



Challenges for absorption of EU pre-accession funds in Kosovo under the Multiannual Financial Framework 2014 – 2020

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List of Abbreviations

CAP	Community Agriculture Policy
DDA	Department of Development Assistance
DIS	Decentralized Implementation System
ERP	Economic Reform Programme
EUOK	European Union Office in Kosovo
GNI	Gross National Income
GNP	Gross National Product
KCSF	Kosovar Civil Society Foundation
KIPA	Kosovo Institute of Public Administration
MEI	Ministry of European Integration
MFF	Multi-annual Financial Framework
MoF	Ministry of Finance
MPA	Ministry of Public Administration
MTEF	Medium Term Expenditure Framework
NDS	National Development Strategy
NIPAC	National IPA Coordinator
NPISAA	National Programme for Implementation of Stabilisation and Association Agreement
OPM	Office of Prime Minister
PCM	Project Cycle Management
PFM	Public Finance Management
SAA	Stabilisation and Association Agreement
SAPD	Stabilisation and Association Process Dialogue
SBS	Sector Budget Support
SPO	Senior Programming Officer
SSG	Strategic Steering Group
TAIEX	Technical Assistance and Information Exchange
VL	Visa Liberalisation
WBIF	Western Balkans Investment Framework

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Executive Summary

Introduction: The main objective of this Analytical Note is to discuss the challenges facing Kosovo with regard to the absorption of pre-accession funds under the IPA II instrument of the MFF 2014–2020. For the preparation of the Note, several methodological tools have been used: (i) review of the existing literature, (ii) workshop aimed at discussing the main issues to be covered by the Note, and (iii) structured interview with 16 individuals from various groups of stakeholders, mainly from government institutions. The Note consists of three substantive chapters. The second chapter provides an insight into the broader EU framework for the MFF 2014–2020 and compares the IPA II with IPA I. The third chapter analyses the current status and the challenges facing Kosovo with regard to the effective absorption of these funds. The conclusion and recommendations are presented in the final chapter.

Broader EU framework for the MFF 2014-2020 and IPA II as a new generation of pre-accession instruments: Even though the general objectives and areas of intervention of the IPA II are conceptually not very different from those of its predecessor, the revised IPA instrument is still quite different from the IPA I. In contrast to IPA I, IPA II is less focused on the narrowly defined EU accession objectives and more focused on general socio-economic and good governance objectives. Specifically, the IPA II has at least the following features that distinguish it from the IPA I: (i) non-differentiated status of all the candidate countries, (ii) stronger focus on broader development-driven management structures, (iii) introduction of the so-called sector approach, (iv) introduction of the sector budget support instrument, and (v) introduction of a stronger performance reward.

IPA II in Kosovo: Status, determinants and challenges for effective absorption: This chapter of the Note consists of two parts. The first one provides a detailed assessment of the country's capacity for absorption of the IPA funds. More specifically, the following aspects determining how effectively Kosovo uses the pre-accession funds have been analysed: (i) institutional and administrative framework, including human resources, (ii) strategic planning framework, (iii) management system, and (iv) programming and monitoring. The second part of the chapter addresses the challenges faced by Kosovo while introducing the two IPA II novelties, namely the sector approach and sector budget support instrument.

Conclusions: (i) The new IPA II features generally fit well with Kosovo's rather early stage of EU accession, (ii) the two parallel approaches for programming and management of the IPA II will make these processes in candidate countries, including Kosovo, more complex and challenging than under the IPA I, (iii) under the IPA II, candidate countries will face additional risks and challenges for effective absorption of EU pre-accession funds, (iv) the legal framework for the programming and management of IPA funds in Kosovo is largely in place though some adjustments to the IPA II novelties might be needed, (v) IPA programming in the country is still characterised by several deficiencies, such as inconsistencies in national programming documents, (vi) the involvement of

political entities in IPA decision-making in Kosovo is still suboptimal, (vii) the programming and implementation of IPA funds at the project level improved in the country in recent years, (viii) the channelling of IPA funds to Kosovo under the traditional project approach is expected to remain firmly based on the centralised structure with the building of a decentralised structure to be postponed until the end of the IPA II period, and finally, (ix) the use of sector budget support as a new IPA instrument is strongly supported, as highlighted by the structured interviews.

Recommendations: (i) To organise a one-day high-level seminar where top policy-makers of the government will discuss and provide guidance on how to effectively integrate pre-accession assistance under the IPA II into the design and implementation of key domestic development priorities, (ii) to engage in a strategic discussion aimed at achieving a consensus among the key national stakeholders regarding the long-term goals of IPA programming and management, (iii) to design and put into operation an institutional structure at the central government level (based either on an existing one or an entirely new one) that will provide strategic guidance for Kosovo's IPA II activities, especially for its sector budget support component, in turn, providing a framework for appropriate and timely involvement of the political level into the decision making, (iv) to articulate a concrete capacity development plan for implementation of the objectives set for effective IPA II programming and management, (v) to strengthen the strategic planning framework through implementation of the IPS as it will not only contribute to smoother implementation of the sector budget support but also set the stage for effective implementation of a decentralised implementation structure later, and (vi) to involve, in an appropriate manner, all relevant stakeholders in the country in the IPA programming and management activities.

1. Introduction

After prolonged negotiations, the year 2014 marked the beginning of the new multiannual financial framework of the EU (MFF) covering the period 2014–2020. This is the fifth MFF in the history of the EU and the first one under the Lisbon Treaty that made this instrument obligatory. The MFF 2014–2020 is also the first instrument where the volume of funds is smaller than that observed in the previous MFFs, clearly reflecting the crisis environment under which it was negotiated.

In the period 2007–2013, the new member states that were part of the 2004/7 large Eastern enlargement were fully phased in for the use cohesion funds. For all of them, the absorption of these funds has been and continues to be a significant challenge in terms of both programming and management and finance. Significant problems with the absorption of EU funds were observed also in the candidate countries of the Balkan region which per the MFF 2007–2013 were eligible for pre-accession funds under the IPA I instrument. The fact that political appetite for further EU enlargement in the region has reduced is reflected also in the features of the revised pre-accession financial instrument in place for the period 2014–2020 which is called as the IPA II. These changes will, indeed, pose new challenges to the candidates aiming to absorb these funds effectively.

The main objective of this Analytical Note is to discuss the challenges facing Kosovo with regard to the absorption of pre-accession funds under the IPA II instrument of the MFF 2014–2020. The Note is aimed at deepening the knowledge on European integration issues in Kosovo and, to some extent, represents an update of the analysis “*Absorption for EU pre-accession funds: Concept and Implications for Kosovo*” published by the KCSF in 2008, addressing the specifics under the IPA I environment.

In the preparation of the Note, the team – comprising an international and a local expert – used and combined several methodological tools. An extensive review of the existing literature was made in the early stage of the work. This was followed by a workshop in Tirana, Albania on 19 September 2015 aimed at discussing main issues to be covered by the Note and the structuring of this work. An important component of the Note preparation was the structured interview conducted with 16 individuals from various groups of stakeholders, mainly from government institutions (see the Annex for the list of the people interviewed).

In addition to this *Introduction*, the Note consists of three chapters. The *second chapter* provides an insight into the broader EU framework for MFF 2014–2020 and the position of the new generation of the IPA instrument within this framework. Special attention is given to the comparison of the IPA II with IPA I, i.e. its predecessor from the 2007–2013 period. The *third chapter* prepared by the local expert looks at the IPA II in Kosovo and provides an overview of the current status and the challenges the country faces with respect to effective absorption of these funds. In the *fourth chapter*, the main conclusions are presented, separately for each of the two preceding chapters, followed by policy recommendations.

2. Broader EU framework of MFF 2014–2020 and IPA II as a new generation of pre-accession instruments

2.1. Key features of public finances at EU level and of the MFF 2014–2020

Public finances at the EU level consist of two key instruments – MFF and annual budgets

Since 1988, public finances at the EC/EU level consist of two key pillars. The strategic course over the medium-term period is being set through an instrument called as the multiannual financial framework (MFF) with this course to be elaborated and implemented through the annual budget. The MFF is a financial instrument for medium-term planning in the EU and is technically aimed at strengthening the budget discipline, controlling the growth of the expenditure of the EU budget and enabling a smooth annual budgetary procedure. Before the Lisbon Treaty entered into force, the MFF was a voluntary instrument implemented through inter-institutional agreements among the European Council, European Parliament, and European Commission, but under this Treaty, it became an obligatory instrument. In contrast to most decisions, Council decisions related to economic and financial issues that are taken on the qualified majority basis, an agreement on an MFF has to be taken by consensus. Until now, EU institutions have adopted five MFFs; Delors I (1988–1992), Delors II (1993–1999), Agenda 2000 (2000–2006), MFF 2007–2013, and the current one 2014–2020¹.

Main characteristics of the MFF 2014–2020

Table 1 presents the size and expenditure structure of the MFF 2014–2020 as finally adopted. As can be seen from the Table, the overall size of the EU budget for the MFF 2014–2020 will be smaller than that for the MFF 2007–2013 and this is the first time that the size of an MFF will be lower than that of its predecessor. Concerning the expenditure structure of the EU budget, no significant changes can be observed. Although 37% more funds are allocated for competitiveness purposes than the MFF 2007–2013, the allocated amounts are significantly lower than those mentioned in the Commission's proposal. Concerning the two main expenditure items – CAP and cohesion policy, they were both reduced as compared to the MFF 2007–2013 figures. Nevertheless, in combination, they account for more than 70% of the total EU budget expenditure. Also, the revenue aspect of the EU budget remained more or less unchanged with the new EU taxes being postponed. Furthermore, there was no necessity for eliminating the highly complex and non-transparent correction mechanisms, so the EU budget continues to be burdened with the UK correction and numerous other corrections².

¹ See for more details on EU budget: Mrak, Mojmir, *European Union Budget*. The New Palgrave Dictionary of Economics. Online Edition. Eds. Steven N. Durlauf and Lawrence E. Blume. Palgrave Macmillan, 2011. The New Palgrave Dictionary of Economics Online. Palgrave Macmillan.

² See for more details on MFF 2014–2020: Mrak, Mojmir and Richter, Sandor and Szemler, Tamasz. *Cohesion Policy as a Function of the EU Budget: A Perspective from CEE Member States*. WIIW Research Report 400, May 2015.

Table 1: MFF 2014–2020 vs. MFF 2007–2013 (commitment appropriations in 2011 prices)

Heading	2014-2020	2007-2013	Comparison to 2007-2013	
	bn EUR	bn EUR	bn EUR	per cent
H 1a: Competitiveness for growth and jobs	126	91	+34	+37
H 1b: Economic, social and territorial cohesion	325	355	-30	-8
H 2: Sustainable growth: natural resources	373	421	-48	-11
H 3: Security and citizenship	16	12	+3	+27
H 4: Global Europe	59	57	+2	+3
H 5: Administration	62	57	+5	+9
Total MFF	960	994	-34	-3
Outside the budget (flexibility instrument, EGAF, SF, DF, emergency aid reserve)	38	40	0	+10

Source: Background document for the conference: “*Future of the EU Multiannual Financial Framework*”, Berlin, 15 June 2015

IPA II as part of the MFF 2014–2020

Expenditures under Heading 4 “Global Europe” are aimed at achieving the global player objectives of the EU. Similar to the previous MFFs, various thematic and geographical instruments are being used in this context; their common characteristic is that the money is spent outside of the EU. One of Global Europe instruments focused specifically on EU candidate countries is pre-accession assistance organised under the so-called IPA II instrument. With allocation of funds equivalent to 11.7 bn EUR, the IPA II represents the third largest expenditure item under the Global Europe heading, after the Development Cooperation Instrument and the European Neighbouring Instrument.

2.2. Key features of and differences between the IPA II and IPA I

Objectives of IPA II

The Instrument for Pre-accession Assistance established under the EU Regulation No. 231/2014 (IPA II) has four specific objectives: (i) support for political reforms; (ii) support for economic, social, and territorial development; (iii) strengthening the ability of the beneficiaries to fulfil the (future) obligations stemming from EU membership by supporting progressive alignment with the Union *acquis*; and (iv) strengthening regional integration and territorial cooperation. With the exception of the last objective, which is

specific to the Western Balkans, the objectives are aimed at meeting the Copenhagen accession criteria articulated at the 1993 European Council.

IPA II priority areas

Financial assistance under IPA II should mainly address the following policy areas: (i) reforms in preparation for Union membership and related institution-and capacity-building; (ii) socio-economic and regional development; (iii) employment, social policies, education, promotion of gender equality, and human resources development; (iv) agriculture and rural development; and (v) regional and territorial cooperation. In substance terms, these priority areas are rather similar to the five components in the IPA I.

Five main features distinguishing IPA II from IPA I

Even though the general objectives and areas of intervention of the IPA II are conceptually not very different from its predecessors – the IPA I under the MFF 2007–2013 and the three pre-accession instruments under the MFF 2000–2006 – and, in these respects, represents their continuation. The revised IPA instrument is still very different from the IPA I in at least the following five features:

- ***From differentiated to non-differentiated status of the candidate countries***
Under the IPA I, only candidate countries were eligible to tap funds from all the five components of the instrument, while potential candidates had \ access to two components only, namely components 1 (institutional building) and 2 (regional cooperation). In practice, the distinction between the two groups of candidate countries did not have a major impact on the actual allocation of funds to individual countries. Potential candidates were able to finance projects that would formally fall under components 3 (regional development), 4 (social policy) and 5 (agriculture) under component 1. In contrast, under the IPA II arrangement, the status of all the candidate countries is all the same – there is no distinction between candidates and potential candidates.
- ***From more accession-driven centralised/decentralised management structures to broader, development-driven management structures***
Under the IPA I, pre-accession management of funds was designed primarily to serve as a “training ground” for the period after the accession when new member states would have to manage significantly higher volume of funds channelled to these countries under structural actions and rural development polices. While the management of components 1 and 2 was possible in the form of centralised management, i.e. with the core responsibility remaining with the European Commission, the management of components 3, 4 and 5 was necessary in a decentralised manner, i.e. with the beneficiary country assuming the management role and the European Commission acting as a controller. Under the IPA II, the management structure and implementation rules are adjusted to the general development and good governance objectives of candidate countries.

- ***From project-by-project approach to sector approach***

In earlier versions of pre-accession instruments, including the IPA I in the 2007–2013 period, the EU candidates were assisted via numerous individual projects covering a large number of thematic priorities. These were typically priorities that were aimed at harmonisation of the *acquis* and at its full implementation. This project-by-project approach was, indeed, sub-optimal as stand-alone projects, even when being managed well and having met their narrowly defined objectives, had only limited sectoral or even national policy-level relevance and impact. What was missing was the link between sectoral/national priorities and individual projects financed by pre-accession aid. In order to address this deficiency, the IPA II introduces the concept called as sectoral approach. What does it actually mean? The European Commission defines it as a sector with a developed strategic framework, planning and monitoring body as well as a specific budget. In order to ensure ownership and alignment with the national policy and institutional frameworks, such an approach would be best utilised in an environment where sectors are clearly delineated and a clear policy is in place, characterised by a culture of inter-institutional coordination, monitoring, and budgeting³. The sector approach, used extensively by EU development policy in the recent decades, is aimed at (i) achieving stronger alignment of national and EU objectives, (ii) strengthening the ownership of the candidate countries over the IPA-funded projects, (iii) increasing impact and achieving higher policy relevance, and (iv) better use and improved coordination of foreign assistance provided to candidate countries.

- ***Sector budget support instrument introduced under IPA II***

Closely associated with the sector approach of delivering IPA II assistance is the introduction of the sector budget support instrument. The instrument, used extensively in delivering EU development assistance in the previous decades and as an exception also under IPA I, is to be implemented through sector reform programmes. Sector budget support implemented through Sector Reform Contracts consists of the transfer of EC funds to the national treasury of a beneficiary country in exchange for its commitment to implement certain policy measures and meet the agreed conditions or benchmarks. The payment schedule is agreed during the design of the programme and consists of fixed tranches and variable tranches. Four criteria are used by the European Commission to assess the general eligibility of the potential beneficiary country for sector budget support: (i) existence of a credible and relevant sector strategy, (ii) existence of a credible and relevant programme to restore/maintain macroeconomic stability, (iii) existence of a credible and relevant programme to improve Public Financial Management (PFM), and (iv) sufficient level of budget transparency. The payment arrangement is agreed during the design of the assistance, and typically consists of fixed tranches and variable tranches with the latter being subject to an assessment involving a set of indicators, agreed between the country and the European Commission during the design phase. Once

³ Kosovo ISP, p. 11.

received by the national treasury, the funds become fungible and deployed using the country's own budgeting, accounting, and procurement rules and procedures⁴.

- ***Stronger multiannual programming and performance reward were introduced under IPA II***

In contrast to the IPA I, IPA II is based on a much more comprehensive and detailed multi-annual programming. Indicative multiannual country strategy papers include indicative financial allocation for each of the beneficiary countries for the entire period of 2014–2020. In contrast to the IPA I, the IPA II Regulation introduces the so-called performance reserve, i.e. additional funds are allocated as a reward to a beneficiary after an assessment its performance and progress over a period of several years.

2.3. IPA II reflects revised EU strategy towards enlargement

Revised strategy towards enlargement is being reflected in a new generation of EU's pre-accession assistance instrument for the 2014–2020 period

The existing political climate among EU member states with the reduced appetite for Western Balkan enlargement has had direct implications for the conceptual framework of pre-accession assistance. As there is no credible timetable for the region to enter into the EU, it has become increasingly questionable to focus pre-accession assistance on *acquis*-related objectives. Focus on narrowly defined accession-driven agenda would cause illusions on the one hand and high risk of disappointment on the other. The overall philosophy of the IPA II is therefore to continue with provision of pre-accession assistance, but the assistance should be less focused on narrowly defined EU accession objectives and more on general socio-economic and good governance objectives⁵.

Each of the main features distinguishing IPA II from IPA I is consistent with the revised philosophy of the 2014–2020 pre-accession instrument

The revised philosophy of IPA II *vis-à-vis* its predecessor is reflected in each of the novelties incorporated into the IPA II.

- ***Undifferentiated access to funds:*** Under circumstances when the enlargement agenda is increasingly unclear in terms of the timetable, there are fewer arguments for having a distinction between candidates and potential candidates with respect to access to pre-accession funds. Experiences over the last decade clearly indicate that being a candidate country does not necessarily mean that a country is closer to the membership status. The case of Macedonia – a candidate country for 10 years

⁴ SBS in a Nutshell.

⁵ Koeth, Wolfgang, 2014, *The New Instrument for Pre-accession (IPA II): Less Accession, More Assistance?*, p.14.

but not having even started the EU accession negotiations – illustrates this point well.

- **From narrow accession driven objectives to more general development and good governance objectives:** The IPA I management structure with the focus on EU accredited management institutions was designed under strong influence of shared management logic applied by EU member states for managing cohesion and rural development funds. This management structure was, therefore, strongly accession driven and aimed at preparing candidates for effective absorption of EU funds after the accession. As the IPA II is less geared towards narrowly defined EU accession objectives, its management and implementation structure has been adjusted. With regard to structure, the IPA II is much less accreditation driven than its predecessor. While this point may not be a matter of concern for those candidates that will not join the EU before mid-2020s, it could raise concerns among those candidates that still hope for membership in the early 2020s, especially Montenegro and Serbia. With the change in the management structures under the IPA II, these countries will be under less pressure to put in place management structures, including accredited certified bodies that will be able to effectively manage large inflows of cohesion funds after the accession.
- **Sector approach:** There is no doubt that the sector approach has many positive sides, as it strengthens the ownership of the beneficiary over the project, effectively links individual projects with national and sectoral priorities, and provides a framework for better coordination with other donors. However, the approach is associated with potential disadvantages as well. The disadvantages are more obvious for the candidates closer to the EU accession than for the candidates that are still far away from the membership. For instance, moving funds away from specific EU accession projects would increase the likelihood of countries not being well prepared, first, for assuming obligations under the *acquis*, and second, for absorbing large volumes of EU funds they will be entitled to upon the accession.
- **Sector budget support:** Following the “fundamentals first” logic of the revised enlargement strategy, an important objective of the IPA II is to strengthen the link between the enlargement strategy and the priorities for assistance in order to ensure its coherency and strategic approach. As a consequence, the IPA II assistance focusses on support to those national reforms that bring the country closer to the EU in the key areas, such as the rule of law, economic governance, public administration reform, and public financial management. There is no doubt that sector budget support has many benefits, including clearer link between political agenda and financial resources, increased ownership and improved domestic accountability, improved macroeconomic stability and management of public finances, and lower transaction costs. These benefits are highly commendable, but at the same time, these benefits are associated with very general objectives, such as improved socio-economic development and/or better governance. On the other hand, the instrument seems to be less suitable for focused accession-driven objectives that require the use of fine-tuned individual projects. The proportion of the total IPA II funds that needs to be channelled via the sector budget support instrument to an individual candidate country should, among others, depend on its

status in the EU accession process. The farther the country is from the EU accession the greater the appropriateness of the sector budget support instrument. However, for candidates closer to the EU accession, more room should be made for “classical” accession-driven assistance and more attention should be paid to putting in place appropriate management structures.

3. IPA II in Kosovo: Status, determinants, and challenges for effective absorption

The purpose of this chapter is to provide an overview of the overall developments in Kosovo with regard to its IPA absorption capacity as well as the implications of IPA II novelties for Kosovo. The chapter is composed of two sub-chapters. The first one deals with the main elements and processes determining Kosovo's ability to absorb IPA funds while the second sub-chapter provides an overview of Kosovo's approach towards the IPA II, with a focus on sector approach.

The extent to which a country is able to programme and absorb funds is determined by a number of factors and processes. Funds absorption has been defined as "the extent to which a state (member or non-member) is able to spend the allocated financial resources fully and in an effective and efficient way"⁶. According to Mrak and Tilev (2008), the main determinants of successful funds absorption are related to the macro-financial situation, public finance management, and institutional capacity. These are also considered by the EC as the main criteria in defining a successful implementation of interventions under the IPA II legislation, through a sector approach.

In general, in Kosovo, the IPA I funds have been awarded and spent at a quite high level as compared to in the other regions, rivalled only by Serbia and Montenegro, at 8 euros per capita per year⁷. The main reason behind such a good level of absorption in terms of funds awarded and expenditure is the centralised management of IPA funds by the Commission. The centralised management system in Kosovo has resulted in a quite extensive involvement of the EU in project preparation and management, which, in turn, has affected the funds absorption.

Nevertheless, taken as a stand-alone variable, funds absorption – strictly seen as funds awarded and their expenditure – does not necessarily represent a clear picture on how advanced a country is in its preparations for using IPA funds or its standing in European integration process⁸. As can be seen in the following sections, except for a greater role in project programming, Kosovo lags behind pretty much in most areas that ensure effective funds absorption, such as management system and strategic planning and preparations for a decentralised management system.

3.1. Main elements and processes determining Kosovo's ability to absorb IPA funds

This sub-chapter focuses on Kosovo's capacity for absorption of IPA funds by looking at the main elements and processes affecting this capacity. Specifically, it will look at the following IPA elements and processes: (i) institutional and administrative framework, including human resources, (ii) strategic planning framework, (iii) management system,

⁶ Mrak, Mojmir and Tilev, Dragan, Absorbimi i fondeve të para-antarësimit në BE: koncepti dhe implikimet për Kosovën.

⁷ Denti, Davide, Did EU candidacy differentiation impact on the performance of pre-accession funds? A quantitative analysis of Western Balkan cases p. 73.

⁸ Ibid,

and (iv) programming and monitoring. Since the macro-financial situation and public finance management are the core criteria for the sector approach, we will elaborate them under the next sub-sector, where we discuss Kosovo's position with regard to the sector approach requirements of the IPA II.

Institutional and administrative framework

The government of Kosovo has developed a simple institutional framework with regard to the IPA. So far, the focus has been on strengthening the programming institutions while the establishment of implementing structures is yet to be tackled under a forthcoming endeavour involving indirect management⁹.

The main actor in IPA programming is MEI, who until 2012 tried to coordinate the programming through its sectorial departments¹⁰. Such departments were responsible for coordinating both the policy part of EU integration (SAPD) and the programming of IPA and other donors' funds. Given the limited number of staff then (for most of the cases, one staff member had to cover SAPD as well as IPA in one particular segment of EU policy), the MEI's thinking shifted towards separating the functions; thus, the Department of Development Assistance was established in 2012. The Department employs 10 staff members, covering thematic areas of EU policy and horizontal issues like Twinning, TAEX, and WBIF. The mentioned department also plays the role of the office of the NIPAC, a position held by the General Secretary of the Ministry. At the level of line institutions, most line ministries have designated Senior Programme Officers (SPOs), who are responsible for coordinating the IPA programming at the ministry level.

The current institutional setting has progressively allowed for a greater role on the part of the administration in IPA programming exercises. While a few years back, most of the programming was undertaken by the Commission services, the situation has somewhat shifted recently, with the MEI and line ministries playing a much more active role. The administration's recent active role in preparing the Indicative Strategy Paper as well as the ensuing Sectorial Planning documents indicates progress in terms of increasing ownership. This seems to have been made possible by the recent efforts at staffing the MEI and line ministries with the relevant programming staff, as evidenced by the creation of the Development Assistance Department in the MEI and appointment of Senior Programme Officers in line ministries. In addition, such improved situation is also due to the stability in terms of staffing in MEI and line ministries.

In terms of capacity development, the government has also focused on enhancing the human resources skills in the programming of IPA funds. Such efforts have focused on

⁹ Throughout IPA I, MEI and line ministries were mostly engaged in the programming exercises, while there has been no consensus neither within MEI or in line ministries as to when is the most appropriate time for starting preparations for a decentralized management system.

¹⁰ MEI Departments were thematic in nature, covering EU agenda as in the following: Department of Governance, Department on Economic Criteria and Internal Market as well as Department on Sectorial Policies.

ensuring skills at using programming tools, concentrating mainly on the logical framework approach. In addition, extensive longer term training and certification¹¹ for a number of civil servants and medium and short-term training was also provided¹². The KIPA prepared a special module on the topic and holds regular training on it through certified local trainers¹³. Plans for a more comprehensive capacity building programme are being discussed in MEI, targeting not only the European affairs officers but also those dealing with sectors. Better use of the Young Cell Scheme will also be considered, in terms of placing such officials within line institutions with the aim of supporting IPA programming and monitoring¹⁴.

While there has been good progress in the area of institutional and administrative capacities with regard to IPA programming, there are a number of challenges to be overcome. Thus, while the institutional setting has somewhat stabilised, the staffing in neither the MEI nor line institutions is sufficient. The staffing situation is especially difficult in line institutions, where, in most cases, the senior programming officer's portfolio also includes responsibilities related to the overall SAPD dialogue as well as other ministerial-level policy planning. Also, not all line ministries have been able to appoint candidates at senior programme officer positions. A crucial challenge in the area is the still weak cooperation and coordination culture between various organisational units within the government.

So far, capacity development with regard to European integration, including for the purposes of IPA programming, has been tackled through the National Civil Service Training Strategy. The general consensus is that such a platform does not necessarily provide the appropriate grounds, firstly, for identifying the real capacity needs and, secondly, for implementing the intervention measures in a comprehensive and purposeful manner.

Strategic planning framework

As been pointed out several times by the European Commission, Kosovo needs a functioning national strategic framework in order to better use EU and other funds, especially under the IPA II.

In order to achieve this, over the recent years, Kosovo has been making efforts with a view to enhancing its capacity of policy planning and coordination. With this in mind, the Government has established a Strategic Planning Office (SPO) attached to the Office of the Prime Minister as well as a Strategic Steering Group (SSG), headed by the cabinet of the Prime Minister and composed of officials from the OPM, MoF, MPA and MEI. The responsibility of the group is to ensure policy coordination at the centre of government. Also, the DEIPCs have been given the added function of policy coordination at the

¹¹ Regional GIZ project 2011, Strengthening Project Generation Capacities in Western Balkans.

¹² EC Twinning Project, Support to European Integration, Kosovo, 2009-12.

¹³ KIPA Annual Training Plan 2015.

¹⁴ Interviews held in Prishtina, October 2015.

ministerial level¹⁵. Recently, the Government established a Strategic Planning Commission, chaired by the Prime Minister, with the MEI and MoF as core members, while participation is open to all other institutions, depending on the agenda of the meeting. The SPC completed the institutional framework for an Integrated Planning System, in line with the Strategy for Improvement of Policy Planning and Coordination (IPS Roadmap), which was approved in June 2015.

As a first step, the Government has undertaken efforts to strengthen the overarching strategic framework, by working in parallel for developing a National Development Strategy (NDS) as well as a National Programme for Implementation of Stabilisation and Association Agreement (NPISAA), after having put in place a Government Programme 2015–18 as well as Kosovo’s first Economic Reform Programme (ERP) 2014. The objective here was to ensure longer term vision and targets, which, in turn, would inform policy making at the sector level. Supported through EU financing, the NDS is mainly focused on areas and sectors related to economic growth while the NPISAA has been drafted with a view to ensuring the recently ratified SAA requirements and initial *acquis* transposition. On the other hand, the ERP was prepared in 2014 for the first time and established the main basis for Kosovo-EU dialogue on economic governance. In terms of financial linkage to policy, Kosovo has been drafting its Medium Term Expenditure Framework, whose aim it is to link policy and financial projections on a rolling three-year period basis. The budget of the country follows, for the most part, the MTEF.

While the overarching strategic planning is seemingly complete (at least in terms of drafting the documents), the government is now focusing on strengthening such planning at the sectorial level. With this view, the Government has approved the legislation on standardising the sectorial strategic documents and adopted an Integrated Planning Strategy, whose aim is to ensure proper planning at all levels, including the sector level. Although the overarching planning level is somewhat complete, the linkage between various documents was achieved in a purposeful and coordinated manner. First, there is no definition of what an overarching strategic document will contain. For example, the NDS contains specific sectorial policy elements (human capital development) while the NPISAA also contains interventions at all levels, including sectorial policy. On the other hand, both documents also include outputs to be reached by certain sectors.

The challenges are manifold in the sectorial level: most of the sectors are not clearly delineated, and the strategic documents are fragmented and do not necessarily follow a uniform planning and monitoring process. Most of the strategic documents are only partially monitored while efforts at result-based monitoring are in the nascent phase. Most strategies are monitored in terms of completion of activities, rather than through

¹⁵ Up until 2010, when DEIPCs were created the original ministerial bodies dealt only with the European integration affairs, including IPA programming. However, this was changed with the decision establishing the DEIPCs in 2010, whereby the function of policy planning and coordination within ministries was added, which also resulted in DEIPCs being linked not only to MEI but also the SPO in OPM.

a performance-based approach. In addition, there are insufficient mechanisms in place to ensure the linkage between sector strategies and the MTEF.

Even more difficult than establishing functioning “umbrella” and sector strategies is establishing a link between them, the MTEF, and annual budget. While there has been considerable progress in the MTEF and budget development, Kosovo is still far from establishing a “programme based” MTEF informed by policy. Kosovo’s budget is simple and reflects planning in economic categories, such as wages, goods and services, capital investment, and subsidies. As such, it does not necessarily present obstacles in establishing a programme-based approach. It is the MTEF that needs to be developed enough to ensure a clear link between the annual budget and policy, as prescribed by the IPS approach.

Management system

The IPA in Kosovo has been centrally managed by the European Union Office in Kosovo (EUOK). So far, no efforts have been undertaken in starting preparations for an indirect management system. While the programming is increasingly undertaken by the Kosovo administration, the tendering, contracting, and project monitoring still largely remain under the authority of the EUOK. Over the years, the need to start preparations for a decentralised system was pointed out by the Ministry of Finance, but no consensus was achieved within the MEI or at the Government level.

Concerning the efforts for setting-up a decentralised implementation system for the IPA, Kosovo is the only country in the region which has made no attempts in this regard¹⁶. In a KCSF analysis of 2008¹⁷, it was shown that Kosovo started serious efforts at DIS no later than 2009 and established most of the structures by 2010, through a gradual approach¹⁸. It was estimated at the time that there would be a need for an additional 100 officials to be employed and heavily trained as part of the implementing structures for a decentralised system of IPA management¹⁹. Nevertheless, except for establishing NIPAC in the MEI and SPOs in line ministries, no other structures needed under a DIS have been considered or decided upon.

The thinking behind the decision of not taking up such recommendations is related mostly to the perception of the government that Kosovo is still at an early stage of European integration to start such a cumbersome process (after all, the SAA has only been adopted recently). In addition, there has not been clear guidance from the Commission in actually starting with such preparations. In the meantime, the MEI has been cautious in starting the DIS, given the difficulties faced by the countries in the

¹⁶ While Macedonia, Serbia, Montenegro, Albania are already implementing IPA I components under a decentralized system, Bosnia and Herzegovina has also started preparations for implementation structures.

¹⁷ Mrak, Mojmir and Tilev, Dragan, Absorption for EU pre-accession funds: Concept and implication for Kosovo, p. 56.

¹⁸ Ibid, p 56 to 60. The phases proposed included preparations of a DIS roadmap and adoption by government, recruitment and appointment of relevant officials, DIS compliance analysis and Commission assessment.

¹⁹ In the mentioned analysis, specific staff numbers were suggested for all DIS structures, including the national fund, CFCD, audit authority and IPARD.

region upon the implementation of the DIS, e.g. in the case of Macedonia, the implementation of the DIS has created backlog in terms of tendering and contracting while funds have been lost. Moreover, such hesitation can be traced back to the MEI's thinking that the most pressing issues were the strengthening of the overall strategic planning by the centre of government, including at the sector level, and establishing a sound programme-based budgetary processes. The thinking is that if these three elements are in place in the mid-term, then the stage would be set for considering the adequate implementation of the DIS.

Programming and monitoring

As pointed out earlier, the Kosovo government's approach to the IPA consisted of ensuring greater involvement in the programming exercises. Thus, while in the past, the government was for the most part following the EC in programming the IPA for identifying the projects as well as drafting the ensuing fiches, it is now much more active and involved in this regard. Over the last couple of programming cycles, the Kosovo administration, led by the MEI, has played a much more proactive role in project selection and drafting, especially through closely cooperating with line institutions in project identification and in drafting the project fiches²⁰. Also, the MEI, in close cooperation with the line ministries, has been coordinating the process of transition from the IPA I to IPA II by preparing a first draft of the Indicative Strategic Paper 2014–20 and by participating in the drafting of the Sectorial Planning Documents although, here again, Commission contribution has been crucial²¹.

A recent positive development is that there has been better cooperation and coordination between the MEI and line ministries in project identification and drafting for the majority of the areas, which has led to greater ownership on the part of the government. Also, efforts are made, both at central and line ministry level, to ensure better involvement at the political level. Moreover, the cooperation between the government and EUOK has been strengthened, whereby discussions in programming are much more substantive, policy wise. This is expected to be further enhanced with the entry of the SAA, which is expected to provide a solid basis for the implementation of the IPA II.

In terms of monitoring the implementation of IPA funds, the Kosovo administration is only partially involved in such efforts, while the EUOK carries the larger burden. The line ministries and MEI officers are part of most project-steering structures and make efforts to ensure the proper implementation of the projects. In recent years, efforts have been made, firstly, for ensuring an integrated approach to planning IPA assistance under the Kosovo national planning instruments²², something that would automatically lead to a

²⁰ Interviews, Prishtina, October 2015.

²¹ Refer to Indicative Strategic Paper for Kosovo.

²² For example, the former EPAP tables contained special cells seeking information from line ministries if the planned activities would be covered by Kosovo budget or through donor support including IPA.

greater role in monitoring on the part on national institutions. This, however, seems to have been difficult to ensure also in the NPISAA draft²³.

In terms of challenges identified, an important one is the insufficient involvement at the political level with regard to considering and deciding on the eventual IPA interventions. In any given programming cycle, the political level is brought on board quite late in the process, when the programme design is in a quite advanced stage and, therefore, largely consolidated. Moreover, the process of programming is also hampered by the insufficient legal and procedural mechanisms in place, regulating the decision-making related to intervention selection. So far, the only national legislation in place, with regard to IPA programming consists of the MEI and DEIPC regulations as well as government decisions on the position of the NIPAC. Moreover, an additional challenge for successful IPA programming is the insufficient consultation with the stakeholders, including the civil society organisations.

With a view to monitoring, there is simply insufficient government staff meaningfully involved in the monitoring exercises. This situation seems to have improved recently with monitoring reports being regularly submitted to the Commission.

3.2. IPA II: Sector approach and sector budget support in Kosovo

As presented in Chapter 2, the legal framework of the IPA II has led to the introduction of two important aspects in the programming of pre-accession funds in the 2014–2020 period, namely the sector approach and sector budget support instruments.

Sector Approach

Even though Kosovo has managed to develop a number of strategic documents covering most relevant policy areas, the sector approach is still at the nascent phase. An example of utilising the sector-wide approach could be seen in the sector of education, where a single planning and monitoring mechanism was put in place in 2010. The working group led by the Ministry of Education was responsible for planning, monitoring, and coordinating the implementation of the mentioned strategy, with the support of the donor community²⁴. Nevertheless, the budgeting of such a document proved difficult, as the manner in which the Kosovo budget is constructed does not necessarily allow for a clear link between policy and budget.

As the MEI is in the process of revising the legislation regulating the donor coordination structures, it is considering the usage of such structures in order to ensure the sector approach is adopted by the sectors²⁵.

²³ Although the draft NPISAA is supposed to include the donor, including IPA contributions, it only does so in a inconsistent manner.

²⁴ Refer to Kosovo Strategic Plan on Education 2011-16.

²⁵ The mentioned Donor Coordination Regulation of 2011, envisages that the sector working groups are in charge of planning and monitoring policy at sector level, but also in terms of budgeting; which are key elements of sector approach.

As mentioned above, now that the centre of government has managed to complete an overarching strategic planning framework, it is aiming to ensure more comprehensive and realistic sectorial strategies, in collaboration with the most important sectorial bodies, and to strengthen inter-institutional cooperation bodies, including enhancing the monitoring and budgeting. Such an effort will be crucial to implementing the IPS strategy²⁶.

Most of the interviewees see the introduction of the sector approach under the IPA II as a positive development. As such, this approach is expected to ensure greater ownership of the local authorities as well as higher level of alignment of the EU assistance with the national policies. Such an approach would help avoid programming through single projects without clear strategic linkages between themselves, as was the case with the IPA I. However, such an approach could also have a negative impact on further removing the European accession elements from the “national policies”, something that could also transfer to EU assistance²⁷.

In terms of implementing a sector approach, the efforts already made by the MEI at donor coordination are quite good through the creation of the sector and sub-sector structures, where national authorities and donors meet and discuss about planning and implementing donor interventions. Nevertheless, such bodies are yet to achieve the optimal capacity in terms of having a significant influence in the policy-making processes in the country as well as in streamlining the donor contributions. The possibility of using such structures in supporting the implementation of the sector approach should seriously be considered.

Sector budget support

So far, the preparations carried out with regard to SBS are mainly related to Kosovo preparing the public administration SPD, which will be supported through this mode of implementation. Moreover, in terms of ensuring preparations for SBS implementation, Kosovo is also in the process of designing a comprehensive Public Finance Management Strategy, given the area’s key importance in meeting the SBS eligibility criteria. The mentioned strategy is to be adopted by the Government in the near future and will focus on addressing the SIGMA 2015 findings. Such findings are mainly related to the fiscal stability, budget planning, financial management and control mechanisms, including internal and external audits and procurement²⁸.

Except for the PAR, the ISP envisages the possibility of such a mode of implementation being extended to the rest of the sectors²⁹. Currently, most of those interviewed in this study seem to expect SBS to be quite useful, *inter alia*, because they consider that such

²⁶ See IPS Strategy, which aims at strengthening the link between the overarching and sectorial strategies, as well as better coordination between development and European integration, including legal drafting and harmonization with EU Acquis, but also involving the budgeting elements.

²⁷ Refer to Koeth, Wolfgang, ‘The New Instrument for Pre-accession (IPA II): Less Accession, More Assistance?’, 2014, for risks related to the introduction of IPA II sector approach and SBS.

²⁸ SIGMA, 2015, Annual measurement report: the principles of public administration, Kosovo, 2015.

²⁹ Kosovo ISP, p. 9.

a commitment from the EU and Kosovo side will render the policy dialogue between the two much more serious³⁰. Although the SBS was considered for a more mature sector, like agriculture, finally it was decided that the PAR sector should be the first to be supported through such a mode of implementation.

In terms of preparedness for SBS³¹, Kosovo assumes that it fulfils the necessary eligibility criteria³². Such an assessment is also partially based on SIGMA and the regular Progress Report assessments and will be carried out in regular basis by the EC.

So, according to the working version SPD on PAR, it is mentioned that in terms of the criteria of strategy, Kosovo already meets the first criteria of the public policy, as it has managed to complete the strategic framework covering the area of public administration reform through three strategic pillars, as illustrated below:

- Pillar I - Policy Development and Coordination, which is tackled through two separate strategic documents: Strategy for Improving Policy Planning and Coordination (SIPPC), developed in June 2015, and Better Regulation Strategy adopted by the Government in May 2014³³.
- Pillar II - Public & Civil Service, Service Delivery, and Accountability, which are areas covered by the Public Administration Modernization Strategy 2015–2020 (PAMS), adopted in August this year.
- Pillar III - Public Financial Management, whereby the objectives of the pillar will be covered in a forthcoming PFM Strategy³⁴.

Moreover, the SPD then goes on to establish the relevance and credibility of the public policy on PAR, based on the recent increased priority attached to this field by the Government. All in all, this is a criterion that could be assumed to be met by Kosovo although in the past the consensus was that PAR was one of the areas ranking quite low among Government priorities³⁵.

In terms of macroeconomic development, the EC believes that Kosovo has managed to preserve stability although there was a 6-month political stalemate in 2014 as well as an

³⁰ Much easier for EU to directly influence the national policy making, but also more pressure on national authorities as non-implementation of the agreed policy will directly lead to EU ceasing direct support.

³¹ Commission SBS Guidelines provide a comprehensive approach on how to assess each of the four eligibility criteria: public policy eligibility; macroeconomic stability, public financial management and transparency and oversight of the budget. Given the limited space in this paper and for lack of a specific EC assessment on Kosovo's meeting of these criteria, we will only focus on a number of the most important elements concerning them.

³² Public Administration SPD, p. 6.

³³ For a detailed account, please refer to Strategy for Improved Strategy Planning and Coordination and Better Regulation Strategy. The former seeks to cover all objectives related to policy planning and coordination, while the latter aims at enhancing the regulatory impact assessment mechanisms in the Government, while also enhancing the public consultations as well as ex-ante evaluation of the legislation.

³⁴ For the purposes of the PAR SPD only the two first pillars were considered, while a separate SPD on PFM is expected during 2016.

³⁵ Refer to PAR SPD, p 11-18. Most of the officials interviewed were rather surprised with the decision to pilot SBS in the area of PAR. For some agriculture would be a better choice.

electorally driven raise in wage bill³⁶. While its growth is considered one of the highest in Europe, it is still limited in terms of addressing Kosovo's entrenched problems with high unemployment and a high trade deficit. Nevertheless, Kosovo has managed to ensure macroeconomic stability through sound fiscal rules and low inflation³⁷. These assessments are also shared by the IMF, who, undoubtedly, identifies most of the challenges to Kosovo's economic growth while strongly advising the Government to better plan public sector wages³⁸. Moreover, the IMF has recently approved a 147.5 million euro stand-by arrangement for Kosovo, for supporting Kosovo's growth and, at the same time, preserving the macroeconomic stability³⁹. This, in turn, is an assurance that the country's macroeconomic policy is stability driven.

In terms of meeting the functioning PFM criterion, Kosovo is preparing a comprehensive strategy on PFM, with a first draft already prepared⁴⁰. The consensus is that Kosovo's performance in this area is commendable, a view shared also by SIGMA⁴¹. A new PEFA assessment is currently taking place, and the scoring is expected in the very near future. The previous PEFA assessments ranked Kosovo in a comparative position with the rest of the region with an average of C+/B⁴². As already mentioned, the forthcoming PFM Strategy will take into account the soon expected PEFA results as well as the findings from the EC Country Report and SIGMA, which seem to point out to further attention towards the lack of enforcement and implementation of the existing frameworks, deviations from the planned spending levels, strengthening of the overall economic policy, increased oversight for publicly owned enterprises, and a better link between the MTEF and annual budget⁴³. The Government has already adopted a Strategy on Public Internal Financial Control for the period 2015–19, which tackles issues like revenue collection, policy-budget link, public investments, debt management, public procurement, accounting and reporting, and internal audit⁴⁴. The strategy is to be embedded into the forthcoming national PFM strategy.

Concerning budget transparency and oversight as an eligibility criterion for SBS, Kosovo has developed good practices of transparency, ensured through the timely publication of the MTEFs as well as the budget proposed laws and those adopted by the Assembly⁴⁵. Moreover, Kosovo publishes quarterly and annual budget expenditure reports, which are also available online. In addition, Kosovo has established the Office of the Auditor

³⁶ Kosovo Progress Report 2014, p. 4. Also see EC's 2015 Kosovo Report for an updated view on economic macroeconomic situation in Kosovo.

³⁷ PAR SPD, p. 18.

³⁸ Assessing the eligibility criterion of macroeconomic development, the EC suggests having a close look at the relationship between the country in question and IMF. While Kosovo enjoys Stand by arrangements with IMF, the relationship between them was to a certain extent negatively impacted by the former's decision to increase wages in public sector, in 2011. Refer to IMF latest report on Kosovo.

³⁹ See IMF Press Release dated 26 July 2015 (<https://www.imf.org/external/np/sec/pr/2015/pr15362.htm>)

⁴⁰ PAR SPD, p. 30, envisages such Strategy as a precondition for SBS.

⁴¹ See SIGMA Baseline Report 2015, extensive section of Kosovo's PFM.

⁴² In a self-assessment, Kosovo scored B on average.

⁴³ Interviews in Prishtina, October 2015.

⁴⁴ PAR SPD, p. 15.

⁴⁵ Interviews in Prishtina, October 2015.

General that prepares annual reports on the compliance of Kosovo institutions with the financial standards, which are, by and large, well received and respected by the administration⁴⁶. The main weaknesses identified are related to the frequent changes in the budget without disclosure and explanations⁴⁷. On the other hand, the main difficulties with the OAG are related to the legislation regulating its functioning, which is considered not fully in line with international standards on auditing, in terms independence and mandate. While the auditing methodology is seen as compliant with best auditing practices, its actual implementation is still problematic⁴⁸.

However, the current fashion in which the budget is developed does not necessarily allow for public scrutiny of programmes or performance⁴⁹.

In addition to these core criteria, as part of the preparations for the SBS in PAR, Kosovo has also strengthened the monitoring and coordination structures for PAR by involving the Prime Minister in the workings of the PAR Committee to ensure political commitment. Moreover, Kosovo has also ensured an enhanced approach to the performance assessment of PAR by including clear benchmarks as well as indicators in its strategic documents and also in the relevant SPD.

Except for SIGMA and progress report assessments, it is expected that an internal assessment by the Commission will be carried out in the very near future, in order to officially examine whether Kosovo meets the SBS eligibility criteria⁵⁰. Such a mechanism would also assess the eventual risks to SBS in Kosovo as well as the actions that could be taken to mitigate them.

In terms of planning, so far under the PAR SPD, a Sector Reform Contract (SCR) is envisaged as necessary to carry out the necessary reforms in the sector. Although the Action Document remains to be drafted, the SPD based on the national PAR strategic package⁵¹, tackles the following specific objectives and activities:

- Policy Development and Coordination, where coordination and streamlining of policies is envisaged at the centre of government, monitored through an integrated system. Moreover, enhanced legal drafting is also expected, especially through evidence-based planning. Also, the necessary legislation for a professional civil service is envisaged.

⁴⁶ An example of this can be seen in SIGMA Assessment Report 2013 (http://www.sigmaxweb.org/publications/KosovoAssessment_2013.pdf)

⁴⁷ SIGMA, 2015, p. 85.

⁴⁸ Ibid, p. 111.

⁴⁹ PAR SPD, P. 16.

⁵⁰ There seems to be some confusion as to whether such an assessment is really necessary at this point. Nevertheless, most of those interviewed consider that Kosovo is well advanced in terms of fulfilling the criteria for SBS in PAR sector.

⁵¹ All three documents are part of the PAR package, although a separate SPD for PFM will ensue in 2016. It is not known whether SBS will be considered under that SPD.

- Civil Service and HR management strengthening, by implementing the Civil Service compensation programme as well as through capacity building in HRM, including strengthening of the integrity framework for all civil servants.
- Service delivery enhancement by adoption of administrative procedure legislation, as well as ex-post evaluation of the legislation and an integrated electronic platform for service delivery
- Enhanced accountability, whereby a better organisation of the administration as well as a better system for access to official documents is ensured⁵².

The achievement of these objectives is to be covered by a maximum sum of 20 million euros, until 2020, which would be spent in annual tranches, comprising 40% fixed and 60% variable tranches per year⁵³. Now that the PAR SPD is complete, and there seems to be an agreement between Kosovo and the EC on proceeding with SBS in this sector, the Kosovo administration is in the process of drafting the PAR Action Document, whereby clear benchmarking and indicators will be designed for all objectives and activities. Moreover, the EC and Kosovo institutions are expected to agree on a common methodology to measure the achievement of the mentioned benchmarks and indicators⁵⁴. In addition, the current policy dialogue and monitoring mechanisms, such as PAR Special Group, EC Country Reports and SIGMA assessment reports, will be used in order to establish the fulfilment of the mentioned benchmarks and indicators⁵⁵.

Concerning the dialogue between Kosovo and the EC related to preparations for SBS in the PAR sector, it is considered fruitful and appropriate by all concerned parties. Moreover, the support through SIGMA and other relevant technical assistance is seen crucial to the preparation of the relevant strategic framework in PAR as well as the necessary materials for SBS. Furthermore, through such assistance, a number of capacity-building efforts have been undertaken over the past year, with the involvement of the relevant officials⁵⁶.

Given the positive assessments by SIGMA and PEFA, the Ministry of Finance seems quite confident in its preparations for integrating the forthcoming SBS funds into its budget system and, as such, sees no need to make separate efforts for reforming the internal structures or for introducing new ones. Moreover, any further capacity-building efforts will be planned through the forthcoming PFM strategy⁵⁷.

Overall, most of those interviewed expressed enthusiasm in relation to piloting SBS already in 2017 in Kosovo⁵⁸. Although the selection of the PAR sector for receiving

⁵² PAR SPD, p. 23-25.

⁵³ Fixed tranche payments are conditional to maintaining full eligibility requirements, while variable tranche payments depend on the degree to which the performance indicators are achieved.

⁵⁴ As the drafting of the document is ongoing, examples such as '90 percent of NPAA activities implemented on time' are being considered.

⁵⁵ It is not as yet clear whether some special monitoring body will be used for the purposes of this Action Document, but nevertheless, there seem to be abundant monitoring mechanisms, EU can use for such a purpose.

⁵⁶ Training sessions on SBS were organized by the EUOK in Prishtina, but also through ReSPA.

⁵⁷ Interviews, Prishtina, October 2015.

⁵⁸ A year ago, the possibility to apply SBS was only mentioned as a possibility towards the end of IPA II.

support through SBS is not necessarily seen as the best option, most agree that despite the weaknesses in the sector, it could pretty well prove that SBS is the instrument to ensure greater attention of the government and other stakeholders to this policy area⁵⁹. In addition, although a specific assessment of how Kosovo meets the SBS eligibility criteria is yet to be designed, there is consensus that Kosovo stands quite successful in fulfilling the main elements of such criteria, especially in terms of public policy and PFM reforms. Moreover, there is good cooperation between the MEI, MPA and OPM in finalising the relevant SPD and in ensuring realistic measures. In addition, the efforts made by the MoF to finalise the PFM strategy as well as the forthcoming ERP will most probably play an important role in ensuring appropriate preparations for SBS. It is still early to identify the challenges in this process, but special attention should be paid to ensuring realistic benchmarking as well as clear measurement methodologies and procedures⁶⁰. Moreover, both Kosovo and the EC should make sure that the SBS is clearly seen as an addition to the already indirect/direct management system in place and, as such, should not replace the efforts for preparing for indirect management. While SBS is expected to somewhat support the readiness of the country for the management of cohesion funds, it is the indirect management that will most probably ensure greater readiness on the part of the country for such a daunting exercise. Nevertheless, the thinking shared by most relevant stakeholders is that while maintaining a clear distinction between SBS and indirect management, the former could contribute in creating momentum towards the implementation of the IPS, which, in turn, would allow for much more serious efforts at indirect management preparations.

In terms of programming and absorption, the use of SBS will most probably indicate the preparations on Kosovo's part to programme and absorb EU funds, given that this is the first time the administration will be faced with directly managing such funds.

⁵⁹ The hope is that, given the possibility of 'losing' the variable tranches, those responsible for implementation of PAR, will be much more cautious in planning but also implementing the necessary measures.

⁶⁰ Both MEI and MPA teams are working intensively in ensuring that the indicators included in the PAR SPD as well as forthcoming Action Document, will be closely consulted with all relevant actors, but especially with the political level, both at MPA as well as Government level.

4. Conclusions and recommendations

4.1. The IPA II in general and its suitability for Kosovo as a country in a rather early stage of EU accession (based on Chapter 2)

Conclusions

The New IPA II features generally fit well to candidate countries in early stages of the EU accession process

1. ***Undifferentiated approach introduced by the IPA II is welcome from Kosovo's perspective***

From the perspective of Kosovo as a potential candidate country that is still quite far away not only from the EU membership but also from the beginning of the accession negotiations, the undifferentiated approach introduced by IPA II is very welcome. It opens to the country the possibilities to structure the pre-accession financing in cooperation with the European Commission in a way that fits with the specific features of the country as well as its phase in the EU accession process.

2. ***Sector approach fits well with Kosovo's specific features and its stage in the EU accession process:***

The sector approach introduced by the IPA II conceptually makes a lot of sense for Kosovo as it is aimed at: (i) achieving stronger alignment of national and EU objectives, (ii) strengthening the ownership of the candidate countries over the IPA-funded projects, (iii) increasing impact and achieving higher policy relevance, and (iv) better use and improved coordination of foreign assistance provided to candidate countries. In the case of Kosovo, these advantages of the IPA II sector approach seem to exceed the disadvantages associated with the moving of pre-accession funds away from the approach based on financing specific EU accession projects.

3. ***Sector budget support is in substance terms an appropriate pre-accession financial instrument for Kosovo at this level of EU accession process:***

Sectoral budget support is an appropriate instrument for efficient and effective delivery of sectoral policy introduced with IPA II. The proportion of the total IPA II funds that should be channelled via the sector budget support instrument into an individual candidate country should, among others, depend on its status in the EU accession process. For Kosovo as a country that is still in a rather early stage of its EU accession process, more room seems to be appropriate for the sector budget support instrument.

Two parallel approaches for programming and management of IPA II will make these processes more complex and challenging than under the IPA I:

Management structures under the IPA II for Kosovo, similar to the case of other candidate countries, will be more complex than those under the IPA I, as pre-accession assistance in the candidate countries will be managed through two parallel approaches and structures. One will be traditional approach based under the IPA I on centralised and decentralised structures (individual project approach), and the other one will be the newly established sector budget support logic (sectoral programme approach). The two approaches are quite different in their characteristics owing to the differences in their overall logic and purposes. The individual project approach is more appropriate for serving clearly determined project objectives, typically closely associated with the accession objectives. On the other hand, the sectoral support approach is basically aimed at general development objectives through better economic governance. Putting in place an appropriate public finance management is a *de-facto* precondition for making budget support assistance operational.

Additional risks and challenges for effective absorption of EU pre-accession funds under the IPA II:

Absorption of pre-accession funds under the two structures to be established by the IPA II will, indeed, pose a significant challenge to all candidate countries including Kosovo. On the one hand, Kosovo will have to continue addressing all those challenges it has been facing under the IPA I (national co-financing, programming, implementation) while on the other hand, it will have to address a completely new set of absorption challenges associated with putting in place an effective sector budget support system, namely (i) the design of appropriate sector strategies, (ii) the establishment of a macro and fiscal framework required for this type of assistance, and (iii) the implementation of sector budget support arrangements including their policy conditionality, i.e. meeting the conditions that are required for release of funds under individual tranches.

Recommendations

To organize a one-day high level seminar where top policy-makers of the government will discuss and provide guidance on how to effectively integrate pre-accession assistance under the IPA II into the design and implementation of key domestic development priorities:

In more specific terms, the seminar, which should be based on an analytical framework prepared ahead of the event, should among others, discuss and provide guidance on the following questions:

1. How the new IPA II features fit Kosovo in the current stage of its EU accession process? What are its pro and cons for the country?
2. What mix of two approaches for IPA II programming and management would be the most appropriate for Kosovo at this level and what would be an appropriate allocation of IPA funds between these two approaches, i.e. between the new

- approach based on sectoral budget support instrument and traditional project-by-project approach?
3. What is required in the country for effective design and implementation of the sector budget support instrument introduced under IPA II?
 4. How to prepare the country for effective absorption of funds under sector budget support? What are the main risks to be faced in this context?
 5. Which sectors are considered to be good candidates for sector budget support in the forthcoming years?
 6. When should Kosovo initiate the transition from direct to indirect management of those IPA II funds that will not be channelled through sector budget support? Would it be appropriate to start now or to wait? If later, what would be an appropriate timing for initiating the process?
 7. What should be done to further strengthen the demand and supply side of Kosovo's administrative absorption of those IPA II funds that will not be channelled through sector budget support?

To design and put into operation an institutional structure at the central government level (based either on an existing one or an entirely new one) that will provide strategic guidance for Kosovo's IPA II activities, especially for its sector budget support component, and provide a framework for appropriate and timely involvement of the political level into the decision making:

The structure composed of senior policy-makers, with administrative support provided by the MEI and MF, should be instrumental for articulating the policy orientation the country will take with respect to the questions presented in the previous recommendation, and especially with respect to the sector budget support component of the IPA II. From the IPA II absorption point of view, the introduction of sector budget support instrument will expose Kosovo to an entirely new and distinctive set of absorption problems. While absorption of funds under the IPA I, especially under a centralised system, was pretty much determined by issues at a project level, but with introduction of the sector budget support instrument, sectoral and even national development policies as well as governance issues will gain much higher importance. Absorption of pre-accession funds will, therefore, largely depend on meeting broader policy and good governance criteria. In order to achieve this objective, strong coordination at the central level and a timely involvement of the political level into the decision-making process are a must. Kosovo needs to carefully plan the establishment of the institutional structure for IPA II funds as this can be instrumental not only for increasing the absorption of these funds but also for strengthening capacities and ownership for the use of financial assistance from other sources.

4.2. Pre-accession funds in Kosovo: The status, determinants, and challenges for effective absorption of IPA II funds (based on Chapter 3)

Conclusions

Legal framework for programming and management of IPA funds is largely in place though some adjustments to IPA II novelties might be needed:

The legal framework regulating the programming and management of pre-accession funds is largely in place and has not changed significantly over the last couple of years. The legislation is, by and large, considered appropriate though some adjustments might be needed to adapt the framework to the novelties introduced in the IPA II and to ensure smoother processes at all levels of decision making.

IPA programming is still characterised with deficiencies, such as inconsistencies among national programming documents

Though Kosovo has made progress over the recent years in programming the IPA funds, the country's administrative capacity in this area, in spite of significant technical assistance received in the past, is still insufficient. Moreover, the inter-institutional cooperation is not at the level that would be required. What is missing quite often is a clear link between the European integration agenda and IPA. Although the Kosovo administration is part of the IPA programming, the bulk of the activities is still carried out by EUOK. The same is true when it comes to the evaluation of IPA programmes. Furthermore, the IPA interventions are not adequately and consistently reflected by the NPISAA. In addition, there are still difficulties in ensuring an adequate consultation process with all relevant stakeholders, including the civil society organisations and other interested parties.

Involvement of the political into IPA decision making is still suboptimal

Although the situation seems to be improving, there are still difficulties in ensuring proper and timely involvement of the political level in decisions related to project identification and selection. Moreover, the legal and procedural framework for ensuring proper decision making is still insufficient.

Key national strategic programming documents under preparation are not properly coordinated

For effective IPA programming, Kosovo needs to articulate key national strategic planning documents. The country has now approved its first National Development Strategy (NDS) which outlines national development priorities and the NPISAA which articulates priorities in the European integration path. The most recent ERP which complements the two was submitted to the European Commission at end of January 2016. There is still scope for improvement in the cooperation among the centre of government actors, OPM, MEI, MoF, and MPA as well as in the functioning of the Strategic Planning Steering Group while the recently established Strategic Planning Commission is yet to become functional. This sub-optimal cooperation is reflected in the rather un-coordinated manner the drafting of the mentioned documents was carried

out. Sector strategies are still not prepared in a uniform manner and continue to remain fragmented although progress is noticed in the area. Most strategies are poor in terms of monitoring and evaluation while their linkage to the centre of government planning and budget is still insufficient.

Programming and implementation of IPA funds at the project level improved in recent years:

Concerning the actual processes related to the programming and implementation of individual projects financed by pre-accession funds, some positive developments have to be mentioned, e.g. the more proactive role of MEI in coordinating these processes, and a strengthened role of line ministries in ensuring better project selection and linkage with the country's overall development, and more specific European integration objectives have been detected.

Under the IPA I, pre-accession funds in Kosovo were managed exclusively centrally:

Kosovo is the only in the region that has not even initiated the processes towards a decentralised management system or under the IPA II towards an indirect management system. Over the years, there was no consensus on what form such preparations should take. Also, there has been considerable hesitation on the part of the EU in supporting the Kosovo administration to initiate such preparations. Under the IPA II, the approach towards direct/indirect management is more flexible than it was before. Therefore, Kosovo has to articulate the management structure that will best fit the specifics of its administrative structures as well as its EU accession phase.

Channelling of IPA II funds under the traditional project approach is expected to remain firmly based on the centralised structure with the building of the decentralised structure to be postponed towards the end of the IPA II period:

For Kosovo, similar to the case of other candidate countries, the IPA II will be programmed and managed through two parallel approaches. The first one (individual project approach) will involve a traditional structure known under the IPA I as the centralised and decentralised structures and under the IPA II, as direct and indirect structures. It seems that consensus has been building gradually within the MEI and line ministries that individual project approaches in Kosovo under the IPA II should remain based on the direct structure with the building of the decentralised structure pushed to the end of the IPA II period. Effective absorption of the IPA II funds to be delivered under this structure will be, as in the past, primarily dependent on its administrative absorption capacity.

The interviews confirmed the appropriateness of new IPA II features for Kosovo:

1. Sector budget support (and consequently sector approach) is considered a suitable additional instrument for delivery of pre-accession assistance:

As confirmed through the interviews, the sector approach introduced under the IPA II is considered a good instrument for delivering pre-accession assistance to Kosovo at this level of its development and at the current stage of its EU accession process. The sector approach is expected to ensure greater ownership

on the part of local authorities as well as higher level of alignment of the EU assistance with the national policies. It should also contribute to better donor coordination.

2. *Public administration reform as the pilot candidate for sector budget support in Kosovo under the IPA II:*

The selection of the public administration reform as a pilot for sector budget support was considered, by the majority of the people interviewed, appropriate even though there were views that a more mature sector, such as agriculture, should be chosen. There is also a general consensus that Kosovo will be able to meet rather soon, in addition to the articulation of the sector strategy in the form of public administration reform, the other three required criteria for initiating sector budget support, namely a credible programme for maintaining macroeconomic stability, a credible programme for improving public finance management, and a sufficient level of budget transparency.

Sector budget support instrument will be associated with significant and entirely new absorption risks:

There is no doubt that sector budget support is beneficial for the country in many respects, including forming a clearer link between political agenda and financial resources and increased ownership and accountability, but it also exposes the recipient to a completely new set of absorption risks. The policy conditionality associated with this new financial instrument requires broad political support for the sector reform under the programme as well as strong technical preparation, both in the design and in the implementation phases. Sector budget support funding is conditional on results achieved, so a robust monitoring framework is required to ensure that the targets that had been agreed in the design phase are actually met. Growing reliance on the sector budget support instrument may reduce the appetite of the authorities for the development of structures required for indirect management of pre-accession funds.

Recommendations

To engage key national stakeholders in a strategic discussion aimed at reaching a consensus about the long-term perspective of IPA programming and management:

The MEI, line ministries in close cooperation with OPM, and MoF should engage in strategic discussions for ensuring a longer term perspective to identify the gaps as well as plan the necessary longer term measures. This would all relevant stakeholders help reach a common understanding on what the current situation is as well as what will be expected in the mid- to long-term in relation to preparations for a programme-based approach as well as later implementation of the DIS.

To articulate a concrete capacity development plan for implementation of objectives set for effective IPA II programming and management:

Based on the strategic discussion presented above, it is necessary to come up with a concrete capacity development plan, which in detail provides:

- An overview on how Kosovo will strengthen the institutional set-up dealing with the IPA,
- greater political level involvement in the programming and monitoring,
- strengthening of the relevant human resources, and
- enhancing the legal and procedural basis for decision-making in IPA programming and monitoring.

To further strengthen the strategic planning framework through implementation of IPS as it will not only contribute to smoother implementation of sector budget support but also set the stage for effective implementation of the decentralised implementation structure:

The MEI should continue to support the centre of government in implementing the already adopted IPS approach by:

1. Ensuring, in the short term, a completed and well-coordinated central government overarching strategic framework, through a closer alignment and harmonisation of the NDS, NPISAA and ERP, so as to ensure that all policy areas relevant to the centre of government are covered and soundly planned. In addition, the strategic planning structures, as planned in the IPS, should be established and made functional.
2. Ensuring, in the mid-term, a consolidated sectorial strategic framework in line with the sector approach requirements of planning, monitoring, and budgeting. The relevant structures should also be strengthened and/or revised as per the IPS approach.
3. Ensuring, in the mid-term, a consolidated PFM framework, especially in terms of ensuring the MTEF and budget reflect the policy planning as per the above. The implementation of the PFM strategy will be crucial to the smooth implementation of the SBS.

The implementation of the IPS, will contribute not only to smoother implementation of SBS, but also will set the stage for a later effective implementation of the DIS.

The MEI and MoF should use the instrument of the SBS for mobilising political support and ensuring sound strategic planning tools are embedded in the Kosovo system, including the PFM, so as to make the path to DIS easier in the later stages.

To involve, in an appropriate manner, all relevant stakeholders in the country in IPA programming and management activities:

The MEI and other relevant institutions should also make efforts for consulting and including all relevant actors, especially civil society organisations and other interested parties. The inclusion should follow the already established government practices in cooperation with non-governmental bodies.

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