

ADOPTION OF NEW MECHANISMS IN INTERNATIONAL ASSISTANCE PROGRAMS (IPA) IN ALBANIA

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ABSTRACT

Missing coordination and deficiencies are observed in the management of foreign assistance flowing to Albania. There is a lack of efficient mechanism in translating national policies into International Assistance Program, allowing assistance delivers the desired impact. This is particularly reflected when evaluating classical EC/IPA funded projects that neither do bring sectors synergistic solution, nor contributing fully to the sector overall reform. This is important to annotate as EC/IPA is amongst most important developing partners, by having delivered EUR 1.5 Billion from 1992 – 2013, and committing additional EUR 650 Million for the period 2014-2020.

While considering the ongoing Official Development Assistance, disbursement versus commitment remains low and there is a slowdown in the pace of disbursement also in the future. In considering this management problem, we have made use of both primary and secondary data. Desk review was the main methodology to get to our results, by looking at Strategic documents; Reports by EC, OECD, EBRD; Foreign finance progress reports; and Medium Term Budget documents. As well as, structured interviews have been conducted with National authorities and with donor's representatives.

In this framework, we have confirmed agency problems and lack of management capacities in the Albanian public administration. There is firm willingness of European Commission to change this situation, and move ahead in piloting innovative mechanisms as "Budget support", Joint Project Pipeline; and "Sector Approach". All are likely to improve efficiency, but impact still need to be validated.

In conclusion, we aim at identifying shortages of so-called classical methods of allocation of Foreign Assistance, and provide valuable recommendations for increasing recipient country absorptive capacity.

There is a need to set and validate a clear and long-term correlation between increased absorption of funds and funding mechanisms.

Keywords: *absorptive capacity, foreign aid, international assistance program, official development assistance, European Commission*

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1. Introduction

Since 2007, Albania, first as a potential candidate country for EU membership and then as Candidate Country, has been able to use EU financial pre-accession instruments for implementing political, economic, social and institutional reforms within the framework of the EU Integration Process. In recent years a lot of effort has been invested in the creation of a national institutional structure able to efficiently co-ordinate reforms supported through EU funded projects. Albania has benefited for the period 2007-2013 resources of total 591 million EUR, or 85 million EUR on average per year from the IPA pre-accession fund - about 0.1% of its national GDP. In order to understand the potential economic boost from EU funds, we should take into account the upper limit according to which each EU member state can receive resources from European Structural and Investment Funds (ESIF) is equal to a maximum of 2.6 % of its GDP³, Albania theoretically as an EU member state could, at current GDP levels⁴, receive a maximum 283 million EUR per year.

The experience in previous EU enlargements shows that many accessing countries, especially during the early post-accession years, have faced difficulties in absorbing EU funds from the EU budget. The major problems in using allocated EU funds have been lack of a coherent long-term strategy of national development at government level, lack of resources to co-finance projects, inefficient or in some cases absent horizontal and vertical coordination among ministries and different levels of governance in countries, and limited capacities in project/program planning and implementation.

Along with systemic shortages, a lack of skilled human resources pacifically engaged in management of EU funds in national, regional and local administrations has also been a problem. Therefore, this article aims at identifying shortages of so-called classical methods of allocation of EU assistance, and provides valuable recommendations for increasing recipient country absorptive capacity.

2. Experiences related to absorption of pre-accession EU funds. Case study of Slovakia

2.1. Absorption situation in pre-accession period (1995 – 2004)

Slovakia applied for EU membership in 1995. During nine years of reforms Slovakia managed to create administrative structures capable of implementing legislation harmonized with the *acquis* and fulfilled all necessary requirements for EU membership in May 2004. As in other similar accessing countries, the required reforms have been implemented with the support of EU pre-accession instruments for economic development (PHARE), environment and transport (ISPA) and agricultural and rural development (SAPARD).

In the period 1990-2007, the European Commission, via the PHARE program, committed 717.6 million EUR to Slovakia, with an absorption rate of 91.42% in the period 1990-2006⁵. The same is not achieved when referring to ISPA, where in the period 2000-2006, out of a total value of 637,451,738 million EUR only 60% of committed funds for Slovakia had been disbursed.⁶

³ The case of Croatia, in 2015.

⁴ As per Macroeconomic and Fiscal Framework 2018-2020, the GDP for 2016 is 10.9 Billion EUR

⁵ European Commission, Commission Staff Working Document Annexes to 2007 Annual Report on PHARE, Turkey Pre-Accession Instrument, CARDS and Transition Facility Country Sections & Additional Information Brussels, 2008

⁶ Report from the Commission Annual Report on the Cohesion Fund (2006) com(2007) 678 final, Brussels, 2007

The total allocation for Slovakia in the period 2000-2004 from the SAPARD fund was 77million EUR and 327 projects were completed by the end of 2004 i.e. one third of the total number of approved projects⁷. The absorption rate of SAPARD funds for Slovakia was 41.5% as of the end of 2004.⁸

As the absorption level shows, Slovakia has faced several challenges in using pre-accession assistance. Various European Commission Evaluation Reports show that the PHARE financial instrument to a large extent has been effective in influencing change and modernization of infrastructure, practices and procedures in all sectors. PHARE implementation in Slovakia is considered to have been particularly successful in areas such as the environment and internal market. This was not the case for some sectors such as cross border cooperation, agriculture, and social affairs and human resources development. It is important to emphasize the significance of the Twinning type projects which were successfully used in many priority areas and helped Slovakia to prepare for the implementation of EU policies and laws.⁹

As in most candidate countries, applied mostly to Albania also, the public sector in Slovakia has experienced major problems in recruiting and retaining highly qualified and motivated staff capable of managing EU funds effectively and efficiently. In addition, a huge administrative and human capacity problem was observed in central and local public administration and among applicants. Relevant studies related to candidate countries' absorption capacities reveal that the best overall performance regarding available personnel was in Hungary and Estonia and the worst in Slovakia.

A lack of human resources caused concern and drew criticism from the European Commission as to the adequate preparation of the Slovak Republic for EU Cohesion policy. The Slovak government reacted by launching intensive recruitment programmes in all relevant ministries and set aside additional financial resources to increase salaries of employees working with the EU agenda in order to prevent staff levels fluctuating.¹⁰

As a result the number of newly employed staff was even higher than the European Commission had recommended, but it was difficult to recruit staff with adequate knowledge, experience and background or to train them in a short period of time. All these problems which were related to a lack of administrative capacities posed a threat to efficient and sound implementation of the 2004-2006 programmes.¹¹

Additionally, weak administrative capacity for absorption of EU funds in Slovakia was caused by problems in inter-ministerial coordination, persistent lags in legislative adaptation while other problems delayed the preparation, coordination and adoption of necessary strategic and project documentation. For example, there were substantial difficulties regarding ISPA environment

⁷ Stanislav Buchta PhD, Regional aspects of SAPARD programme implementation in the Slovak Republic, *AGRIC. ECON. – CZECH*, 51, 2005 (12): 539–546

⁸ Commission Staff Working Document Annex to the SAPARD Annual Report – year 2004 {com(2005) 537 final}, Brussels, October 2005

⁹ Commission staff working document Annexes to 2004 report on PHARE {com(2005)701 final} Brussels, 2005

¹⁰ Vladimír Benc Readiness of the Slovak Republic for EU regional policy, Conference Almanac- Readiness of Candidate Countries for EU Regional Policy, Slovak Foreign Policy Association SFPA, 2003

¹¹ Slovakia and Cohesion Policy, Karol Frank, Veronika Hvozdková and Vladimír Kvetan, From Policy Takers to Policy Makers-Adapting EU Cohesion Policy to the Needs of the New Member States, Swedish Institute for European Policy Studies, September 2005

projects in Slovakia as, largely because of a lack of suitable projects, it took two years to start the projects.¹²

2.2 Absorption situation in Post-accession period (2004 – 2008)

On the basis of the decisions of the Copenhagen European Council of December 2002, 1.1 billion EUR was allocated to Slovakia from EU Structural Funds and some 0.6 billion EUR from the Cohesion Fund. Implementation of Structural and Cohesion funds has been carried out under the sole responsibility of Slovak authorities applying national procurement rules since October 2004. In terms of the absorption of the 2004-2006 funds, Slovakia was not particularly efficient in the first two years. By the end of 2006 cumulative execution rates were 36.3% of the total budgets available. At the same time, for example, Estonia, Slovenia and Hungary reached rates of 51.4%, 51.4% and 49.7% respectively. The average execution rate for the 10 new EU member states by the end of 2006 was 39.3%.¹³

However, by the end of 2008 - the fifth year of implementation of 2004-2006 programmes - Slovakia had reached a cumulative execution rate of 93.4% while the 10 new EU member states had an average cumulative execution rate of 94.8% - one percentage point below the 10 new EU member states' average execution rate. In addition to this it should be noted that in 2007 and 2008, 15 out of 25 EU countries registered N+2 de-commitments but only one of them was an EU-10 country: Slovakia. In Slovakia's case only one Objective 3 program was affected by an N+2 de-commitment of 8 million EUR in 2007 and 2008.

Moreover, Slovakia has had N+2 de-commitments higher than the EU-25 average of 0.68%.¹⁴

In its first year after accession, Slovakia continued to implement both pre-accession and post-accession assistance to address the remaining needs related to institution building for the implementation of the acquis, in line with the Extended Decentralized Implementation System (EDIS). As already outlined, institutional and administrative capacities were suboptimal during the pre-accession period and apparently deficient for simultaneous implementation of two different EU financial instruments (pre-accession and Structural Funds) in the first years of Slovak EU membership.

Finally, one very specific characteristic of the Slovakian experience of EU funds use was unprepared regional structures in the EU funds management system. This led to many deficiencies in vertical coordination between managing structures and final beneficiaries. The delay in implementing the fiscal decentralization reform caused problems connected to the preparation of regional structures for regional development management. Although administrative regionalization of the country was not necessary for the use of Structural funds, Slovakia has significantly transferred competencies and responsibilities for implementing regional policy to newly established self-governing regions. At that point, self-governing regions lacked experience of programming and planning at regional and local levels and, moreover, there

¹² Slovakia and Cohesion Policy, Karol Frank, Veronika Hvozdková and Vladimír Kvetan, From Policy Takers to Policy Makers-Adapting EU Cohesion Policy to the Needs of the New Member States, Swedish Institute for European Policy Studies, September 2005

¹³ European Commission Directorate-General Budget, Analysis of the budgetary implementation of the Structural Funds in 2006, Brussels, May 2007

¹⁴ For the programming period 2000-2006 N+2 de-commitments are regulated by article 31.2 of Council Regulation (EC) N° 1260/1999, known as the N+2 rule. The implementing rules are set in Commission Communication C(2002)1942, as amended by Commission Communication C(2003)2982

was a shortage of time to build up administrative capacities to participate efficiently in the creation of national programming documents and implementation of Structural funds.

3. Capacities of Republic of Albania for absorption of pre-accession EU funds – Instrument for Pre-accession Assistance (IPA) 2007-2013

In 2007 the EU introduced a new financial instrument for the pre-accession process for the period 2007-2013. During this budgetary period pre-accession funding is channeled through a single, unified instrument, the Instrument for Pre-accession Assistance (IPA), designed to deliver focused support to both candidate and potential candidate countries. According to the IPA programming 2007-2013 the allocation for the Republic of Albania was around 591 billion EUR. As a potential candidate country the Republic of Albania benefited from IPA components I and II. Only with the new IPA 2014-2020 framework Regulation, IPA components III, IV and V were available to all EU candidate countries which had to establish a certified Decentralized Management System (DMS) for EU funds.¹⁵

IPA is being implemented by the EU Delegation in Tirana, which has also taken over responsibility for past CARDS assistance from the European Agency for Reconstruction, which ceased to exist on December 31, 2008. Along it, the Albanian government has actively increased the participation in the programming of IPA funds in Albania, through Ministry of Integration as National IPA Coordinator.

To increase the impact of IPA assistance, the Commission has decided to concentrate its efforts on six targeted sectors, as outlined in the MIPD 2011-2013: 1. Justice and Home Affairs; 2. Public Administration Reform; 3. Transport; 4. Environment and Climate Change; 5. Employment and Social Inclusion; 6. Agriculture and Rural Development. Under the IPA 2007-2013 Programme, all sectors are covered by a set of projects or sector programmes, showing a balanced approach between capacity building (technical assistance) or investments (infrastructures). In the last years of IPA 2007-2013 programme, Albania has dedicated a lot of efforts to achieve the accreditation for the management of IPA funds under Component I (decentralized management). The EU transferred the management of IPA funds to national authorities under the Decentralized Management (DM) once the Albanian government assumed capacities and responsibilities during the accreditation period. More precisely, DM involves the transfer of responsibilities from the Commission to the Contracting Authority of the beneficiary country. Contracting Authority was responsible for tendering and contracting, and financial and administrative management of projects. The objective of decentralized management in the context of pre-accession strategy was

¹⁵ IPA consists of 5 components: IPA I - Institution Building and Transition Assistance: involves institution building measures and associated investment, as well as transition and stabilisation measures still necessary in the Western Balkans. It is delivered through annual national and multi-beneficiary programmes; IPA II - Cross-Border Cooperation: supports cross-border cooperation at borders between candidate/potential candidate countries and between them and EU countries. It may also fund participation of beneficiary countries in Structural Funds' trans-national co-operation programmes and Sea Basins programmes under the ENPI as appropriate; IPA III - Regional Development: finances investments and related technical assistance in the areas of transport, environment and regional competitiveness; IPA IV - Human Resources Development: is designed to strengthen human capital and help combat exclusion similar to the ESF in Member States; IPA V - Rural Development [referred to as IPARD]: serves to emulate post-accession Rural Development programmes by financing rural development-type measures, similar in nature to these programmes, though smaller in scale.

to improve ownership and enable the candidate and potential candidate countries to self-implement EU funds.

The effective decentralization of IPA management (i.e. the transfer of management power from the EU delegations to the beneficiary country) required the establishment of new structures and designation of authorities responsible for implementation of IPA funds. These authorities and structures are already established and functional.¹⁶ Albania in this process adopted the "Roadmap for the decentralization of the management of EU funds" and as result, IPA 2013 was the first Programme partly implemented under decentralized mode as a pilot exercise for the national IPA structures.

The establishment of institutional structures, with the exception of the Audit Authority, and key appointments of a national IPA coordinator (NIPAC), strategic coordinator for regional development and human resources development components (SCO), competent accrediting officer (CAO), national authorizing officer (NAO) and national fund (NF), were carried out as required by the DM Road map. Even though, Albania walked through a well-defined roadmap, and had the opportunity to learn from other more advanced candidate/accessing countries, there have been identified several problems.

Firstly, overall absorption capacities have been low, and still is. According to the Prime Minister's Office / DDPFFA¹⁷ the disbursement level in 2014 account for 47% of committed fund from all donors. In the same year, the disbursement for EU/IPA 2007-2012 funded projects is at the level of 45%. This is identified at key sectors/ministries such as Transport, Water and Sewerage, Justice and Home Affairs.

Secondly, timely planning of future assistance is essential to address key areas. Past experience with delays in implementation of CARDS and IPA has shown the need to ensure that projects do not become obsolete because of late implementation. Furthermore, project preparation is a complex process which requires significant time and human resources, especially in case of large infrastructure projects. Investment projects require the complex expertise by all involved stakeholders. Experience has also proven that the adequate preparation of a project is of the utmost importance for the later stages. The risk of delays or failures in implementation is higher in inadequately prepared projects. The lessons learned showed that there is a need to enhance the capacity of all relevant stakeholders in project preparation and implementation.¹⁸

Thirdly, the government and all ministries individually provided not sufficient level of support to all DM stakeholders and showed a poor understanding of the crucial role that they play in the successful management of EU funds in Albania. This situation constantly jeopardizes efficient use of EU funds in Albania and slowed down the efficient establishment of DM structures. There was an issue related to the recruitment of adequate personnel for efficient functioning of DM structure. This problem is related to current civil service salary scales that are low for the type of high quality staff urgently required for adequate functioning of DM institutions. Moreover, current restrictions on the employment of civil servants due to Albanian government obligations in the framework of an IMF financial arrangement could have been a serious obstacle to progress towards meeting the set deadline for DM accreditation. As matter of fact, this is partly addressed

¹⁶ Neritan Totozani, Challenges Of The Indirect Management Of EU Funds In Albania, European Scientific Journal, March 2016

¹⁷ Prime Minister's Office / DDPFFA, External Assistance Progress Report 2013-2014, Tirana, 2014

¹⁸ Neritan Totozani, Challenges Of The Indirect Management Of EU Funds In Albania, European Scientific Journal, March 2016

only lately (2017), with the revision of salary policies for Ministry of Finance structures, including the DM structures.

3. Conclusions and recommendations

Taking into account the objectives, instruments and precisely defined mechanisms for management of EU funds, it is not difficult to conclude that the success of their management depends exclusively on the capacities of the candidate countries to take the opportunities that the EU funds provide. Slovakia's practical experiences in the process of preparation for management of EU funds show that in spite of a relatively long preparatory period significant difficulties were still encountered in the initial years of EU membership (2004-2006). This illustrates that the preparatory phase of a candidate country is of enormous importance for the creation of efficient capacities for absorption of EU funds in the country. Moreover, it is of utmost importance that a policy for strengthening administrative capacities for using EU funds is quickly adopted at the highest political levels.

Once a member country, Slovakia's experiences show that efficient absorption of structural funds depends largely on the success of reforms of administration at national level reflected in a strengthening of administration to define efficient frameworks for managing long-term sector policies, enhancing inter-ministerial coordination, qualitative defining of national development programmes and improving human resource capacities to implement them.

The key to success was timely recruitment and adequate salaries of staff engaged in administrative structures assigned for EU funds management. Here it is important to note that continuity in personnel is very important as it enables the administration to build up a knowledge curve and helps new staff reach certain levels of knowledge as soon as possible.

In conclusion, it is of the utmost importance that the government provides competitive remuneration levels as well as an attractive career path for civil servants dealing with the management of EU funds in the country. Additionally, it is necessary to establish the recruitment and training mechanism of staff engaged in various DM institutions as quickly as possible to provide the necessary numbers and quality of required personnel.

As per Albanian government's experience in the initial years of using IPA funds and during preparation for IPA components III and IV showed that technical documentation for large investment projects at local level were not completed in a number of cases. In order to develop a pipeline of potential projects, line ministries must be very proactive in cooperation with relevant stakeholders at local, regional and national level and improve inter-sector cooperation with other line ministries during the programming and implementation of IPA funded projects.

Given the current experience in Albania and lessons learned from other countries, we can draw some recommendations:

- More ownership is needed by national authorities so that they are fully committed to the objectives and undertake the necessary reforms and actions for quality programming and implementation of all pre-accession funds as well as other funds after accession;
- Increase coordination between central institutions (Ministry of Integration, Prime Minister's Office / DDPFFA, Ministry of Finance and Key Line Ministries) and local authorities, as well as other stakeholders such as civil society.

- Ensuring a stronger link between Medium Term Budgeting, EU financing and strategic framework as a way to a better streamlining of IPA funds. This allow to have complementarities of funds and increased leverage to achieve results
- Further support to innovative mechanism for IPA funds implementation such as: Budget Support; Finance Programming via Sector Wide Approach; Joint programming (EU-Government Unit-Local Government Units); Strengthening National Investment Committee and Single project Pipeline mechanism.
- Ensuring professional, efficient and sustainable national administration which must meet EU rules on procurement and as well as function as Member States in the light of Structural Funds.
- Adequate involvement of NGOs and other relevant stakeholders in monitoring structures in order to reaffirm the transparent use of EU funds and prevent corruption. This includes the increase of capacities in the evaluation and impact assessment culture. The Albanian government must actively encourage development of own central and local, independent evaluation expertise found either in the private or NGO sector.

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