

Chapter Five

EU Financial Assistance for the Western Balkans

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Introduction

This Chapter analyses the EU financial assistance for the Western Balkans, in particular the Republic of Kosovo, from the late 1990s to the current period. After the initial range of actions to support the progress of reforms in these countries, the EU embarked on the main support actions in the form of three Instrument of Pre-Accession (IPA): IPA I, 2007–2013; IPA II, 2014–2020; and IPA III, 2021–2027. After an initial discussion of the support programmes before 2007, these instruments, their objectives, programmes, results and lessons will be discussed in details in the following sections of the Chapter. While the discussion covers all six Western Balkan countries, the support for Kosovo will be given special attention.

The EU Financial Assistance in Support of Reforms by WB Counties: Background

It is interesting to remind the readers that the first declaration on the relations between the Socialist Federal Republic of Yugoslavia (SFRY) and the European Economic Community (EEC) was signed in Brussels back in 1967. After the first two trade agreements (1970 and 1973), within the third comprehensive cooperation agreement (1980), the financial cooperation protocol was added, which included the possibility of withdrawing the EIB loan for the trans-Yugoslav highway. In December 1990, Yugoslavia also joined the PHARE program.¹ The third financial protocol on financial assistance was concluded in 1991, but

¹ Poland and Hungary Assistance for Reconstruction of Economies established in 1989 as the financial support mechanism for the transition economies of Central and Eastern Europe.

TABLE 5.1 The EU Financial Assistance to Kosovo 1998–2006

1998–2000	2001	2002	2003	2004	2005	2006	Total
552.0	144.5	163.0	62.0	73.0	77.0	51.2	1,123.0

NOTES Million EUR. Adapted from European Agency for Reconstruction (2008).

its ratification process was never completed, so it did not enter into force, as the SFRY was dissolved and the conflict in Yugoslavia began (Zacharia, 2016). After EC economic sanctions in December 1991 and UN sanctions in May 1992, the all support programmes were blocked until 1995. A different forms of financial assistance started gradually from 1996.

As of 2007, the Instrument for Pre-accession Assistance (IPA) replaced previous EU programmes, including CARDS. The CARDS programme (Community Assistance for Reconstruction, Development and Stabilisation) was the EU's main instrument of financial assistance in the period 2000–2006 to the Western Balkans, covering specifically Croatia, Bosnia and Herzegovina, Serbia, Montenegro, North Macedonia, Kosovo and Albania. It was created in 2000 by Council Regulation 2666/2000. However it was only in 2001 that the programme became operative under its own regulations, as in the first period it supported projects previously funded by the PHARE and OBNOVA programmes. The programme was the main financial instrument of EU's Stabilisation and Association process (SAP). A total of €5.13 billion was secured for all CARDS actions. In that period, the European Agency for Reconstruction (EAR) managed all the EU assistance in Montenegro, Serbia, North Macedonia and Kosovo.² The level of financial assistance for Kosovo before the start of the IPA programmes is shown in Table 5.1.

The EAR managed a cumulative portfolio of some €1.12 billion in different projects and programmes across Kosovo through more than 1600 projects in value from €5,000 to €50m. The EAR initially focused its assistance on the rehabilitation and repair of key infrastructure and public utilities. It concentrated on energy, housing, transport and water supplies. For instance, €400 million is invested in energy sector in

² The Agency had its roots in the aftermath of the Kosovo war. In early 2000, it took over from the European Commission's Task Force for the Reconstruction of Kosovo, a temporary emergency assistance body set up in the summer of 1999, following the NATO-led intervention against the former Yugoslavia. Prishtina was the city where the Agency established its first operational centre.

that period.³ It also supported enterprise development, agriculture, health and institution building. In 2008, the EAR Prishtina Centre transferred all CARDS programmes and contracts to the EC Liaison Office (ECLLO).⁴

IPA I: 2007–2013 and the Main Components Supported

The Instrument for Pre-accession Assistance (IPA) is the means by which the EU supports reforms in the ‘enlargement countries’ with financial and technical help, started with the Multi-Annual Financial perspective, MFF 2007–2013. The IPA funds build up the capacities of the countries throughout the association and stabilisation process as well as throughout the accession process, resulting in progressive, positive developments in the region.

The main objective of IPA is to assist the countries in their progressive alignment with the standards and policies of the European Union, including where appropriate the *acquis communautaire*, with a view to future membership. IPA will thus help these countries to meet the Accession Criteria and to fulfil the Copenhagen political, economic and acquis-related criteria for membership thereby enhancing their administrative capacity and prepare for the programming, management and implementation of EU Cohesion, Structural and Rural Development Funds after accession.

Beneficiary countries of IPA I (2007–2013) included EU candidate countries from that period (Croatia, Turkey and the Former Yugoslav Republic of Macedonia), and potential candidate countries recognised

³ The main results of 1999–2006 investment in rebuilding the energy sector in Kosovo were the following: after rehabilitation in that time, Kosovo B power plant production more than doubled (up by 120%), emissions reduced and electricity distribution grid stabilized; preparation for big t projects was made; coal production more than tripled (up by 223%); district heating systems restored in Prishtina, Mitrovica, and Gjakova; the Independent Energy Regulator and the Independent Electricity Transmission Company established; Energy Strategy adopted (European Agency for Reconstruction, 2007).

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in Annex II: Albania, Bosnia and Herzegovina, Iceland, Montenegro, Serbia and Kosovo (Council Regulation (EC) No 1085/2006, 2006).

The principal users of IPA resources are, above all, the ministries and administration authorities making laws and regulations and enforcing them, local governments, public institutions, as well as NGOs and associations. The end beneficiaries of the available resources are the people of the beneficiary countries, since the concrete results of the implemented projects in the end affect the quality of life of the population the most – whether they are improving the quality of performance of the institutions, attainment of European standards or infrastructure in different areas.

The legal basis for IPA is the Council Regulation (EC) No 1085/2006 (2006). More detailed implementing rules are laid down in Commission Regulation (EC) No 718/2007 (2007) and the amendments introduced by Commission Regulation (EC) No 80/2010 (2010). Framework Agreements signed between the Commission and the beneficiary countries aiming at setting and agreeing the rules for co-operation concerning EC financial assistance to the beneficiary country.

Financing under this single umbrella is provided through five ‘components’:

1. Transition Assistance and Institution Building managed by the European Commission’s Directorate General for Enlargement;
2. Cross-Border Co-operation (with EU Member states and other countries eligible for IPA);
3. Regional Development (providing support for transport, environment infrastructure, enhancing competitiveness and reducing regional disparities);
4. Human Resources Development (strengthening human capital and combating exclusion) managed by the European Commission’s Directorate General for Employment and Social Affairs;
5. Rural Development managed by the European Commission’s Directorate General for Agriculture.

Components 3–5 were gradually opened for the candidate countries in line with the development of capacities for decentralized management of IPA funds. For the potential candidate countries, the biggest part of IPA is concentrated in the first component, under centralized model of the Fund’s management.

TABLE 5.2 Revised Multi-Annual Indicative Financial Framework: Breakdown of the Instrument for Pre-Accession Assistance Envelope for 2012-2013 into Allocations by Country and Component

Country/component	(1)	(2)	(3)	(4)
Croatia	1,859.28	4,289,857	433	0.35%
Transition Assist. and Institution Building	279.26	15%		
Cross-border Co-operation	96.72	5%		
Regional Development	345.93	19%		
Human Resources Development	95.02	5%		
Rural Development	183.25	10%		
North Macedonia	619.29	2,052,722	302	1.30%
Transition Assist. and Institution Building	242.94	39%		
Cross-border Co-operation	32.48	5%		
Regional Development	202.04	33%		
Human Resources Development	55.08	9%		
Rural Development	86.75	14%		
Iceland	30.00	318,452	94	0.11%
Transition Assist. and Institution Building	30.00	0.3%		
Montenegro	236.63	619,001	382	1.05%
Transition Assist. and Institution Building	166.70	70%		
Cross-border Co-operation	30.07	13%		
Regional Development	23.20	10%		
Human Resources Development	5.76	2%		
Rural Development	10.90	5%		
Turkey	4,831.63	72,561,312	67	0.13%
Transition Assist. and Institution Building	1,675.24	35%		
Cross-border Co-operation	20.64	0.4%		
Regional Development	1,790.34	37%		
Human Resources Development	479.63	10%		
Rural Development	865.79	18%		

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Through the implementation of IPA projects, over the 2007–2013 financial period, EUR 11.5 billion were invested into EU candidate and potential candidate countries, as it is presented in the Table 5.2.

The IPA 2007–2013 consists of nine national programmes and multi-beneficiary programmes. Turkey, as the biggest country, was benefi-

TABLE 5.2 *Continued from the previous page*

Country/component	(1)	(2)	(3)	(4)
Albania	597.29	2,918,674	205	1.02%
Transition Assist. and Institution Building	531.16	89%		
Cross-border Co-operation	66.14	11%		
Bosnia and Herzegovina	658.50	3,844,046	171	0.80%
Transition Assist. and Institution Building	624.80	95%		
Cross-border Co-operation	33.70	5%		
Serbia	1,392.07	7,306,677	191	0.57%
Transition Assist. and Institution Building	1,313.35	94%		
Cross-border Co-operation	78.71	6%		
Kosovo	637, 60	2,208,107	289	1.43%
Transition Assist. and Institution Building	628.68	99%		
Cross-border Co-operation	8.92	1%		
Total Country Programmes	10,003.18	96,118,848	104	0.21%
Multi-beneficiary Programmes				
Transition Assist. and Institution Building	1,138.24			
Cross-border Co-operation	21.95			
Support Expenditures	383.88			
Grand Total	11,526.65			

NOTES Column headings are as follows: (1) IPA 2007–2013 in mil EUR, current prices 2011, (2) population 2011, (3) total IPA/per capita, (4) IPA as percentage of GDP, 2011.

ciary of 48% of all IPA funds. As country in the accession process, Croatia had the highest IPA/per capita indicator for overall period (433 EUR/pc). In comparison to the Gross Domestic Products, Kosovo had the highest level of the IPA support as percentage of GDP in 2011 (1.43%).

According to Article 64 of the Commission Regulation (EC) No 718/2007 (2007), assistance under IPA's Transition Assistance and Institution Building Component (TAIB) is granted in the following areas:

- Strengthening of democratic institutions and the rule of law;
- Promotion and protection of the fundamental rights and freedoms;
- Public administration reform;

- Reform in the field of justice and home affairs;
- Modernisation of the regulatory framework, including support for investment to equip key institutions whose infrastructures or capacity to monitor and enforce legislation need strengthening;
- Establishment or reinforcement of financial control systems;
- Strengthening of the market economy;
- Development of civil society;
- Establishment of social dialogue as an element of good governance and to promote fair and just working conditions;
- Promotion of minority integration, reconciliation and confidence-building measures on all levels of society;
- Environmental policy;
- Improvement of access to financial facilities for small and medium-scale enterprises and public administrations;
- Institution building in the field of nuclear safety, radioactive waste management and radiation protection;
- Support for participation in community programmes.

Assistance under IPA Component I – TAIB may be provided through:

- Administrative cooperation measures (twinning, twinning light and TAIBEX⁵ programmes);
- Technical assistance;
- Investment in regulatory infrastructure;
- Grant schemes;
- Project preparation facilities;
- Implementation of finance facilities in cooperation with financial instruments;
- budgetary support.

The second IPA component is Regional and Cross-border cooperation. This component aims to strengthen stability, security and prosperity of interest to all countries in the region, in order to promote harmonious, balanced and sustainable development. Beneficiaries of the second IPA components are municipalities, NGOs, public utilities, various associations, libraries, universities, etc. An important feature

⁵ Technical Assistance Information Exchange Office, Brussels.

of the CBC projects, regardless of the beneficiaries, is the common interest of the two neighbouring countries and compliance with the priorities of the region.

Objectives of the cross-border cooperation:

- Encouraging cross-border initiatives in the field of social development, economy and environmental protection in border areas;
- Encouraging the solution of common problems in the field of environmental protection, public health, prevention and fight against organized crime;
- Borders – strengthening the efficiency and security of borders;
- Promoting legal and administrative cooperation;
- Encouraging local so-called ‘People to People’ activities.

Operating on the local level in the border areas, the Cross-Border Cooperation (CBC) programmes support the population on both sides of the border to promote sustainable economic and social development; work together to address common challenges (e.g. environment, natural and cultural heritage, public health, prevention of and fight against organised crime, etc.); and ensure efficient and secure borders and promote joint small scale actions involving local participants from the border regions. Kosovo implemented three bilateral CBC programmes with FYROM (now North Macedonia) and Albania in the period 2010–2013, and with Montenegro since 2012. The Joint Technical Secretariats and so-called Antennas (info-points for information distribution) were established through technical support of the EU.

Multi-beneficiary IPA (MB IPA) – funds for these purposes are raised by ‘reallocating’ up to 10% of funds from each country individually. It is implemented through regional and horizontal programs.

1. Regional programs should facilitate the process of regional cooperation among the beneficiaries of the Western Balkans. These programs particularly seek to promote reconciliation, reconstruction and political cooperation.
2. Horizontal programs address common needs in several IPA beneficiary countries and seek to achieve cost-effectiveness and efficiency in implementation through central aid management (directly from Brussels), rather than national program implementation. Multi-beneficiary activities focus on support that requires

cooperation between beneficiaries, such as regional structures, networks of experts or civil servants, or will focus on needs and problems of a cross-border nature.

MB IPA contains the following components: regional cooperation; infrastructure development; justice and home affairs; internal market; public administration reform; support to civil society; education, youth and research; market economy; nuclear safety and radiation protection; interim administration (High Representative in BiH and UNMIK); program management (contributions from candidate and potential candidate countries to the Tempus program, the Erasmus Mundus program, the Nuclear program, the Youth in Action program, etc. are also supported through the Multi-Beneficiary IPA.

Of particular interest are the activities that were organized within the Western Balkans Investment Fund (WBIF) established in 2009 and later IPF (Infrastructure Project Facility) within which the (necessary) feasibility studies for infrastructure projects in the field of environment, communal infrastructure, energy and social protection were developed. The basic idea of this support is the preparation of documentation for larger infrastructure projects, which would later be supported by the EIB, the EBRD and the Council of Europe Development Bank (Djurović, 2013).

Main Results Achieved with IPA 2007–2013 Projects in Kosovo

With the help of the European Union, Kosovo has been able to make considerable progress. IPA funding supported Kosovo to align its legislation with the EU, further adapt its procedures to meet EU standards, and strengthen its institutions. It also allowed Kosovo to improve its economy and upgrade its infrastructure. Between 2007 and 2013, the EU established a mission to promote the rule of law in Kosovo and appointed an EU Special Representative. Kosovo negotiated a Stabilisation and Association Agreement with the EU, took steps towards the normalisation of relations with Serbia, and made significant progress in its efforts to meet the criteria for visa liberalisation. IPA programmes have played a key role in all these processes. Figure 5.1 illustrates the sectors supported, and impacted, by the IPA funds.

Between 2007 and 2013, Kosovo faced a number of key challenges. The most important included solving Kosovo's status issue, strengthening the rule of law, and protecting and integrating minorities. Eco-

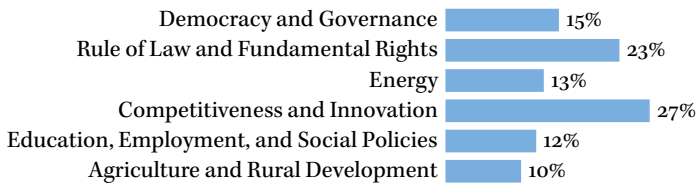


FIGURE 5.1 IPA Results and Impacts by Sectors in Kosovo (adapted from European Commission, 2015)

conomic competitiveness and growth issues including developing the economic and agriculture sector, improving Kosovo's business environment, and linking its economy to the EU internal market were also important goals. Finally, aligning Kosovo's laws with those of the EU, including setting higher environmental standards and improving veterinary and food safety, was an IPA target.

Funds for Kosovo. 2008 donor conference In July 2008, the European Commission organised a Donors' Conference for Kosovo in Brussels. The Commission and the EU Member States pledged nearly EUR 800 million of the EUR 1.2 billion total pledge. This funding paid for important reforms in Kosovo, including in the area of rule of law, public administration, trade and other areas relevant to the Stabilisation and Association Agreement.

The Protection of Minorities: Closing of refugee camps. The protection of minorities and vulnerable groups was a critical issue for Kosovo. In addition to Serbs, Kosovo also hosts Egyptian, Ashkali and Roma communities. In 2010 IPA funded the relocation of some 148 refugee families (about 600 people) from the lead contaminated camps where they had been residing and provided them with alternative housing, infrastructure, water and electricity. IPA assistance also helped the families concerned to become economically independent and start their own businesses.

Implementing the Brussels Agreement: The EU-brokered 2013 Brussels agreement between Serbia and Kosovo was a huge step towards normalisation of relations. Through IPA programmes, the European Commission supports the implementation of technical and political agreements. With the help of IPA financing, for example, Kosovo's civil registry was reconstituted with the help of certified copies. IPA funded the certification of Kosovo university diplomas, allowing Kosovo students

to continue their studies or apply for jobs elsewhere. IPA is also funding the construction of six permanent border/boundary crossing points in the North, allowing for normal customs procedures.

IPA results and impact by sectors (European Commission, 2015):

- Kosovo made some fundamental progress in the justice sector, most notably the rule of law. With IPA support, Kosovo reinforced its justice system, built a high-security prison, and trained hundreds of police officers. In 2011, Kosovo introduced a new Border Management System that complies with European standards and will regulate border crossings, vital in Kosovo's fight against organised crime.
- Kosovo's unemployment rate remains one of the highest in Europe. In 2013, a job and entrepreneurship training project was completed, part of IPA's effort to improve Kosovo's economy, trade and industry. Some 3500 young and disadvantaged people received three to six months of training, after which half of them found immediate employment. An IPA-funded rural grant scheme has also delivered results. With relatively small grants, dairy, meat, fruits and vegetable processing businesses were able to expand their activities and align their business practices with EU standards and quality control. In 2007, 2008 and 2009, thirteen businesses were supported, creating over 300 new jobs. In 2009, an IPA project successfully integrated different institutions spread over several ministries into a single Food and Veterinary Agency, allowing for the efficient and effective application of a single set of food safety control standards.
- Public administration reform is high on the agenda in Kosovo. In 2010, Kosovo carried out its first population and housing census in three decades. The data allows it to engage in direct policy planning over the next decade. A project to establish the Qualifications Authority of Kosovo was completed in 2012, which should allow for a better connection between vocational and university-level education in technical subjects, opening up the possibility of higher education for more people.

IPA II: 2014–2020 and the Main Components Supported

The purpose of assistance under the Instrument for Pre-Accession Assistance (IPA II) is to support the Enlargement policy of the Union

which contributes to ensuring stability, security and prosperity in the immediate neighbourhood of the Union.

General objective: The IPA II supported candidate countries and potential candidates in adopting and implementing the political, institutional, legal, administrative, social and economic reforms required by the beneficiaries to comply with Union values and to progressively align to Union rules, standards, policies and practices with a view to Union membership. Through such support, IPA II was expected to contribute to stability, security and prosperity in the beneficiaries.

Specific objectives of IPA II:

1. Support for political reforms;
2. Support for economic, social and territorial development, with a view to a smart, sustainable and inclusive growth;
3. Strengthen the ability of the beneficiaries to fulfil the obligations stemming from Union membership by supporting progressive alignment with, and adoption, implementation and enforcement of, the Union *acquis*, including preparation for management of Union Structural Funds, the Cohesion Fund and the European Agricultural Fund for Rural Development;
4. Strengthen regional integration and territorial cooperation involving the IPA beneficiaries, Member States and, where appropriate, third countries within the scope of Regulation (EU) No 232/2014 (2014).

IPA II beneficiaries, listed in Annex I of the IPA II Regulation, were: Albania, Bosnia and Herzegovina, North Macedonia, Kosovo, Montenegro, Serbia, and Turkey. Global budget of IPA II is 11,968⁶ billion euro in the MFF 2014–2020 in 2011 prices. The revised (re)allocation per country and Multi-country priorities were prepared in a new generation of Indicative strategy papers for each country in 2018 (Table 5.3, in current 2018 prices). Kosovo as IPA beneficiary received in total 602.1 mil EUR for the IPA II period and had the biggest level of IPA support in GDP for 2017 (see Table 5.4 for details). According to the IPA/pc indicator, Kosovo was in the second position with 338 euro per capita of IPA support, after Montenegro.

Thematic priorities of IPA II 2014–2020 were the following:

⁶ In total 11,9687 mil € in 2011 prices – Operational appropriations (11,359.7), administrative support (328.7) and Executive Agency (5.6).

TABLE 5.3 IPA II Indicative Allocation per Countries and Multi-Country Priorities

Country	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Albania	639.5	6.0	2.88	2.9	222	11,564	0.7
BiH	552.1	5.1	3.51	3.6	157	16,042	0.5
North Macedonia	608.7	5.7	2.07	2.1	294	10,014	0.8
Kosovo	602.1	5.6	1.78	1.8	338	6,414	1.2
Montenegro	279.1	2.6	0.62	0.6	448	4,299	1.0
Serbia	1,539.1	14.3	7.04	7.2	219	39,183	0.5
Turkey	3,533.0	32.9	79.81	81.7	44	753,904	0.1
Multi-country	2,980.2	27.8					
Total	10,733.8	100	97.72	100	110	841,420	0.2

NOTES Column headings are as follows: (1) total national IPA, 2014–2020, (2) percentage of total national IPA, (3) population (million), (4) population (percentage), (5) total IPA II per capita, (6) GDP 2017 (million EUR), (7) IPA II 2017 as percentage of 2017 GDP.

TABLE 5.4 Multi Country Indicative Strategy Paper (Revised in 2018)

Indicative allocations	Million EUR	%
A Horizontal support	964.1	32
TAIEX and Statistics	133.2	4
Advisory functions of international organisations	225.7	8
Civil Society and Media	120.5	4
Erasmus+ including the youth dimension	312.2	10
Horizontal measures	172.5	6
B Regional structures and networks	186.3	6
C Regional investment support	1,438.2	48
WBIF, EDIF, GGF and other blending instruments	1,413.2	47
Regional Housing Programme	25.0	1
D Territorial co-operation	391.6	13
Total	2,980.2	100

NOTES Adapted from European Commission (2018c).

1. Compliance with the principle of good public administration and economic governance.
2. Establishing and promoting from an early stage the proper functioning of the institutions in order to secure the rule of law.

3. Strengthening the capacities of civil society organisations and social partners' organisations, including professional associations,
4. Investment in education, skills and lifelong learning.
5. Fostering employment and supporting labour mobility.
6. Promoting social inclusion and combating poverty.
7. Promoting sustainable transport and removing bottlenecks in key network infrastructures
8. Improving the private-sector environment and competitiveness of enterprises, including smart specialisation, as key drivers of growth, job creation and cohesion.
9. Strengthening research, technological development and innovation.
10. Contributing to the security and safety of food supply and the maintenance of diversified and viable farming systems in vibrant rural communities and the countryside.
11. Increasing the ability of the agri-food sector to cope with competitive pressure and market forces as well as to progressively align with the Union rules and standards, while pursuing economic, social and environmental goals in balanced territorial development of rural areas.
12. Protecting and improving the quality of the environment, contributing to the reduction of greenhouse gas emissions, increasing resilience to climate change and promoting climate action governance and information.
13. Promoting reconciliation, peace-building and confidence-building measures.

Table 5.5 provides details of the resources allocated to each priority area in Kosovo.

Due to the COVID-19 outbreak, it was now necessary to modify some of the IPA 2019 and IPA 2020 objectives as a result of the reorientation and reprogramming exercise of IPA funds with the objective to help Kosovo address the social and economic fallout of the COVID-19 crisis on the medium and long term. Instead the action 'EU for Environment' in IPA 2019, two new actions are introduced instead as follows: 'EU4 Resilience' under Competitiveness and Innovation, Agriculture and Rural development and 'EU4 Social protection following the COVID-19 crisis' under Education, Employment and Social Poli-

TABLE 5.5 Indicative Allocations: Kosovo 2014–2020, National IPA per Policy Areas and Sectors

Areas and sectors	2014– 2017	2018	2019	2020	2018– 2020	2014– 2020
Democracy and rule of law	168.52	24.20	29.90	40.90	95.0	263.52
1 Democracy and governance	113.92	8.20	24.4	22.9	55.5	122.12
2 Role of Law and fundamental rights	54.60	16.00	5.5	18.0	39.5	70.60
Competitiveness and growth	132.35	76.50	69.00	60.80	206.3	338.65
3 Environment, climate change and energy	48.50	51.50	22.00	21.80	95.3	143.80*
4 Transport						
5 Competitiveness, innovation, agriculture and rural development**	54.85	9.00	37.50	23.00	69.5	124.35
6 Education, employment and social policies	29.00	16.00	9.50	16.00	41.5	70.5
Total	300.87	100.70	98.90	101.70	301.30	602.10

NOTES * 40% of which climate change relevant. ** The budget for the agriculture and rural development programme is 50.1 mil EUR. Adapted from European Commission (2018b).

cies (38.3 mil EUR). In the IPA 2020 a new action is also introduced: ‘EU 4 small business recovery following the COVID-19 crisis’ (2.2 mil EUR and 3 mil EUR co-financing from the Budget).

The IPA structures are established in Ministry of European Integration (Office of the National IPA Coordinator – NIPAC), in Ministry of Finance (Department for European integration and policy coordination – DEIPC) and small project implementation units in line ministries. In IPA II generation. The IPA Committee as joint monitoring body of the EC and Kosovo representatives was also established.

The key documents for programming IPA actions were: national strategic documents and sector strategic documents as well as the Indicative Strategy paper for IPA and sector planning documents for IPA priorities (Rule of Law, Fundamental Rights, Energy, Environment, Agriculture, and Education, employment and social policies); the Economic Reform Programme (as medium-term macroeconomic projection and structural reform program prepared in close cooperation with the Commission); and the EC Report and recommendations.

The Management modes implemented for different IPA actions were the following:

1. Majority of actions were implemented by direct management mode by the European Commission;
2. Indirect management with some international organisations was used for a few actions (Council of Europe, International organisation of migrations, UNDP, Swedish International Development Cooperation Agency – SIDA; World Bank, Austrian Development Agency, etc.);
3. Direct budget support, as specific model, was used for the implementation of the Public administration reform in IPA 2016 and for the Public finance management strategy in IPA 2017;
4. For indirect management with the Beneficiary country mode it was necessary to further strengthen the organisational and administrative capacities within the Government.

The Government established the National Investment Committee (NIC) as the political forum through which priority investment projects were prepared and financing plans for each of the steps related to the specific projects from the Single Project Pipeline (SPP) were discussed and agreed. The first SPP was finalized in 2015. Overall, there were 39 infrastructural projects with the total indicative budget of 2.35 billion € (13 projects in energy sector for an indicative total amount of 635 mil €, 15 projects in environment sector for an indicative total amount of 526 mil €, 11 projects in transport sector for an indicative total amount of 1.190 mil €). SPP served as the main policy planning instrument for the coordination of infrastructural investments in transport, energy, and environment (Republic of Kosovo, 2015). The Government continuously reviewed and expanded the SPP with other sectors.

The EU Connectivity agenda and regional Western Balkans Investment Framework (WBIF) supports important infrastructural projects in transport sector.⁷

⁷ For the period 2015–2019 it was the following support: Orient/East-Med Corridor: North Macedonia–Kosovo R10 Rail Interconnection, Fushë Kosovë to the border with North Macedonia Section in Kosovo, EU grant 39.31, loan 94.15 mil; Orient/East-Med Corridor: North Macedonia–Kosovo–Serbia R10 Rail Interconnection, Fushë Kosovë–Mitrovica, the section in Kosovo. EU grant 17.59 mil €, grant 42.38 mil €; Orient/East-Med Corridor: Kosovo R10 Rail Interconnection, EU grant 27.40 mil €, loan 56.10 mil €.

Kosovo had three cross-border programmes with Albania, Montenegro and North Macedonia. Municipalities, i.e. local self-government units, local business associations, public utility companies and NGOs from the so-called eligible municipalities were the beneficiaries of these programmes.

The Joint monitoring committee (decision making body in line with defined thematic priorities of actions) and the Joint Technical Secretariat (implementation of calls, selection of projects, monitoring, and administrative support) were established for each of the CBC programmes.

Priorities for assistance for territorial cooperation:

1. Promoting employment, labour mobility and social and cultural inclusion across borders;
2. Protecting the environment and promoting climate change adaptation and mitigation, risk prevention and management through;
3. Promoting sustainable transport and improving public infrastructures;
4. Encouraging tourism and cultural and natural heritage;
5. Investing in youth, education and skills through;
6. Promoting local and regional governance and enhancing the planning and administrative capacity of local and regional authorities;
7. Enhancing competitiveness, the business environment and the development of small and medium-sized enterprises, trade and investment;
8. strengthening research, technological development, innovation and information and communication technologies.

Lessons learned from IPA II:

- IPA II was highly relevant,⁸ in line with national and EU priorities, as well as donor funding (EU political priorities, National Development Strategy, ERPS documents and their priority structural reforms, SAA implementation needs, etc.). There are numerous good projects, specifically in the rule of law area, support to SMES and youth employment, and support to energy/environment sec-

⁸ EC, External evaluation of the Instrument for Pre-accession Assistance (IPA II), Consortium composed of Particip, Ecorys, ECDPM, Fiscus, Itad and OPM, June 2017.

tor (EU support for clear air for Kosovo). The EC support is growing.

- The Western Balkans Investment Framework (WBIF) provided co-financing and technical assistance to strategic investments in the energy/energy efficiency, environment, social, and transport sectors, and also supported private sector development initiatives.
- Territorial cooperation in the form of cross-border, transnational and interregional cooperation programmes, favoured reconciliation and confidence building in the Western Balkans, overcoming geographical barriers and legacies of the past, and developing good neighbourly relations. There were numerous good projects with North Macedonia, Montenegro and Albania.
- IPA II was change oriented – the transition from country-based allocations to performance-based allocations and the introduction of performance reward mechanism shifted the paradigm of beneficiaries to think more about the end results and impact, rather than simply seeing IPA funding as earmarked financial envelopes of money that is to be spent through a tick-the-box exercise.
- Administrative capacities of IPA structures – due to prevalence of the direct management mode, the NIPAC office in Kosovo played a quite passive role on programming, implementation, monitoring and reporting. External support was required for setting any MRP⁹ related structure in the country. The administrative capacity of the NIPAC Office should be improved in order to become more proactive and effective. Specific training modules should be addressed to specific officials and necessary systems/tools should be developed and used. Sector Lead Institutions responsibility assigned within IPA II should be completed and strengthened. These institutions should be assigned the official mandate to coordinate the relevant activities at all stages of IPA implementation (programming, implementation, monitoring and reporting).
- Lack of ownership and ‘parallel world’ syndrome – when it comes to the European integration (EI) issues, somehow there is a misinformed, but deeply embedded, impression within state institutions that anything that is EU-related is the responsibility of Gov-

⁹ Monitoring, reporting and performance framework.

ernment structures for EU integration. Such an approach creates an environment characterized by the lack of ownership and commitment to EU-related issues by other stakeholder, including at local level.

- High staff turnover rate, lack of retention policy – the risk of loss of institutional memory and qualified staff in line ministries and small EI units in municipalities; frequent changes in the NIPAC office, key positions; and political support for administrative capacity building within the IPA structures create preconditions for indirect management model.
- Fragile national planning framework – IPA is not a magic stick to solve all development problems, i.e. IPA is successful, as much as national policies are. National Development Strategy and Economic Reform Programmes – gradually improved the planning process.
- Absence of empirical decision-making and structured processes – further work needs to be done on creating stronger synergies between all parts of the Government in the implementation of EU funds (MEI, MF, Cabinet of Prime Minister, etc.). It is necessary to develop legal documents that regulate the programming of IPA, to include all stakeholders in IPA consultation process.
- Support co-financing issues for important stakeholders at local level – it could be useful to established Municipal support fund for pre-accession financing of donor projects based on the Law on financing of local self-government, in order to support them to overcome problems with advanced financing of some project activities. The same should be introduced for NGOs in order to support them with co-financing of the EU funded projects.

IPA III 2021–2027 and the Main Components to Be Supported

IPA III will continue to support the beneficiaries in adopting and implementing key political, institutional, social and economic reforms to comply with EU values and to progressively align to the EU's rules, standards and policies. The allocation for the Instrument for Pre-Accession, supporting beneficiaries on their path to fulfilling the accession criteria in MFF 2021–2027, will be EUR 12,565 million (in 2018 prices) as detailed in Table 5.6.¹⁰

¹⁰ European Council conclusions, Brussels, 21 July 2020, EUCO 10/20. EUR 12,565 billion

TABLE 5.6 Thematic Priorities of IPA III per 'Windows'

(I) Rule of Law, fundamental rights and democracy	(II) Good governance, legal harmonisation, strategic communications and good neighbourly relations	(III) Green agenda and sustainable connections	(IV) Competitiveness and inclusive growth
(1) Judiciary (2) Fight against corruption (3) Fight against organised crime/security (4) Migration and border management (5) Fundamental rights (6) Democracy (7) Civil Society	(1) Good governance (2) Administrative capacities and legal harmonisation (3) Good neighbourly relations and reconciliations (4) Strategic communications, surveillance, evaluation and communication activities	(1) Environment and climate actions (2) Transport, digital economy and society, energy	(1) Education, employment, social protection and inclusive policy, and health (2) Private sector development, Trade, Research and Innovation (3) Agriculture and rural development (4) Fishery

Continued on the next page

IPA III 2021–2027 will be continuity of IPA II instrument. For the period 2021–2027, the new instrument should allow for sufficient flexibility to take into account evolving circumstances. Increased financial flexibility could be achieved by strengthening possibilities for reallocating funds within the instrument, in particular between and within facilities. Establishing a reserve within IPA could be considered; this would mean that a share of the total budget (e.g. 10%) could be kept unallocated to cater for unforeseen needs (e.g. migration) provided the carry over for commitments is allowed (European Commission, 2018a).

However, the most important novelty of IPA III is that financial allocations will not anymore be done on the basis of national envelopes, but on the premises of 'performance-based' principle. No fixed or indicative national/geographical envelopes will be established, although a principle of 'fair share' allocation for beneficiary countries will be integrated, as well as a 'performance-based principle.' Performance will be part of

in 2018 prices of 14.5 billion EUR in current prices – a significant increase compared to the current MFF amounts, which stand at €12.8 billion in current prices of 2020. (https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_988).

TABLE 5.6 *Continued from the previous page*

Thematic priorities of IPA III: cross border cooperation

- (1) Promoting employment, labour mobility and social and cultural inclusion across borders
 - (2) Protecting the environment and promoting climate change adaptation and mitigation, risk prevention and management
 - (3) Promoting sustainable transport and improving public infrastructures by, inter alia, reducing isolation through improved access to transport, digital networks and services and investing in cross-border water, waste and energy systems and facilities
 - (4) Promoting the digital economy and society by inter alia the deployment of digital connectivity, the development of e-Government services, digital trust and security as well as digital skills and entrepreneurship
 - (5) Encouraging tourism and cultural and natural heritage
 - (6) Investing in youth, education and skills through, inter alia, developing and implementing joint education, vocational training, training schemes and infrastructure supporting joint youth activities
 - (7) Promoting local and regional governance and enhancing the planning and administrative capacity of local and regional authorities
 - (8) Enhancing competitiveness, the business environment and the development of small and medium-sized enterprises, trade and investment through, inter alia, promotion and support to entrepreneurship, in particular small and medium-sized enterprises, and development of local cross-border markets and internationalisation
 - (9) Strengthening research, technological development, innovation and digital technologies through, inter alia, promoting the sharing of human resources and facilities for research and technology development
-

the process of accessing to funds, which will be based on criteria such as: project/programme maturity, absorption capacity, administrative capacity, expected impact and progress on rule of law, fundamental rights and governance. Therefore, no additional performance reward mechanism will be needed.

Key performance indicators for IPA III:

1. Composite indicator¹¹ on the readiness of enlargement countries on fundamental areas of the political accession criteria (including Democracy, Rule of Law (Judiciary, Fight against corruption and Fight against organized crime) and Human Rights).
2. Readiness of enlargement countries on public administration reform.

¹¹ The three composite indicators are elaborated by the European Commission on the basis of the reports on Enlargement, which also draw from multiple, independent sources.

3. Composite indicator on the readiness of candidate countries and potential candidates to the EU acquis.
4. Composite indicator on the readiness of candidate countries and potential candidates on fundamental areas of the economic criteria (functioning market economy and competitiveness).
5. Public social security expenditure (percentage of GDP) or employment rate.
6. Digital gap between the beneficiaries and the EU average.
7. Distance to frontier score.
8. Energy intensity measured in terms of primary energy and GDP.
9. Greenhouse gas emissions reduced or avoided (Ktons CO₂eq) with EU support.
10. Number of cross-border cooperation programmes concluded among IPA beneficiaries and IPA/EU MS.

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