

## Challenges in EU Funds Management for the pre accession countries of the Western Balkans

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### Abstract

This paper provides an overview of the programming, administrative and financial management requirements of the European Union's Instrument for Pre-Accession (IPA) – and compares them with those of EU cohesion policy. In so doing, it evaluates IPA's potential to contribute to the accession process in Chapter 22 – regional policy and the co-ordination of structural instruments – as well as some other related negotiation chapters. The result of that critical assessment indicates that IPA is perhaps better placed to assist IPA countries in their efforts to prepare for accession in this area than the PHARE programme – the comparable financial support instrument for Central and Eastern Europe between 1990 and 2007 – was. At the same time, IPA's potential is still largely untapped. More could, and should be done by both the EU and the IPA countries to make more of the EU's financial assistance as a catalyst to develop national development policies. If that were to happen, despite its limited budget, IPA could make a meaningful contribution to economic development and social cohesion in all potential candidate and candidate countries, and enhance stability and co-operation across the entire region.

**Keywords:** European Union, financial support, IPA, Central and Eastern Europe

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## I. Background

The candidate (and potential) candidate countries of the Western Balkans – Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro and Serbia – are currently benefitting from the EU’s Instrument for Pre-Accession Assistance. (Turkey is also an IPA beneficiary, despite the fact that its perspectives for accession are nowadays more in doubt than ever before.)

IPA’s general objective is to assist its beneficiary countries in “*adopting and implementing the political, institutional, legal, administrative, social and economic reforms required [...] in order to comply with the Union's values and to progressively align to the Union's rules, standards, policies and practices, with a view to Union membership.*”<sup>2</sup>

In more specific terms, IPA has a double mission<sup>3</sup>, namely to provide support:

- for political reforms,
- for economic, social and territorial development, with a view to smart, sustainable and inclusive growth

Under both these missions, IPA is often considered as a pre-cursor to the EU’s cohesion policy – i.e. the support systems of the structural and cohesion funds. Managing IPA in itself carries a number of challenges for the Western Balkan states. In addition, for the period 2014-2020 the Instrument has undergone a series of important methodological changes, which require beneficiary countries to adjust their policies and institutions. Overall, the instrument has become more complex, but it also offers a number of new options to the pre-accession countries to improve the efficiency and effectiveness of both their EU integration policies and their socio-economic development programmes. However, at this stage, not all of these opportunities are being properly recognised, let alone exploited – neither by the candidate countries, nor the EU. This paper provides an overview of the reasons, and hopes to offer some possible solutions.

## II. The management framework of IPA

The Instrument for Pre-accession Assistance should, ideally, be implemented under decentralised management. This means, that the beneficiary country is implementing the programme on its own, through its national administration. In particular, it implements

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<sup>2</sup> Regulation No 231/2014 of the European Parliament and of the Council of 11 March 2014, Establishing an Instrument for Pre-Accession [IPA Regulation] – Article 1

<sup>3</sup> Ibid, Article 2

procurement operations, as well as payments autonomously – with the European Commission exercising *ex-post* controls. For this to happen, the EU has to formally confer management powers on the beneficiary government, following a thorough examination of its designated management and control systems. Such decisions are generally taken on a case-by-case basis, i.e. for a particular policy sector, or management body at a time. In order to qualify, the beneficiary country has to demonstrate largely the same sort of capacities for a transparent and regular management of EU taxpayers money, as a member state would.

In reality, instead of being the mainstream, decentralised management with *ex-post* controls is an exception rather than the rule. There is only a few countries, and within those countries, only a handful of sectors where it is being applied. Instead, in beneficiary states with a more developed management capacity, the EU generally opts for decentralisation with *ex-ante* controls. This means that while financial management tasks are carried out by the beneficiary governments, procurement, contracting and financial management operations are subject to controls by the EU Commission's local delegations before they are carried out, i.e. before they become legally binding. This modality is largely the same as the one applied for the PHARE<sup>4</sup> and ISPA<sup>5</sup> pre-accession programmes between 1990 and 2004, in the “new member states” countries of Central and Eastern Europe. On paper, the same as in PHARE, decentralisation with *ex-ante* controls should be the “antechamber” of full decentralisation. It remains to be seen, whether the latter – i.e. *ex-post* controls – can indeed become the mainstream on the Western Balkans. In Central and Eastern Europe this transition never happened – despite the several millions of Euros that each PHARE country had invested into capacity building.

IPA countries with smaller and/or less developed administrations may benefit from IPA projects under centralised administration, which means that financial management is carried out directly by the European Commission.

The above three management modalities, i.e.

- Centralised management
- Decentralised management with *ex-ante* controls
- Decentralised management with *ex-post* controls

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<sup>4</sup> Poland-Hungary Assistance for the Reconstruction of the Economy

<sup>5</sup> Instrument Structural de Pr adh sion – the precursor of the Cohesion Fund in the candidate countries of Central and Eastern Europe, 2000-2007

existed – on paper or in reality – also under the PHARE programme, preceding the EU's Eastern enlargement in 2004/2007. IPA 2, however, is offering, from 2014 onwards, another modality imported from assistance programmes aimed at the EU's neighbourhood instrument, and other assistance programmes to third countries. This new instrument is called sector budget support (SBS). SBS is connected to the so-called sector approach of IPA.

Sector-based programming has been on the agenda of IPA since the second half of the previous programming period, i.e. IPA 2007-2013. The aim of this new approach was to increase the effectiveness of IPA support by trying to support more comprehensive reforms having a discernible impact on an entire policy sector, rather than a collection of stand-alone projects. The EU has made efforts in all candidate and potential candidate countries to introduce such a sector approach since 2010-2011. This included the introduction of new types of programming documents in addition to the traditional project "fiches" well-known from the PHARE programme. The new types of sector-level programming documents were designed to structure the programming process further, and force beneficiary administrations to explore in more detail the sector policy background of the planned IPA intervention. These efforts came in parallel to general public administration reform projects, supported, inter alia

Instrument Structural de Pr adh sion – the precursor of the Cohesion Fund in the candidate countries of Central and Eastern Europe, 2000-2007 by the OECD. Such PAR projects often included components aimed to strengthen the strategic basis of policy making overall, encouraging pre-accession countries to develop multi-annual policy and strategy documents, which were also to serve as the basis for annual budget planning, and the use of public funds.

In the period 2014-2020 the EU went one step further. On the one hand, the multi-annual planning horizon of IPA was raised from three to seven years, and medium-term indicative planning documents (MIPDs) were substituted by Indicative Strategic Plans (ISP) for all IPA countries. In these ISPs the EU outlined support strategies for the entire planning period – just as it would under cohesion policy, with the Common Strategic Framework.<sup>6</sup> On the other, it made possible that – under the "new" sector budget support modality – IPA directly support beneficiary-owned sector strategies. Under SBS, traditional planning documents at sector or project level would be replaced by a more general sector reform contract at policy level. Sector reform contracts would concentrate not on the detailed description of individual

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<sup>6</sup> Regulation of the European Parliament and of the Council 1303 of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (Common Provisions Regulation, CPR) – Article 10; and Annex 1

projects, or even project components and procurement operations – as required under PHARE, or IPA 2007-2013 – but on the definition of “trigger points” for assistance. Trigger points are pre-defined policy objectives that – once their attainment has been verified by the EU – allow the disbursement of a tranche of the EU assistance committed to the country, and the sector. The actual use of those funds is then at the discretion of the beneficiary country.

Indeed, traditional financial management, even the responsibility for the financial control of aid operations is, under sector budget support, entirely transferred to the beneficiary. IPA countries are thus allowed to use their national institutions, as well as their national legislation for procurement, accounting, auditing, etc.<sup>7</sup> The Central Finance and Contracts Units (CFCUs), the main project management bodies generally used by IPA countries for the contracting and disbursement of IPA aid need not be involved. Once transmitted, IPA funds become the inseparable part of the beneficiary countries’ budget revenues. Audits are, as a rule, carried out by the national audit institutions – not by the Commission, or the EU Court of Auditors.

True, sector budget support comes with conditions attached. Before making use of SBS, each IPA country, in each sector to be supported under that modality, has to demonstrate that it complies with a number of pre-conditions. These include:

- The existence of a national sector policy and strategy of appropriate quality;
- A well-defined and functioning co-ordination framework for the institutions participating in the sector;
- Functioning coordination mechanisms between the government institutions themselves, with donors and with non-government actors in the sector;
- The ability to define and guarantee the financial means supporting sector policy in over a medium-term budget perspective (i.e. beyond the traditional annual budget planning);
- A performance assessment framework, i.e. the ability to measure and monitor the implementation of the sector policy and strategy based on objective criteria;
- The existence of a public finance management reform process, leading to the establishment of principles such as managerial accountability, and a transparent management of public funds; and, last but not least,

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<sup>7</sup> DG Enlargement Sector Budget Support Guidelines, January 2014 – Chapter 4.8, p. 38

- The overall stability of the macro-economic policy framework in the country.

In general terms, it is fair to say that the above sector approach criteria<sup>8</sup> seek to verify the existence of a transparent as well as reliable policy and financial management framework in the IPA countries comparable to those in a member state. However, they do so without invoking the huge administrative burden of implementing or directly controlling, through the EU Commission, every single financial operation in every single IPA project. If applied across the board, SBS could make the huge investments into maintaining dedicated IPA management bodies – such as Central Finance and Contracts Units - unnecessary. Even the use of EU procurement rules designed for external assistance programmes<sup>9</sup> - which in itself further increases the administrative burden and reduces the ability of IPA countries to use EU funds – could be omitted.

Is then SBS the miracle cure to all the woes of pre-accession assistance? Yes and no. The answer is, unfortunately, complicated – and can be given only in view of the accession requirements related to EU cohesion policy, i.e. Chapter 22 of the accession negotiations.

### **III. Accession requirements related to eu cohesion policy**

The accession criteria related to Chapter 22 of the negotiations – Regional policy and the co-ordination of structural instruments – have been largely unchanged since the Eastern enlargement of 2004-2007. In general terms, they relate to

- Legal framework – i.e. the formulation of national development policy frameworks, territorial administration and statistics, public procurement, state aid as well as budget planning and management;
- Administrative Capacity – i.e. the existence of management bodies required by the EU regulations, and the availability of qualified staff.
- Programming – i.e. the ability of the prospective member state to devise multi-annual development programmes and guarantee their budgets over the entire programming period;
- Financial management and control – i.e. the ability to comply with the strict requirement of responsible, regular, transparent and verifiable management of EU taxpayers money in the framework of the mainstream public financial management system;

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<sup>8</sup> A Quick Guide to IPA Programming – European Commission, DG Enlargement 2014, p. 37

<sup>9</sup> Practical Guide to Contract Procedures for EU External Actions (PRAG) -

[http://ec.europa.eu/europeaid/funding/about-funding-and-procedures/procedures-and-practical-guide-prag\\_en](http://ec.europa.eu/europeaid/funding/about-funding-and-procedures/procedures-and-practical-guide-prag_en)

- Monitoring and evaluation – i.e. the definition and continuous tracking of objective criteria measuring the achievement of programme goals and the evaluation of the socio-economic impact of interventions co-financed by the EU
- Statistics – i.e. the availability of reliable information as regards the main indicators needed for the tracking of programmes' progress and impact.

In addition, from 2014 onwards, the EU has introduced a series of *ex-ante* conditionalities for member states, which should be fulfilled before the start – or at least soon after the start – of claiming the EU's financial support under cohesion policy. There are both conditionalities of a policy and of an institutional nature.<sup>10</sup> They do not, however, fundamentally change accession requirements from a financial management perspective.

The challenge of complying with the above criteria is well known to all EU member states, as well as the IPA countries. On the one hand, candidates for accession, as an “opening benchmark” for negotiations under Chapter 22, are expected to lay out detailed plans for the legal harmonisation and institution building processes that should ensure that, by the date of accession, they can indeed design and implement cohesion policy programmes in a regular, transparent as well as effective and efficient manner.<sup>11</sup> The implementation of these “Chapter 22 Master Plans” will cost millions of Euros – just as it has in all “new member” states before 2004/2007. IPA will have to co-finance a series of dedicated institution building programmes, covering simultaneously the development of policies, methodologies, institutions as well as human resources in all candidate countries.

Maintaining these systems upon accession will cost even more. It is not by accident that cohesion policy programmes generally allow spending 4% of all programme credits on “technical assistance”, i.e., among others on financing the management and control systems responsible for the implementation of partnership agreements and operational programmes.<sup>12</sup> In Central and Eastern European countries, technical assistance funds may amount into dozens of millions of Euros. The staff needed to implement cohesion policy programmes often runs into the thousands. And all this does not yet cover the costs and human resources that project beneficiaries need to invest into the preparation, implementation and reporting of their projects co-financed by EU regional policy

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<sup>10</sup> See Annex XI of Regulation 1303/2013 (CPR)

<sup>11</sup> See for instance the „Action Plan for Meeting EU Cohesion Policy Requirements, Chapter 22 – Regional policy and the co-ordination of structural instruments” – Ministry of Foreign Affairs and EU Integration, Montenegro, August 2015. A similar plan is being devised at the time of preparing this paper in Serbia

<sup>12</sup> Regulation 1303/2013 (CPR) – Title VI, Articles 58-59

Unsurprisingly, the financial management of EU regional policy has been traditionally regarded as complicated and bureaucratic by many stakeholders, as well as the general public. The fact that all that administration is apparently unable to avoid the investment of substantial public funds into sometimes spectacularly wasteful, even useless projects<sup>13</sup>, or to prevent corruption, has led to repeated scandals in many member states. Ultimately, these problems have given rise to political demands to substantially curtail cohesion policy.

No wonder that simplification, the proportionality of administration requirements, or reducing the administrative burden on beneficiaries have been recurring topics during the periodical reforms of cohesion policy.<sup>14</sup> The inclusion of specific plans to reduce red tape are a compulsory requirement in all Partnership Agreements – the seven year strategic contracts between the EU and the member states regulating the use of cohesion policy credits.<sup>15</sup> Whether or not these efforts will lead to a substantial reduction of bureaucracy, and ultimately ease the challenge related to the financial management and control of cohesion policy funds in current and future member states, remains to be seen.<sup>16</sup> In any case, they should not be expected to reduce the challenge for future member states to comply with EU accession requirements in Chapter 22.

#### **IV. Meeting the challenge – the road from IPA to cohesion policy**

Reading national plans for accession – “National Plans for the Adoption of the Acquis”, as they are generally called – of different Western Balkans countries, one may gain the impression that several governments seem to equate the preparations for cohesion policy with the effective management of the IPA programme. Indeed, even the EU’s annual reports on the progress of potential candidate and candidate countries towards accession seem to place the emphasis of their Chapter 22 analyses on the management of pre-accession assistance. And, it is perhaps not unfair to say that officials working for DG Enlargement (the directorate general in charge of the IPA programme – now called the DG for European Neighbourhood Policy and Enlargement Negotiations, DG NEAR) have traditionally had a different perspective on regional policy preparations than those working for the cohesion policy DGs (DG Employment and DG Regio). Nevertheless, this approach is rather wrong.

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<sup>13</sup> In Hungary, for example, a major scandal was caused by a tourism project containing the erection of a sightseeing „tower” of 40 metres, costing over 130.000 thousand euros...

[http://index.hu/belfold/2009/10/04/40\\_centis\\_kilato\\_epult\\_40\\_millioert\\_bodrogkereszturon/](http://index.hu/belfold/2009/10/04/40_centis_kilato_epult_40_millioert_bodrogkereszturon/)

<sup>14</sup> See, for example, Paragraph (43) of the Preamble of Regulation 1303/2013 (CPR)

<sup>15</sup> Regulation 1303/2013 (CPR) Article 15.

<sup>16</sup> P. Heil – T. Tétényi: The use of new provisions during the programming phase of the European structural and investment funds, European Commission, Directorate General for Regional and Urban Policy, 2016.

As it has been demonstrated by a number of Central and Eastern European member states, in less developed countries, the relative share of cohesion policy from the overall amount of public investments may reach 80-90%.<sup>17</sup> On the Western Balkans as well, EU funds may be expected to become, upon accession, the backbone of socio-economic development programmes. Accordingly, the rules applying to the planning and management of cohesion policy programmes will, explicitly or implicitly, also determine the legal, institutional and methodological frameworks of national development policy. Accordingly, the financial management challenge of cohesion policy is fundamentally different from those of pre-accession programmes. IPA and PHARE are based on a set of rules, and a set of institutions that are dedicated to them. In general, in any candidate country, Central Finance and Contracts Units only manage IPA funds (and the related co-financing). The Practical Guide (PRAG) is only used for procurement operations under IPA – especially as it is written in English, and is not available in the official languages of the candidate countries. Cohesion policy programmes, however, are designed, implemented and controlled in the mainstream public policy and financial management systems, using national procurement rules of the member states. Accordingly, IPA can only contribute to pre-accession preparations in Chapter 22 inasmuch as it allows the gradual development of the applicable national institutions and methods. At that means: IPA alone cannot ensure the preparation of any candidate country for cohesion policy. In some more detail – based on the list of cohesion policy requirements set out above in Chapter 3 – the role of IPA could be summarised as follows:

### **Legal framework**

IPA funds can of course be used to revamp candidate countries' public financial management systems, state aid schemes and procurement rules, etc. However, as long as national procurement legislation may not be applied to the use of IPA funds, candidate countries cannot practice for cohesion policy.

Using national procurement rules is not *per se* excluded by the IPA regulations. E.g., it may be applied in procurement operations by beneficiaries of competitive grant schemes. Major projects owned by government agencies, however, are usually implemented under PRAG. This alone is sufficient to severely limit candidate countries absorption capacity. The number of experts fully conversant with PRAG – even if national procurement legislation is already fully harmonised – is always be very limited. And not using IPA funds in a speedy and reliable manner will automatically be seen as a sign of the candidate country not being ready for accession in Chapter 22.

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<sup>17</sup> VIth Report on economic and social cohesion, European Commission, 2011 – p. XVII.

The only real solution here would be to push ahead with the harmonisation of national procurement rules, and allowing these to be used in all IPA programmes and projects, as soon as possible. This would have two preconditions:

- First, national governments should give up any policies to provide national producers with advantages in public procurement. Naturally, this can be a highly political decision. Still, it is in the interest of the Western Balkans countries, especially with a view to their ability to use pre-accession assistance in a speedy manner.
- Second, the EU should accept national rules in every (potential) candidate country. This may also be a difficult step – EU delegations would need to get accustomed to work in the local language, and on the basis of legislation that is not devised by the EU. Still, the same is already practice in all member states. EU auditors are able to work with national legislation everywhere. So why should it not be possible for the pre-accession countries?

### **Administrative capacities**

The decision about the bodies in future managing cohesion policy is, in most pre-accession countries, a decision that is taken at a more mature stage of the accession process. Usually, their designation is made during the closing stages of the negotiations. In reality, at least some strategic decisions – e.g. the responsibility for the co-ordination of national socio-economic development policies, or the role of the standard IPA management bodies, such as the NIPAC and her/his supporting secretariat, the National Fund, or the CFCU, etc. – could be taken much earlier. There is a lot of experience available in new member states, and the Western Balkans countries can also learn from each other. IPA can certainly finance the necessary studies and institution building programmes.

On the other hand, the roles of the standard IPA bodies are not necessarily compatible with those required under cohesion policy:

- On the positive side, the national fund's role of channelling EU funds between the EU and the national budget will also be necessary after accession. Also, the CFCU has many features of a managing authority, or of an intermediate body. In some countries CFCUs have lived on after the expiry of all pre-accession programmes as central procurement units.
- On the negative side, the concept that a single CFCU could serve the needs of an entire member country in terms of managing programmes or projects, will certainly not be applicable everywhere. Much rather, there should be implementing agencies similar to the CFCU in all major sectors, where cohesion policy is expected to play a role after joining the

EU. In every country, there should be “pre-managing authorities” or “pre-intermediate bodies” in policy areas such as economic competitiveness, transport, environmental policy, education, employment and social affairs, or public administration reform. Accordingly, the policy of the EU to concentrate management capacity in a single procurement unit – while it may make sense for IPA – rather hinders accession preparations.

Furthermore, whether or not a future member state envisages the launch of decentralised regional development programmes, there will certainly be a need for absorption capacities at the regional or local level. Unlike IPA, cohesion policy entails the implementation of many thousands of development projects, and they cannot be handled by any CFCU, not even any government office. Municipalities and – where they exist – regional governments – need also be ready for cohesion policy. Again, IPA does provide some training ground through cross-border co-operation, where the participation of local players is well established practice. On the other hand, the current Indicative Strategy Papers for IPA 2014-2020 do not define a “regional development sector” in any of the pre-accession countries. “Territorial development”, where it exists, rather refers to cross-border co-operation. In the second half of the current planning period, this should be reconsidered by both the EU and the pre-accession countries.

In any case, the development of human resources, training, coaching and the dissemination of good practices from member states is certainly possible under IPA.

## **Programming**

The IPA framework does not require the preparation of a seven-year Partnership Agreement between the EU and the IPA countries. Also, the programming requirements of any strategy are substantially less demanding than those under cohesion policy. To a large extent, this is unavoidable. IPA has only limited resources, and indeed, its programming should not be overcomplicated.

Furthermore, the sector approach of IPA would encourage the definition of the type of sector strategies which would, in a member state, be the basis for operational programmes. Indeed, under IPA 2007-2013, Turkey, Macedonia and Montenegro already had the opportunity to manage operational programmes designed along the lines of cohesion policy programmes. The programming methodology of those programmes was effectively provided by DG Regio. The overall approach of those guidelines was indeed very progressive: in general terms, it encouraged IPA countries to test all possible approaches to programming that were otherwise be allowed or prescribed under cohesion policy.

Unfortunately, the programming formats of cohesion policy have been substantially revised for the period 2014-2020. The reinforced link to the EU 2020 strategy, requirements related to the concentration of funds into a limited number of priority areas, and result orientation are not fully compatible with the approach of IPA. Indeed, whether or not “operational programmes” are favoured by the EU in this IPA period, is rather unclear.

At the same time, Montenegro and Serbia are already engaged in negotiations also under Chapter 22, and as such, they are considering the launch of multi-annual regional development programmes under IPA. Albania and Macedonia are establishing comprehensive national regional development policies and institutions – but they need to do so with little or no participation by IPA – for the moment at least.

Overall, socio-economic development has, in the first half of the planning period, played a rather secondary role in IPA. True, the Western Balkans Investment Framework has invested substantial funds into the development of transport, environmental and energy infrastructure. However, WBIF’s programming approach – based on a “single project pipeline” rather than

fully-fledged sector operational programmes – is only partially compatible with that of cohesion policy. Furthermore, under the co-ordination of the European Investment Bank, there are preparations to introduce financial instruments – refundable loans, guarantee products or even investment funds – with IPA co-financing. Concrete results are, however, as yet missing.

To sum up: as regards socio-economic development programmes, IPA 2014-2020 has – so far at least – made a step backwards, rather than forwards. It could do more to support regional development policies and programmes in IPA countries. Hopefully, in the 2<sup>nd</sup> half of the programming period, there will be a change to the better.

### **Financial management and control**

The compatibility of the financial management rules of IPA with cohesion policy depends on the management modality applied in a particular country, and a particular sector:

□ Centralised management by the EU delegations is, of course, the farthest away from cohesion policy. It is regarded as a temporary measure in all pre-accession countries, and rightly so. All countries should strive to eliminate this modality from their portfolio of IPA projects as soon as possible. The potential to develop their absorption capacity and prepare for cohesion policy is minimal under such schemes.

□ Decentralised management with *ex-ante* controls is also very problematic. On the one hand, it is fundamentally flawed in the sense that it entails an excessive amount of controls and bureaucracy. Almost invariably, this modality leads to serious delays in project implementation and also to absorption problems. Countries and sectors applying “partial decentralisation” – as it was called under PHARE – are not seldom losing 20 or more percent of their IPA allocations for not being able to implement their projects on time. Accordingly, this modality should also be regarded as an intermediate stage that should be surpassed as quickly as possible. IPA countries should do everything in their power to strengthen their CFCUs and demonstrate to the EU their ability to manage IPA in a reliable and transparent manner.

□ Decentralised management with *ex-post* controls is very close to cohesion policy practice. Same as under “shared management”, the overall financial responsibility towards the

European Parliament – the budgetary authority of the EU – remains with the Commission. Implementation, however, is left to the beneficiary country. *Ex-post* controlled implementation – or “extended decentralisation”, EDIS, as it was called under PHARE – is envisaged to be the norm not the exception under IPA. Even if the experience of PHARE in this regard – i.e. the complete failure to introduce “EDIS” in any country – is not encouraging, IPA still has the chance to perform better on this account.<sup>18</sup> Not least because the IPARD programme – IPA Rural Development – will be implemented exclusively on this basis.

□ The new IPA instrument of Sector Budget Support has so far not existed in cohesion policy. However, the legal framework for 2014-2020 actually introduced a similar instrument into regional policy: namely that of “Joint Action Plans”.<sup>19</sup> The main advantage of using SBS in pre-accession programmes for socio-economic development would be evident: instead of developing an implementation system that is more or less doomed to disappear together with IPA soon after accession, candidate countries could concentrate on reshaping their national development policies, and would have a free hand in deciding about the implementation structures and rules that they want to apply. That advantage is, at the same time, SBS’s main disadvantage. It would offer fewer guarantees against mismanagement or fraud. Still, a well designed sector reform contract – with performance benchmarks defining verifiable “trigger points” related to the preparation of fully-fledged operational programmes in line with jointly agreed priorities, the establishment managing authorities and intermediate bodies for each programme, even financial control along the lines of cohesion policy practice – may be a much better option than the potential “detour” taken through decentralised management to CFCUs.

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<sup>18</sup> Regulation 1303/2013 (CPR), Part III, Title II, Chapter III – Articles 104-109

<sup>19</sup> It may be noted that at least 2 countries, Bulgaria and Estonia, were actually allowed to introduce EDIS under the SAPARD programme. SAPARD had the same mandate as IPA Rural Development (IPARD) does today. PHARE and ISPA, the other two pre-accession instruments, were only „decentralised” upon accession. And at that stage they really had to be, as EU Delegations automatically closed down, and their financial units, which were indispensable to run decentralised programmes with ex-ante controls, were dissolved. The original plan to use PHARE and ISPA as a training ground for decentralised management before accession, was, ultimately, not realised.

Last but not least, one should perhaps mention the new cohesion policy instruments of integrated territorial instruments (ITI), community-led local development (CLLD) and sustainable urban development (SUD). All three are tools for place-based development policy, and potentially also implementable under IPA. Such proposals have so far not yet emerged – even if IPARD should, almost inevitably, entail CLLD. With a little fantasy, any CBC programme could be run as an integrated territorial instrument. Urban development projects may also exist under IPA. All three instruments would offer the advantage of developing local or regional development capacity without having to solve the difficult questions related to the decentralisation of public administration – where, of course, it is at all envisaged. Every pre-accession country should explore these possibilities. There is little to lose, but so much to gain.

## **V. Monitoring and evaluation**

If there is one area of requirements where IPA is candidate countries' best option to prepare, it is monitoring and evaluation. The use, tasks and composition of monitoring committees under IPA are close to those under cohesion policy. There is nothing in the IPA regulations that would prevent IPA countries to apply the full set of monitoring instruments to IPA. The European Code of Conduct on Partnership offers a perfect template.

Evaluations – mid-term and ex-post – are also enshrined into the IPA regulations. An ex-ante control of IPA programmes has so far not been needed. (The only compulsory multi-annual programming documents, the Indicative Strategic Plans 2014-2020 were drafted by the Commission, and did not entail the sort of strict hierarchy of objectives, or indicators, that would allow an ex-ante evaluation. Partnership Agreements are not foreseen by IPA, and – as mentioned above – Operational Programmes are so far rare. Nevertheless, candidate countries may well try to establish performance frameworks, and conduct different types of evaluations already under IPA and IPARD. The related costs could also be covered by IPA.

Ultimately, the objective of IPA countries in this should be the spill-over of monitoring and evaluation as a standard policy and management practice into all national public investment programmes. The European Union should encourage such practices across the board.

## **VI. Statistics**

The availability of statistics for the monitoring and evaluation of EU-co-financed interventions is as much applicable to IPA as it is for cohesion policy. Given that IPA interventions are considerably smaller and less complex than cohesion policy programmes, their potential impact at the level of the economy and society at large is much more limited. Accordingly, the pressure on the national statistical services to provide complex statistical data series is also much smaller.

Nevertheless, IPA programmes do provide a useful training ground for the definition and monitoring of performance frameworks modelled on those of cohesion policy. Especially if the candidate countries and the EU should agree to increase the use of multi-annual, sector-based support, especially operational programmes and sector budget support across the board.

## **VII. Conclusions**

Traditionally, the pre-accession support programmes of the European Union have had a double mandate – to support accession as well as socio-economic development. The emphasis on each of the two elements has been varying, and it is probably fair to say that those variations did not follow a long-term strategy.

Channelling substantial amounts of pre-accession assistance towards socio-economic development programmes has often been seen by Commission officials as “premature” – especially as long as there were substantial uncovered needs related to the transposition of EU legislation. Proposals to dedicate IPA funds to preparations under Chapter 22 have not once been misinterpreted as signs of unrealistic expectations regarding an imminent, substantial increase of EU support, which – understandably and quite rightly – the EU would always want to discourage.

At the same time, one cannot learn swimming without a pool. IPA is the best available instrument for the countries of the Western Balkans to face up to the considerable challenge of

preparing for cohesion policy in general and the related financial management and control tasks in particular. From that perspective, the introduction of multi-annual operational programmes, or sector budget support programmes for socio-economic development is not different from what IPA does in all other sectors: assisting the development of legal and institutional frameworks, and implementing investments that contribute to alignment with EU policies.

The potential of IPA to make an actual contribution to not only accession, but also socio-economic development, should thereby not be underestimated. The amount of EU funds already available to the IPA candidate countries is proportionately 2-2,5 times larger than those offered to the countries of Central and Eastern Europe before 2004/2007. In addition, the multi-annual IPA programming formats of operational programmes and sector budget support – which did not exist in the PHARE regulation – offer a good possibility to use IP as a catalytic instrument to focus the otherwise limited public funds of the WB 6 states on key socio-economic reforms.

Thereby, IPA could make a major contribution to all three Copenhagen criteria of accession:

- Strengthen partnership and multi-level governance, social cohesion, and also to develop legal, institutional and methodological frameworks for the sound and efficient management of public funds, preventing fraud and increasing the transparency of public investment programmes;
- Enhancing the competitiveness of the national economy, strengthening their ability to withstand the competitive pressures of the single market, reducing disparities and allowing the best use of the endogenous development potentials of all regions.
- Contributing to compliance with accession requirements, not only in terms of legislation, but also the effective, practical implementation of EU law – in areas such as state aid, public procurement, rural development, trans-european networks, social policy, regional policy or the environment.

For this, no new legislation is needed. The IPA regulations – unlike the PHARE regulation before 2007 – not only allows, but even explicitly encourage the implementation of initiatives as proposed above. The mid-term review of IPA 2017-2018 provides a good opportunity to consider a new departure, and make the most of pre-accession assistance not only in terms of

implementing the *acquis*, but also in terms of socio-economic development and cohesion in all countries of the Western Balkans.

## Literature

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