulgaria: it does not offer automatically access to funding for membership preparations. Each EU hopeful needs first to climb the reform ladder up to a 'point of no return' to convince the EU that it is truly committed to the Community's values and the adoption of its *acquis*.

This paper argues that PHARE, ISPA and SAPARD were more than a simple mechanism for money transfer from the Community to national budgets. The task of the pre-accession funds (PAFs) was rather to create and/or strengthen national institutions and capacities that will implement and enforce EU policies and manage money provided by the EU after accession. The PAFs were not a precise instrument for institution- and capacity-building; they influenced Bulgaria indirectly, by providing advice and Twinning, institutional models and money (Grabbe, 2001). They also laid the legislative groundwork for EU policies, notably in the sector of agriculture, environment, transport and regional development. The Commission, in its 2003 Regular Report emphasised that in preparing for the EU's structural and Cohesion funds, Bulgaria had to 'draw on experience from implementing the pre-accession instruments in order to determine the appropriate distribution of responsibilities' among domestic bodies (Commission, 2003a: 92). The PAFs not only required the establishment, often from scratch, of national bodies to ensure the sound management of EU funds but also affected the environment in which these and other domestic institutions operated. PHARE, ISPA and SAPARD shaped national institutions and policies to ensure that political and economic achievements of the EU will be safeguarded after enlargement.

This paper proceeds by examining in detail the Bulgarian experience with the pre-ac-

cession instruments PHARE, ISPA and SAPARD. It should also be noted that Bulgaria (together with Romania) operated the PAFs for their full seven-year cycle and fulfilled most EU requirements prior to the date of accession. This was not the case with the ten new Member States. This paper is divided into three sections. Each section firstly presents the relevant pre-accession programme and the implementation arrangements in Bulgaria. Then it assesses critically the strengths and weaknesses of the financial instrument from the point of view of Bulgaria. The difficulties encountered and the benefits received are highlighted so that the Bulgarian experience can be used by current and prospective candidates for membership.

1. PHARE

The PHARE programme was launched in 1989 to assist post-communist economic and social reform in Poland and Hungary, hence the name PHARE (*Pologne et Hongrie Aide de la Reconstruction Economique*), which in French stands for lighthouse. The programme was gradually extended to all ten candidate states from central and eastern Europe as well as Albania, Bosnia-Herzegovina, The Former Yugoslav Republic of Macedonia and Croatia. Since 2001 the latter four are covered by the CARDS programme (Community Assistance for Reconstruction, Development and Stability in the Balkans) while Malta, Cyprus and Turkey benefit from separate pre-accession funding. Bulgaria became eligible for PHARE assistance as early as 1990 and for the period up to 1998 was allocated €754.5 million of PHARE grant aid (see Table 1.1 overleaf). In the period 2000-2003 another €486.57 million were allocated to Bulgaria.

The objectives of the PHARE programme changed over time, as did the needs of Bulgaria. From 1989 to 1997 it was a sort of portmanteau programme helping CEECs meet the objectives of individual Europe Agreements, but also providing money for privatisation and enterprise restructuring, banking and financial services and SMEs. Following the decision of the Copenhagen European Council in 1993 to offer EU membership to CEECs, PHARE was remodelled on the accession criteria and significant part of its budget (around 15 per cent) was diverted to infrastructure investments in energy, transport and telecommunications. At that point PHARE was demand-driven, giving governments of beneficiary countries significant leverage on how EU funds were spent but the small scale of the projects and their poor overall co-ordination significantly reduced the impact. PHARE became truly accession-oriented only in 1997, when the Luxembourg European Council endorsed an enhanced strategy for membership preparations. The 1997 reform of PHARE made funding conditional on progress in implementing the Copenhagen Criteria for membership and the country-specific priorities outlined by the Commission in Accession Partnerships and by candidates in NPAAs. This was accompanied by a significant increase of resources available through PHARE and concentration of PHARE funding on larger and more coherent projects.

Table 1: 1 PHARE-Bulgaria: allocation of funding by sector 1990-1998 (in Meuros)

Sector	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Total 1990-1998
Public institutions and administrative reform	0	0	0	16	1,2	0	2	2,9	10	32,1	4.3%
Agricultural restructuring	16	25	10	0	0	5	0	1	10	67	8.9%
Civil society and democratisation	0	0	0	0	1,2	0	1,5	0	2	4,7	0.6%
Education, training and research	0	5	8	17,5	12	21	10	0	4	77,5	10.3%
Environment and nuclear safety	3,5	26,5	8,3	10,8	9,2	7	6	0	13,3	84,6	11.2%
Financial sector	0	10	0	5	0	0	0	6	3	24	3.2%
Critical aid	5	20	10	0	0	0	10	37	0	82	10.9%
Infrastructure (energy, transport, telecoms)	0	13	3	13,9	33,4	25	30	0	7,6	125,9	16.7%
Approximation of legislation	0	0	0	0	0	2	0	0	0	2	0.3%
Consumer protection	0	0	0	0	0	0	0		0	0	0
Private sector development and enterprise support	0	20	22,5	6	3	0	1	15,3	14,7	82,5	10.9%
Regional development policy and measures	0	0	0	0	0	0	0	0,8	10	10,8	1.4%
Social development and employment	0	2,5	0	4	0	0	0	3	0	9,5	1.3%
Public health	0	0	15	10,5	0	0	0	0	0	25,5	3.4%
Other	0	0	0	1,5	0	0	2	0	3,9	7,4	1.0%
Total National Programme	**24,5**	**122**	**76,8**	**85,2**	**60**	**60**	**62,5**	**66**	**78,5**	**635,5**	**84.2%**
Cross-border co-operation of which	0	0	0	0	25	23	0		51	99	13.1%
-environment and nuclear safety	0	0	0	0	5	0	0	0	0	5	0.7%
-infrastructure	0	0	0	0	20	23	0	0	51	94	12.5%
Large Scale Infrastructure Facility								0	20	20	2.7%
OVERALL TOTAL	**24,5**	**122**	**76,8**	**85,2**	**85**	**83**	**62,5**	**66**	**149,5**	**754,5**	**100.0%**

Source: Adapted from *Uniting Europe*, 8/03/1999: 6

In the case of Bulgaria PHARE performed an additional role – it became the channel for the EU's response to the socio-economic crisis in the mid-1990s. The EU established in 1997 two Emergency Social Assistance Programmes (ESAPs) with a total PHARE budget of €40 million. The bulk of that money (€37 million) was spent on income and per-capita supplements to low-income families and selected social-educational institutions, while the remaining €3 million provided for job creation through public works initiatives. The European Commission also implemented a Structural Adjustment and Reform Assistance programme (SARA) with a budget of €40 million. It was intended to assist Bulgarian authorities in implementing reforms for macro-economic stabilisation and in meeting the IMF, World Bank and EU lending conditionalities (Uniting Europe, 8/3/99: 5-7).

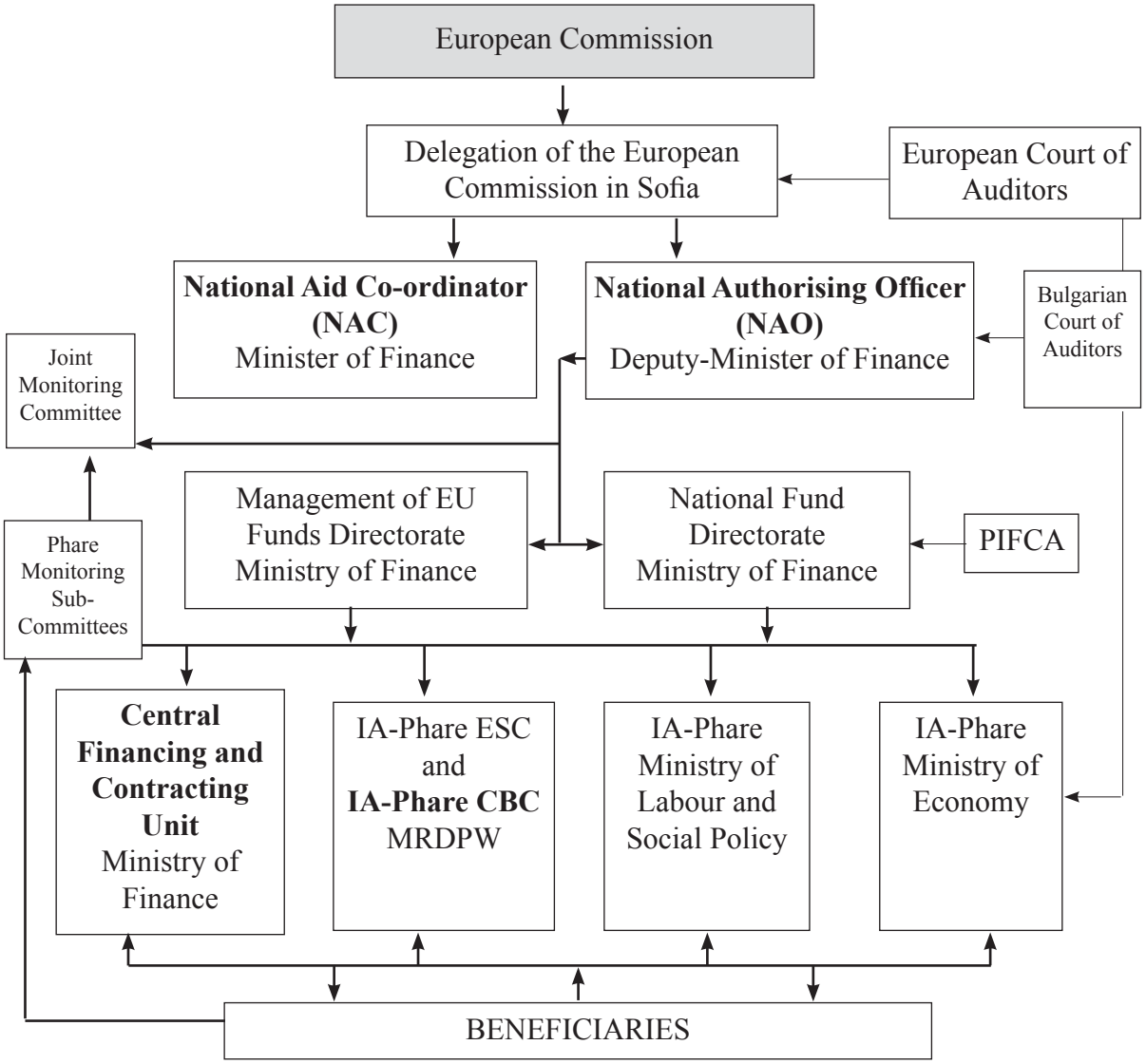
After 1997 PHARE monies were disbursed in the frame of annual National Programmes, drafted by Bulgarian authorities on the basis of Accession Partnership priorities and weaknesses identified in Regular Reports. PHARE national allocations were decided by the Commission on the basis of GDP and population but also taking into account past performance, need, absorption capacity and progress in implementing individual Accession Partnerships. Another strand of PHARE, the Cross-Border Co-operation (CBC) programme, promoted economic and trade co-operation in border areas. Before 2003 PHARE CBC provided annually €28 million to Bulgarian border regions and counterparts in Greece (€20 million) and Romania (€8 million) to help them overcome specific development difficulties. After 2003 PHARE aid was available for the External Border Initiative Programme for infrastructure and economic development ('people to people') projects in the border regions of Bulgaria with Serbia and Montenegro, FYROM and Turkey. PHARE multi-country and horizontal programmes addressed high priority accession issues affecting more than one candidate country – SME Finance Facility, Municipal Finance Facility, as well as joint initiative of the OECD and the EU PHARE programme – SIGMA (Support for Improvement in Governance and Management in Central and Eastern European Countries).

There were two types of systems for managing EU funds –decentralised (DIS) and extended decentralised implementation system (EDIS). Both required the establishment at the national level of structures to which the responsibilities of procurement, award of contract, financial and administrative management of projects could be delegated. The difference between the two systems of management was in the type of responsibilities being decentralised to national agencies. Under the decentralised implementation system (DIS) financial and budgetary management was the responsibility of an independent paying agency - the National Fund. Decisions on tendering and award of contract were taken by national Implementing Agencies after *ex-ante* approval of the Commission's Delegation in Sofia. This system became operational in Bulgaria in 1999 (see Figure 1.1). Under the extended decentralised system (EDIS) it was foreseen the Commission to exercise only *ex-post* control on contracting procedures and to remain ultimately responsible for the general execution of EU funds. This is the system under which Objective 1 measures are financed by the structural funds in Member States. It was therefore important for Bulgaria to switch to EDIS prior to accession in order to allow structures already build for the pre-accession funds to gain practical experience in operating structural funds-like measures (see below).

The structures initially established for managing PHARE in a decentralised manner became key for the management of pre-accession funds after the ISPA and SAPARD programmes were introduced. In 2002 the co-ordinating structures were concentrated in the Ministry of Finance. The National Fund, located within it was the treasury entity through which all Community's pre-accession assistance was channelled into Bulgaria. It ensured the financial management of all programmes, dealt with the request to and the receipt of funds from the Commission, redistributed funds to the beneficiaries and reported to the Commission on financial matters. It also co-ordinated national preparations for EDIS. Last but not least, the National Fund had to ensure that money was available for national co-funding of PHARE projects (the additionality principle). In Bulgaria its head, the National Authorising Officer (NAO), had the rank of Deputy Minister of Finance. His counterweight was the National Aid Coordinator (NAC), who, at the stage of programming,

ensured close links between the general accession process and the use of funds and is in charge of monitoring and evaluation of the pre-accession programmes. In 2002 Bulgaria's National Aid Coordinator became the Minister of Finance, supported by the Directorate Management of EU Funds located within the Ministry.

Figure 1.1 Key institutions for managing PHARE in Bulgaria



IA – Implementation Agency
CBC – Cross-Border Co-operation
ESC – Economic and Social Cohesion
PIFCA – Public Internal Financial Control Agency
MRDPW – Ministry of Regional Development and Public Works

→ Management and implementation

→ Financial control

Source: Adapted from www.minfin.government.bg [Last accessed 20/02/2006]

1.1 PHARE effect

PHARE impacted in three ways on Bulgaria's domestic policies and public administrations. First, there was the programme's express concern with building and strengthening democratic institutions and the rule of law, so that Bulgaria could implement the *acquis* and participate fully in EU policies upon accession. Until 1997 little EU money was devoted to capacity-building aspects of membership preparations and hardly any funds were spent on legislative approximation. After 2000 roughly 30% of PHARE funding was allocated to institution building through transfer of know-how, and another 35% to physical investment in key regulatory institutions. Institution building (IB) will continue for some time after accession under the so-called Transition Facility. Twinning was a key tool of the transfer of know-how. It is a three-party instrument, involving Member States and candidate administrations and the Commission as a co-ordinator. In the period 1998-2000 Bulgaria was involved in 40 twinning projects. It was successful in creating an "administrative market" where candidate states could "shop for" most appropriate administrative practices offered by incumbent EU Member States (Papadimitriou and Phinnemore, 2004). This approach was justified by the cohabitation of diverse national administrative traditions throughout the EU, but there was no consistent approach through which advice was provided. The final outcome of Twinning projects was highly dependent on the professional and national background of individual Pre-Accession Advisers and the willingness of host administrations to co-operate and ensure follow-up (Court of Auditors, 2003).

While working with pre-accession funding, Bulgarian authorities were also expected to design and implement national strategies for human resources development and adopt national laws guaranteeing civil service professionalization and neutrality. Many PHARE IB projects had a wider effect on horizontal/non-*acquis* public administration reform (Commission, 2005: 138). PHARE management required harmonisation of national legislation with Community *acquis* on public procurement, state aid and competition, environment and equal opportunities. In the area of budgetary management, legislation has to be passed to facilitate multi-annual commitment and reallocation of funds between and within programmes. National legislation on regional policy and statistics also needed to be brought in line with EU practices.

Second, the actual management of PHARE funding by Bulgaria yielded significant institutional learning benefits. For aid to flow from the Commission, PHARE administrative and budgetary structures had to be set up and integrated into the national administration. The 2000 PHARE review identified the additional challenge of orienting PHARE national structures into a form suitable for absorbing structural funds upon membership. The PHARE programme as such did not have unique and direct successor after accession. Yet PHARE Economic and Social Cohesion (ESC) strand, accounting for the remaining 35% of PHARE National Programmes, was used to pilot-test the types of activities financed under the structural funds, the European Regional Development Fund (ERDF) and the European Social Fund (ESF) in particular. Implementation of PHARE ESC proj-

ects required progressive introduction of Member State rules and practices, involvement of sub-national and non-state actors and development of adequate programming and administrative capacities for working with structural funds at all levels of the public administration.

An important part of the learning-by doing exercise were preparations for switch from decentralised (DIS) to extended decentralised (EDIS) system of management. The main advantage of DIS was that Commission Delegations and Headquarters provided *ex-ante* expert assessment on projects and tendering documentation. The flip side was a reduced sense of ownership in the national administration and reliance on external expertise to identify technical omissions and shortcomings. Bulgarian officials working with PHARE and ISPA criticised the *ex-ante* system as being too cumbersome and blamed it for implementation delays. The Commission's Delegation in Bulgaria had some 30 PHARE task managers but projects often had to 'queue' for attention. Deadlines for contracting happened to expire because of the n+3 project cycle timeframe where projects had to be contracted within two years of the signing of the Financing Memorandum and fully implemented and disbursed within three years of commitment. For PHARE ESC 2000 investment programme the contracting deadline had to be extended for Bulgaria. National officials expected to operate faster and more efficiently under the *ex-post* system, yet they doubted that national IAs would get accredited for EDIS before the date of EU accession. In 2000 the Commission provided candidate countries with guidelines (Roadmap to EDIS for PHARE and ISPA) against which readiness for extended decentralisation could be checked. But it was only at the end of 2001 that 'the Commission began to apply the necessary pressure on Candidate Countries to set up EDIS before the accession' (Court of Auditors, 2005: §31).

Last, but not least, PHARE implementation provided for a redefinition of relations between the centre and the regional and local administrations. The CBC programme and the ESC strand of PHARE provided an incentive to candidate states to strengthen the competences of their sub-national levels (regions, municipalities) and streamline their territorial organisation. Cross-border projects expected local and regional authorities to provide for the programming, implementation and monitoring of activities. Similarly, beneficiaries of ESC projects were often regional or municipal administrations. Despite the existing opportunities, Bulgarian sub-national representatives were unable to take full advantage of funding and training in the pre-accession period for two reasons- delay in adopting regional policy legislation and lack of resources at sub-national level.

Planning regions (NUTS II) in Bulgaria were established and functions of different levels (local, district, regional) were clarified fairly late in the pre-accession period (1999-2001). Furthermore, the district administrations were given the opportunity to apply for PHARE -ESC funding in 2003, when the Cultural Tourism project was launched. The local level had the opportunity to participate in pre-accession programmes at an earlier stage but had very limited own budgetary resources to co-fund projects. To help local authorities overcome their budgetary weakness, the Commission, in co-operation with the EBRD,

the Council of Europe Development Bank and the EIB launched the Municipal Finance Facility. The EU contribution was funded by the PHARE budget for multi-beneficiary programmes. The objective was to assist the financial sector in candidate countries to expand lending to municipalities for the financing of small infrastructure investments in areas such as water supply, sewerage, roads and public transport. In 2002 the Commission and the EIB launched the Municipal Infrastructure Facility for candidate states with EU border regions. It combined loans from EIB resources with non-reimbursable PHARE grants to increase funding sources available to municipalities via local banks and thus accelerate the completion of small local infrastructure investments mainly in transport and environment. Eligible border regions (NUTS II) in Bulgaria were the South-Central and South-Western regions at the frontier with Greece.

PHARE money was allocated for 'schemes' - nationally or locally selected actions within a single operational programme - rather than for individual projects. This was in keeping with the 'programmatic' approach followed under the structural funds where beneficiary countries choose themselves the appropriate mix of sectoral and regional operational programmes. In early 2000 the Commission favoured the regional approach for PHARE programming but in 2001 shifted its attention to sectoral programmes implemented at the national level (Court of Auditors, 2005: §42). Bulgaria's document for multi-annual programming therefore incorporated five sectoral and only one regional indicative operational programmes. Bulgaria was the first[23] candidate country to be able to introduce the multi-annual programming approach for PHARE in its entirety prior to accession, for the period 2004-2006. Romania followed. The Commission changed its preferences in favour of centralisation of financial programming and management because capacity was stronger in the central executive and it was easier to exercise credible financial control there. The Commission left it largely to the Bulgarian government to find a way to keep the sub-national and non-state actors involved but because of the inherited centralism and because of the intensity of the accession preparations the central authorities did not put enough effort into co-operating with the local and regional levels.

1.2 Evaluation

The general uncertainty surrounding enlargement and specific problems in the programme's design limited the effectiveness of PHARE. While PHARE's contribution to familiarising the candidate states with EU legislation and dialogue with EU institutions was undeniable, newcomers were generally unprepared to "compete" for EU funding with the poorest regions of Member States (Bailey and De Propis, 2004: 91). Candidate states still relied heavily on Commission expertise in key areas such as programming despite progress in decentralising some funding management functions (Commission, 2005: 138). The Twinning exercise attracted the highest degree of criticism and its appropriateness to address underlying structural problems in national administrations was questioned (Court of Auditors, 2003: §14). Frequent modifications in the mode of opera-

[23] Hungary operated a programme covering a two year period from 2002 to 2003 but then reverted to the annual approach.

tion of PHARE, including Twinning, although aiming to improve efficiency and effectiveness, resulted in a complex web of bureaucratic requirements and lengthy procedures. Overall, PHARE's success in building institutions was not always accompanied by improvement of capabilities. This was not surprising since the time-scale and the resources available for PHARE assistance were limited and the objectives it was trying to achieve were comprehensive.

2. ISPA

The Instrument for Structural Policies for Pre-Accession (ISPA) was launched in 2000 with Council Regulation 1267/1999 (the ISPA Regulation) to support candidate states from Central and Eastern Europe in bringing their environmental and transport policies and infrastructures closer to the EU standards. ISPA was a 'hybrid' between programmes for financial assistance to third countries such as PHARE and the funding available to Member States. It was modelled on the Cohesion Fund, which invests in large-scale environment and transport projects in Member States with a GDP under 90% of the EU average (for the 2000-2006 financial perspective these were Greece, Ireland, Portugal and Spain; for the new financial perspective these are all 'cohesion' regions). ISPA's annual budget, as decided by the Berlin European Council, was €1, 040 billion for the ten CEECs for the period up to accession (European Council, 1999). It was split between environment and transport projects. The ISPA allocation per country was given as a range (*fourchette*), rather than a fixed amount of money - for the period 2000-2003 Bulgaria was allocated between €83 and €124 million or 8-12 per cent of the total ISPA annual budget (see Table 2.1). In 2003 the amount committed by Bulgaria was €112,6 million, of which €73,3 million for environment and €39,3 million for transport projects. For the first three years of the ISPA programme (2000-3) Bulgaria committed an average of 72% of its allocation, or 9.33% of the overall ISPA budget (Pencheva, 2003). Upon membership all ongoing projects approved under ISPA will become automatically Cohesion Fund projects. The task of ISPA, therefore, was not only to co-finance investment in environment and transport infrastructure and legislation but also to bridge to the Cohesion fund and build structures and capacities to design, implement and monitor projects.

The environment sector represented a substantial body of community *acquis* - some 140 directives had to be transposed, implemented and enforced by Bulgaria, which also required huge investment in infrastructure and a long period of time for construction. In the frame of the accession negotiations on the environmental *acquis* the EU granted Bulgaria transition periods and abstained from specifying a minimum level of implementation of investment-heavy directives before membership.

Table 2.1: Allocation margin per ISPA beneficiary country

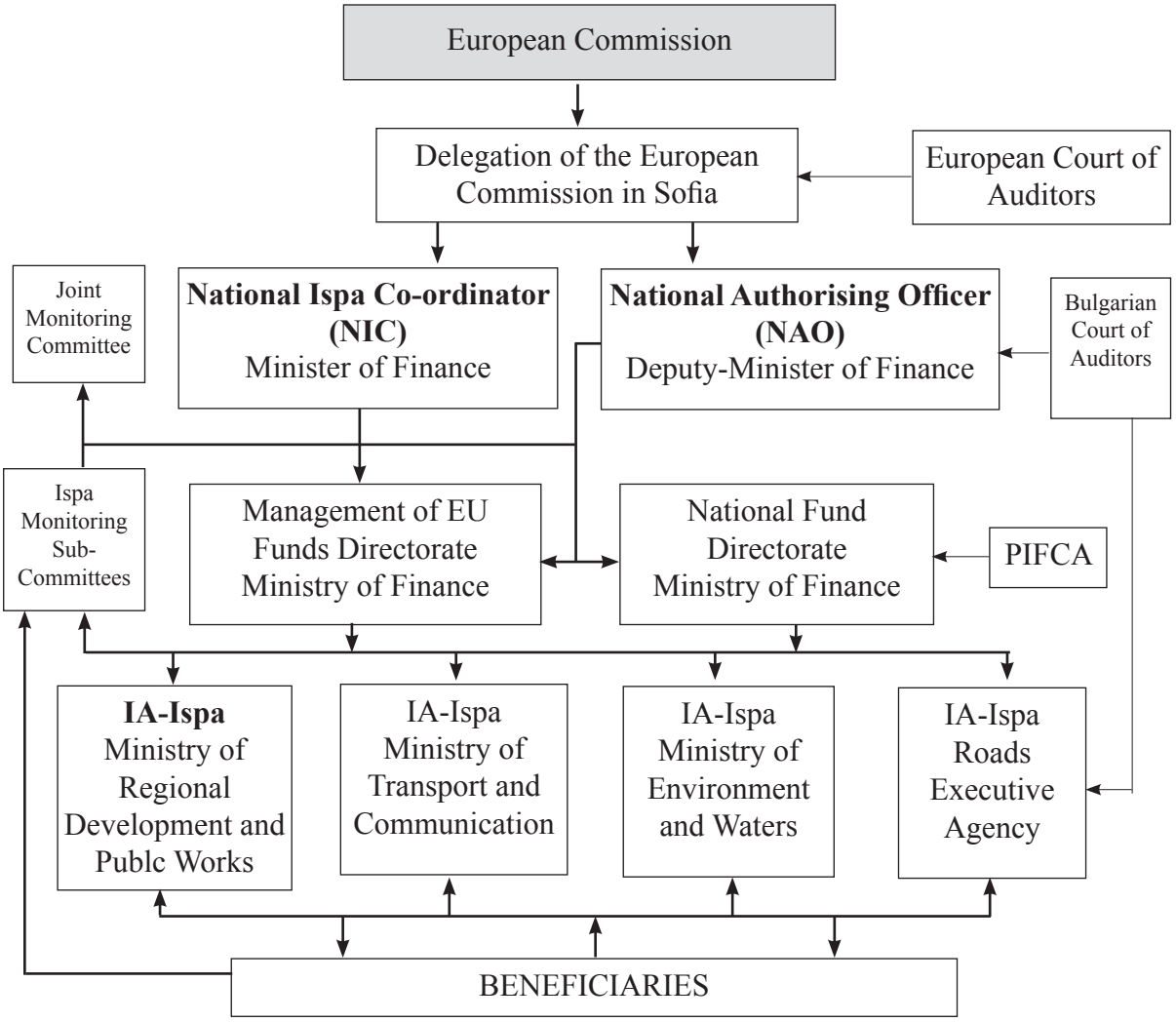
Country	Margin as %	€ low	€ high	€ median
Bulgaria	8.0% - 12%	83 108 600	124 662 900	103 885 800
Czech Republic	5.5% - 8.0%	57 137 200	83 108 600	70 122 900
Estonia	2.0% - 3.5%	20 777 200	36 360 000	28 568 600
Hungary	7.0% - 10.0%	72 720 000	103 885 800	88 302 900
Latvia	3.5% - 5.5%	36 260 000	57 137 200	46 748 600
Lithuania	4.0% - 6.0%	41 554 300	62 331 500	51 942 900
Poland	30.0% - 37.0%	331 657 300	384 377 300	348 017 300
Romania	20.0% - 26.0%	207 771 500	270 103 000	238 937 200
Slovakia	3.5% - 5.5%	36 360 000	57 137 200	46 748 600
Slovenia	1.0% - 2.0%	10 388 600	20 777 200	15 582 900

Source: Commission Decision of 7 March 2000, OJ L72, 21/03/2000

Community legislation on transport policy was also substantial in volume. It represented some 10% of the total EU *acquis* – several hundred regulations, directives and decisions on rail, road, aviation and maritime transport. ISPA provided resources necessary to lay the foundations of the future Trans-European transport corridors, three of which cross Bulgaria's territory, the fourth is the Danube river, forming most of Bulgaria's border with Romania. The main transition periods negotiated in the frame of this chapter related to the provision of market access, safety standards and infrastructure building. But transition periods were not possible with regard to the setting-up of relevant enforcement structures and their ability to operate satisfactory by the time of accession. National agencies had to posses the administrative capacity to design directive-specific implementation plans and financing strategies to be followed during the transition periods and be able to prepare a strong project pipeline for the Cohesion Fund. The ISPA programme did not have as a priority task the building of capacities in the new structures (this was the task of PHARE) but its management provided hands-on experience for national authorities.

Under the ISPA Regulation (1267/1999) the Commission had to oversee the establishment in Bulgaria of management and control systems ensuring proper implementation of ISPA assistance. This was known as Decentralised Implementation System (DIS) where decisions taken by the national contracting authority were referred for endorsement to the Commission's Delegation *ex-ante*. The key institutional actor was the National ISPA Co-ordinator (NIC)- the main 'manager' of ISPA projects in Bulgaria and is the main interlocutor of the Commission for programming, implementation and evaluation issues (see Figure 2.1).

Figure 2.1 Key players in ISPA implementation in Bulgaria



IA – Implementation Agency
PIFCA – Public Internal Financial Control Agency
MF – Ministry of Finance

Management and implementation — Financial control

Source: Adapted from www.minfin.government.bg [Last accessed 20/02/2006]

In 2002 the Bulgarian Minister of Finance took over the role of National ISPA Coordinator from the Minister for Regional Development and Public Works. An ISPA Co-ordination Unit with the Directorate Management of EU Funds was created. A Memorandum of Understanding between the European Commission and Bulgaria extended the competences of the National Fund set for PHARE to financial management of ISPA funds. In the transport sector there were two ISPA Implementation Agencies (IAs), responsible for the tendering, contracting, payment and technical implementation of the projects – ISPA IA with the Ministry of Transport and Communications and the IA Roads Executive Agency under

the authority of the Ministry of Regional Development and Public Works (MRDPW). Two IAs were set up for the environment sector – IA with the Ministry of Environment and Waters (MEW), as well as a joint Agency between MRDPW and the Ministry of Environment and Water (in 2004 the participation of the MEW in the latter was phased out).

Monitoring and evaluation of the progress and effectiveness of the implementation was formally carried out in the frame of the ISPA Monitoring Committee. Chaired by the National ISPA Co-ordinator, it brought together twice yearly Commission representatives, national civil servants, and observers from IFIs, NGOs and various interests. Outside the formal mechanisms, monitoring and evaluation was supplemented by regular meetings in the Commission Delegation offices, monitoring reports by the implementing bodies and site visits by Commission staff. DG Regional Policy carried out regular audit missions into the financial management and control systems of ISPA IAs. The main findings of these missions were sent to Bulgarian authorities with recommendations on the improvements needed. Bulgarian authorities then reported back on the actions taken and a follow-up of the audit was carried out in the frame of the Joint Monitoring Committee.

2.1 Learning-by-doing

The drafting of ISPA strategies for the Environment and Transport sectors represented an important learning-by-doing exercise since similar strategies govern the allocation of money and selection of projects under the Cohesion Fund. In its 2000 ISPA Report the Commission noted that:

> The ISPA strategies are a national responsibility but take EC priorities into account. They are also coherent with the position papers on the environment presented by the beneficiary countries, in the framework of the accession negotiations with the EU (Commission, 2001: 10).

The Strategies addressed priorities identified in the Accession Partnership, the National Strategy for the Adoption of the A*cquis*, the Commission's Regular Reports. National Ispa Strategies had to be updated to incorporate information from the directive-specific implementation plans agreed during accession negotiations, especially where transition periods applied. In the environment sector, Bulgaria's ISPA strategy concentrated on the investment-heavy *acquis*, essentially related to waste water treatment, drinking water, solid waste management and air pollution. It assisted the Bulgarian Government in the implementation of the National Programme for Priority Urban Wastewater Treatment Plants and the National Waste Management Programme. In the transport sector, the EU encourages the development of the future Trans-European transport Networks (TENs), as agreed by Member States (Council Decision 1692/96). Furthermore,

ISPA contributed to increase the awareness that the mere transposition of EU law is not sufficient and that, instead, more profound structural sector changes are required for making policy implementation and enforcement truly effective. As a result, a number of beneficiary countries introduced reforms of the political and/or functional organisation of one or both of the ISPA intervention sectors (Commission, 2004: 14).

ISPA also represented an exercise in applying the principle of additionality whereby EU money is only additional to national and other donor funding. This is one of the key principles of the structural funds. The measures (projects, stages of projects or groups of projects) financed by ISPA were large-scale infrastructure projects with minimum size of investment €5 million, although smaller projects grouped together could also be funded. In accordance with the principle of additionality of Community funding, the EU contribution could not exceed 75 per cent of the project costs, 85 per cent in some exceptional cases. The remaining eligible costs were co-funded by the national budget or loans from IFIs, mainly the EBRD and EIB or through public/private partnerships. It was intended Community funding to have a multiplier effect by attracting IFI financing. In this frame financial engineering – the combination of loans and grants, of public and private money was an important part of the design of ISPA measures and National ISPA Strategies, but Bulgaria's administration lacked the necessary expertise. The design and implementation of large-scale infrastructure projects was a complex undertaking by itself and the need to co-ordinate Commission requirements with IFIs conditions of funding represented a further complication. The Commission had gone some way in agreeing with IFIs the harmonization of application and implementation procedures but Bulgarian officials still considered more had to be done to improve access to loans.

2.2 Evaluation

The ISPA instrument was the most challenging pre-accession programme for Bulgarian national authorities. The main hurdle in operating ISPA was the large scale of the eligible projects, particularly in the transport sector. Only five projects consumed the entirety of the ISPA transport budget for Bulgaria and another fourteen projects were implemented in the environment sector. Personnel in relevant national ministries was over-stretched and could devote little time to training activities for administrative capacity building. National ISPA IAs faced a steep learning curve as they had to familiarise themselves with EU requirements and practices but also to apply them on a very large scale. The *ex-ante* control procedure caused particular delays. In 2001 the gap between ISPA commitments and ISPA payments was high as delays in tendering and contracting hampered the payments of second advances and of requests for reimbursement (Commission, 2004: 20). The Commission Delegation in Sofia was severely understaffed. In 2003 the Commission services in Bulgaria did not employ an ISPA finance officer but 'shared' with the Delegation in Romania a finance officer who travelled to Sofia once a month to give his opinion on all pending documents. Regardless of the efforts of national officials 'everything seems to submerge in the Delegation and re-emerge only after a substantial period of time'.

Overall, ISPA's productiveness with regard to institutional and administrative capacity building in Bulgaria is difficult to depict. Bulgaria set up the necessary structures and procedures for managing ISPA yet underlying problems like weak inter-ministerial co-ordination and high personnel turnover challenged their ability to function according to EU rules. The time available to implement ISPA was too short for any significant change to occur – ISPA projects began in 2001 – but Bulgaria had longer to prepare and was expected to apply EDIS before accession. Insufficient management capacity in the Delegation of the Commission debilitated the effectiveness of ISPA.

3. SAPARD

The Special Accession Programme for Agriculture and Rural Development (SAPARD) was one of the innovative instruments of the enhanced pre-accession strategy for CEECs, proposed by the Commission in Agenda 2000 and decided by the European Council in Luxembourg in 1997. SAPARD aimed to assist candidate countries in the implementation of the *acquis communautaire* concerning the Common Agricultural Policy and rural development, and to solve priority and specific problems for the sustainable adaptation of the agricultural sector and rural areas in CEE. The Commission emphasised the 'unique' basis of the SAPARD instrument (Commission, 2003b: 4) because it was the only Community external aid programme to permit Bulgarian authorities to assume entire responsibility for the management of EU funds. For PHARE and ISPA the Commission retained *ex-ante* control of some key points (see above). The Berlin European Council set the annual SAPARD envelope to €529 million for all candidate states for the period 2000-2006 (European Council, 1999). The annual allocations by country were decided by the Commission on the basis of the structural funds criteria for Member States. For Bulgaria the maximum annual amount was set at €52,124 million in 1999 prices. For the period 2000-6 the National Programme for Rural Development foresaw the investment of just over €844 million of which €380 million Sapard money (2002 prices).

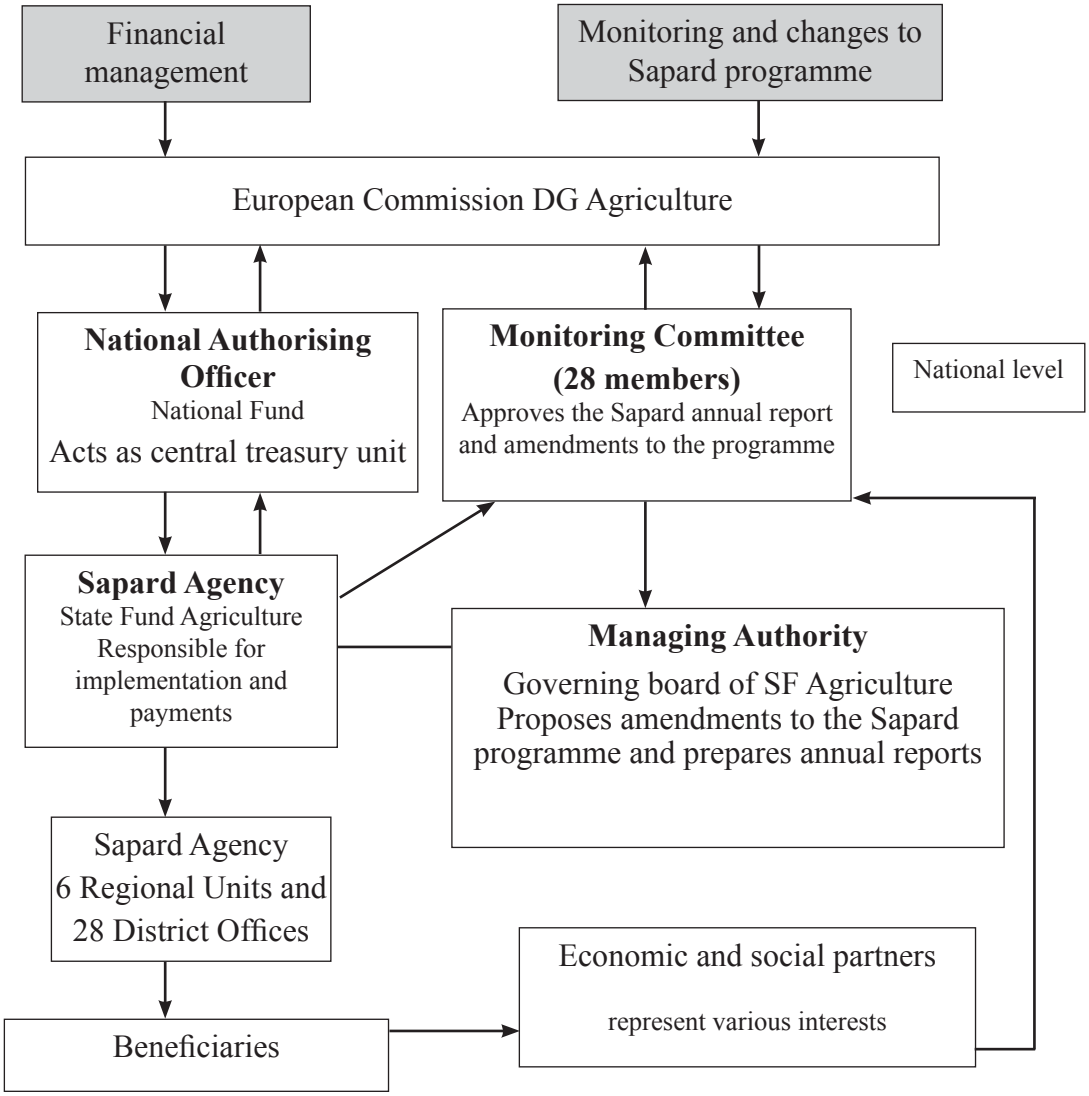
An essential part of SAPARD was the establishment of good institutional and administrative capacity for implementing rural development policy and managing structural funds after accession. The PHARE programme provided assistance for setting up structures for implementing the *acquis*, including national structures for managing SAPARD. Yet the main tool for building institutions and administrative capacities for dealing with EU agricultural funding was the SAPARD programme itself through the procedure of conferral of management and measure accreditation. The 2002 SAPARD Annual Report by the Commission noted that

The SAPARD instrument involves Community budget resources but it is required to do much more than to act as a vehicle to transfer such resources to the candidate countries. Any assessment of the instrument on the basis of disbursement of such resources without taking into account other factors, including administrative capacity building effect, risk giving a distorted image particularly at this stage (Commission, 2002: 3).

The SAPARD Regulation (1268/99), as adopted by the Council in 1999, did not require explicitly the fully decentralised management of the Programme. It was the Commission that opted for it for two main reasons – the lack of technical and human resources in the Commission to administer the expected large number of small projects, and the need to provide SAPARD countries with hands-on experience in managing agricultural and rural spending after accession. The Commission made it clear to Bulgaria that projects could not be funded before the national administration had reached EU financial management and control standards and before a national programme for agricultural and rural development was drafted in accordance with the principles of the structural funds (Agriculture

Commissioner Franz Fischler cited in *Uniting Europe*, 31/1/2000). The Commission's 2001 Report on Sapard recalled that 'it was the events not the calendar that would determine when SAPARD would begin to operate' (Commission, 2002: 4). In 2000 no country met the minimum requirements for decentralised implementation and SAPARD was not applied. By the end of 2001 five decisions for conferral of management were taken by the Commission, the front-runner being Bulgaria, followed closely by Estonia. By mid-2002 the last two SAPARD countries, Poland and Romania, accounting for 61% of the total appropriations, began to operate the Programme, although claims for reimbursement of eligible expenditure were not made until 2003. The SAPARD instrument was designed to bridge upon accession to the European Agricultural Guidance and Guarantee Fund (EAGGF) and, for some measures, to the European Social Fund (ESF). In that sense SAPARD offered Bulgaria's public administration an opportunity for hands-on experience in managing funds for Member States.

Figure 3.1 Management of SAPARD in Bulgaria



Source: Adapted from www.minfin.government.bg [Last accessed 20/02/2006]

The SAPARD management and control systems emulated those applied for Member States under the EAGGF Guarantee Fund (see Figure 3.1). Bulgaria had to establish a SAPARD Agency with two components - an implementing agency and a pure payment body. The former was responsible for project selection, tendering and contracting, execution of on-the-spot checks, monitoring and management of the projects. The paying body was responsible for check of payment claims, authorisation and execution of payment and accounting. The SAPARD structures had to be accredited by the Commission on a measure-by-measure basis (see below) and a Decision for conferral had to be issued before SAPARD implementation was given a formal go ahead.

On 14 May 2001 a decision for conferral of aid management was adopted for three measures of the National Agriculture and Rural Development Plan (NARDP) – investments in agricultural holdings, improving the procession and marketing of agricultural and fishery products, and development and diversification of economic activities (see Table 3.1, point 1.1, 1.2 and 2.1). The formal go ahead of the SAPARD programme was given on 1 June 2001. Thus Bulgaria became the first candidate country to operate SAPARD in a decentralised manner for three measures which accounted for 63.2 per cent of the national SAPARD envelope. These were 'private measures' where only 50 per cent of the total project costs were reimbursed and the ratio of Community/national contribution to reimbursable costs was 75/25 per cent. Priority was given to private measures because of the urgent need for modernisation of the agricultural sector to increase its competitiveness and adapt it to Community requirements. For 'public measures' costs were reimbursed at 100 per cent of which 75 per cent Community money and 25 per cent national funds. Mainly municipalities from rural areas were eligible for funding under the public measures. They applied for funding for improvement of infrastructure such as local roads and sewerage systems.

Table 3.1: Sapard measures in Bulgaria

	Measure	**% of total Sapard budget**
1	**Priority area 1 – Improving the conditions of production, processing and marketing of agricultural products, processing and marketing of fishery products, in accordance with the EU; promoting environmentally friendly agriculture and activities related to the protection of environment**	
1.1	Investment in agricultural holdings	31.4
1.2	Improvement of processing and marketing of agricultural and fishery products and construction of wholesale markets	24.0
1.3	Development of environmentally friendly agricultural products (agri-environment)	2.5
1.4	Forestry, including afforestation and investments in improvement of the processing and marketing of forestry products	8.4
1.5	Setting up producers groups	1.0
1.6	Water resources management	5.6

2	**Priority area 2 – Integrated development of rural areas, aiming at preservation and strengthening of their economy and community**	
2.1	Development and diversification of economic activities providing for multiple activities and alternative income	7.8
2.2	Renovation and development of villages, protection and preservation of rural heritage and cultural traditions	8.1
2.3	Development and improvement of rural infrastructure	5.9
3	Priority area 3 – Investment in human resources	
3.1	Improvement of vocational training	4.7
4	Priority area 4 – Technical assistance	
4.1	Technical assistance (Sapard programme)	0.7
4.2	Technical assistance (European Commission)	N/A

Source: NARDP 2000-6; Commission 2003

The SAPARD Agency could loose its accreditation if the Commission had decided that the criteria for accountability and appropriate use of Community funds were no longer fulfilled. To protect Community interests, the Commission operated *ex-post* control of payments through the so called 'clearance of accounts procedure', existing for Member States under the EAGGF Guarantee provisions. This was a procedure where the Commission decided whether expenditure made by SAPARD/CAP paying agencies had to be definitely charged on the EU budget. Monitoring by the Commission was based on analysis of annual implementation reports provided by Bulgaria and on meetings of the SAPARD Monitoring Committee. The SAPARD Monitoring Committee (MC), established in compliance with Article 35 of the Structural Funds Regulation for Member States, provided a framework for involvement of all relevant partners in the management, monitoring and implementation of the programme.

Evaluation

In its report on SAPARD management the European Court of Auditors assessed as positive the combined institution-building effect of PHARE and SAPARD since structures and working procedures were established from scratch and were found to be operational and generally effective (Court of Auditors, 2004). The PHARE programme paid for and managed the institution-building while SAPARD provided a learning-by-doing exercise for Bulgaria. There were, however, a number of factors that prevented a stronger catalytic role for SAPARD. Some of them were rooted in the general design of the SAPARD programme and the way it was managed by the Commission, while others stemmed from the specifics of the national environment in which SAPARD operated.

Table 3.2: Absorption of SAPARD Funding in Bulgaria (2000-2003)

Measure	Approved projects as at 12/01/2004			Completed projects as at 12/01/2004			% of funds absorbed for period		
	Number of projects	Invest-ments total Meuro	Public funds[1] Meuro	Number of proj-ects	Invest-ments total Meuro	Public funds[1] Meuro	2000 and 2001	2000, 2001, 2002	2000, 2001, 2002, 2003
1.1 Invest-ment in agricultural holdings	594	130,389	62,81	313	56,659	28,329	100%	100%	78%
1.2 Impro-vement of processing and marketing	196	212,378	103,571	58	40,009	20,004	100%	100%	100%
2.1 Develop-ment and diversification of economic activities	189	35,420	16,358	23	1,812	0,906	100%	86%	69%
TOTAL	**979**	**378,185**	**182,741**	**394**	**98,481**	**49,230**	**100%**	**87%**	**65%**

[1] Public funds include SAPARD money and national co-funding

Source: Reproduced from (Banchev, 2004: 70) (translation mine)

The decentralised management system chosen by the Commission required national structures and procedures to be accredited before SAPARD projects could be co-financed. Some countries took longer in setting-up the SAPARD structures - management of funds was conferred to Poland and Romania as late as 2002 – and budgets were systematically under-utilised. Initially absorption of SAPARD funds was lower than foreseen by Bulgarian authorities. Many project files were turned down because they were incomplete or had technical omissions. The time available to applicants for corrections before resubmission was also insufficient. A major difficulty represented the fact that small farms and enterprises did not have own financial resources to co-fund projects and had difficulties in obtaining credit. SAPARD required beneficiaries to pre-finance the expenditure for a period of several months before reimbursable costs were repaid. The decentralised approach of SAPARD allowed the Monitoring Committee to address at an early stage some of the difficulties encountered by the small business. A 10-day period was introduced during which applicants could rectify omissions in application files and resume the application procedure, instead of having to re-apply. The rate of successful project applications increased as procedures became more familiar and applicants gained more experience. In September 2003 another six measured got accredited by the Commission but until late February 2004 only two projects were approved under them (Banchev, 2004: 71).

The agri-environment measure was given lowest priority by Bulgarian authorities and was accredited last. The Commission itself did not consider it to be of primary impor-

tance for restructuring the agricultural sector and preparation for accession. Due to its complexity only two of the SAPARD countries that acceded in 2004 obtained conferral of management prior to membership (the Czech Republic and Slovakia). The Court of Auditors, however, considered the delay in applying the agri-environment measure as a major weakness in the institution-building and learning-by-doing exercise that SAPARD was supposed to provide for candidate states. This rural development measure was the only compulsory measure for Member States and the largest one, accounting for 41% of the funds available under EAGGF Guarantee. Furthermore, the reform of the CAP placed increased importance on agricultural environment (Court of Auditors, 2004: §55).

The SAPARD Agency opened regional offices in each of the six planning regions for structural funds interventions. Their task was to accelerate the processing of application forms, encourage the small business to apply and check progress in implementation on the ground. Often regional representatives assisted the local business in drafting projects or facilitated beneficiaries in getting subsidy reimbursement after project completion. Although the launch of regional offices significantly improved access to information on EU funding, their staff was less familiar with application criteria than staff at the centre. A project could happen to get approved by one regional office but rejected by another and application papers might get endorsed at the regional level but considered incomplete by the central. In practice the regional offices did not lead to speeding up of funding applications and in 2004 a re-centralisation of some functions was underway although the offices remained in place.

At the domestic level, SAPARD systems existed on paper and were generally working in practice but SAPARD impact was undermined by other, weaker national systems and procedures directly related to the programme's implementation. SAPARD d systems were audited by the Commission before management was conferred but the same was not true for structures, procedures and legislation providing input in the SAPARD systems. The Bulgarian administration applied in some cases stricter rules than the SAPARD programme required and this created supplementary administrative burden for applicants. In many cases supporting documents and certificates were issued according to dubious criteria and on-the-spot checks were not carried out by national SAPARD authorities. As for recruitment procedures for SAPARD bodies, these were not always transparent and civil servants remain vulnerable to changes at the political level. The involvement of NGOs and local and regional authorities was mainly in the SAPARD publicity campaign and quite limited with regard to the actual implementation of SAPARD measures.

Conclusions and Recommendations

This paper examined the implementation of PHARE, ISPA and SAPARD in Bulgaria. The scope of their action went far beyond the simple transfer of funds, although money was by itself a powerful incentive for governance change at the national and the sub-national level. They provided institutional and legislative models for the state administration, as

well as benchmarks, advice and training. The monitoring undertaken by the Commission, by means of annual reports on PAFs implementation and audit missions also contributed to institution and capacity building.

The management capacities of the Commission and the national administrations together with the tight time-scale for preparing implementation of PAFs undermined their role. The Commission played a key role because it operationalised the Council regulations on PAFs and monitored implementation. It opted for transferring the management and control functions to Delegations in individual countries to allow Headquarters to focus on policy issues. But the human resources and capacities in the Delegations were insufficient to handle the increasing number of pre-accession projects. This caused significant delays in project implementation. Implementation Agencies with Bulgarian ministries were the Commission's main counterpart in the implementation of PAFs. They faced a steep learning curve trying to draft strategic documents, design, manage and monitor projects. Experience was often accumulated by trial and error, by shifts of functions between ministries and between central and regional offices. This created instability of structures, and, combined with high staff turnover, represented a major obstacle to building administrative capacity in Bulgaria's public administration. Furthermore, structures established for managing pre-accession assistance depended on existing structures and procedures that were not covered by pre-accession funding and monitoring. Thus the success of the newly established institutions was undermined by the delayed start of the overall public administration reform in Bulgaria.

Sub-national authorities were mainly involved in the publicity campaigns and monitoring of projects. They began to manage projects only in late 2003 and did not benefit significantly from learning-by-doing. The Commission introduced a number of PHARE programmes for building capacity for structural funds at the sub-national levels. The PHARE CBC initiative also contributed to exchange of know-how with neighbouring countries. But the effect of such capacity building initiatives was diluted because of delays in the adoption of regional development legislation and limited financial capabilities of sub-national authorities to co-fund and prepare projects. With regard to non-state actors, there were some, but very limited opportunities for training while almost no PHARE money was provided for increasing the capacity of the private sector to draft projects and manage EU funds.

In conclusion, PHARE, ISPA and SAPARD were a powerful mechanism for encouraging the establishment of specific structures for managing assistance. The Commission requirements were clear and their fulfilment was a precondition for receiving EU funding – the PAFs thus operated on a sort of take-it-or-leave-it basis. Their implementation also required the 'filling-in' of the new institutions with appropriate staff and relevant practices but the EU tools for achieving compliance here were much weaker probably because administrative capacity is more difficult to measure than the number of structures in place.

On the basis of the Bulgarian experience some recommendations can be formulated:

1. more ownership is needed by national authorities so that they are fully committed to the objectives and undertake wholeheartedly the necessary reforms and actions;
2. mutual trust has to be build between the Commission and the national administrations – if the latter believe that the Commission is unwilling to trust them with any important tasks regardless of their capacities this may enhance their dependence on external expertise and the feeling of release from responsibility for choices (this is especially relevant to the possibility to switch to fully decentralised management);
3. inclusion at an earlier stage of sub-national authorities so that they can also accumulate expertise and provision of a stable legal framework for their participation;
4. cutting red tape for smaller scale projects so that small organisations with limited human resources can also benefit from funding (especially NGOs and local authorities);
5. appropriate staffing of Commission Delegations in applicant countries so that the clumsiness of the prior approval system does not impinge on the efforts of national administrations to absorb their share of EU money;
6. more dialogue with the civil society to encourage change in underlying societal understandings and practices as a precondition of good implementation and proper functioning of the structures being established.

Finally, what should be remembered is that the Commission operates within the boundaries set by Member States. It is therefore constrained by the agreed financial envelope for the EU and by the political will of individual Member States to commit to enlargement.

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