

Challenges Of The Indirect Management Of Eu Funds In Albania

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Abstract

Instrument of Pre-Accession programme assistance of European Union applies since 2007 in the Western Balkan countries and aims at preparing successfully the relevant countries for future EU integration. Albania benefits from IPA funds which plays a key role in the development of the administrative capacities of the Western Balkans countries. By strengthening the administrative capacities of these countries, IPA will enable them to take over the funds, the program management and ultimately the overall integration process. Preparing to profit from and ultimately manage IPA funds allows beneficiaries countries, for future efficient management of the so-called Structural and Cohesion Funds that Member States receive to better integrate their poorer regions and infrastructure. This study aims at identifying the value and complexity of such process concluding with the efforts and challenges in the near future toward being a fully fledged member of European Union. It is of great importance the way how Albania absorbs these funds. In this regard, i will assess the process of indirect management of IPA funds in Albania taking into consideration their actual status. In conclusion, this study is very important for the fact it gives a consolidated assessment of the challenges, needs and relative importance of transferring all management aspects of European Union financial assistance to the beneficiaries countries which will further strengthen the complementarily of the accession process and overall national development policies. Also, it will provide recommendation for strengthening administrative capacity and preparing national and local structures and authorities to plan and implement such programmes remain major challenges which the enlargement countries need to address rigorously from an early stage of the process.

Keywords: Indirect management, EU integration, efficient management of projects, absorption capacity European Union financial assistance, EU Accession

Introduction

The integration process of Albania in the European Union is a key priority of Albanian government, also one of the most discussed issues in the national public and political discourse. Establishment of diplomatic relations between Albania and the European Economic Community began on 1991 to continue during 1992 by signing the Trade and Co-operation Agreement through which Albania becomes eligible for funding under the EU Phare programme. Binding of this agreement followed later by other agreements such as the Stabilization and Association Agreement in 2006, the European Partnership on 18 February 2008 and that of the visa free travel regime.

One of the main aspirations of Albania is the accession in the European Union. For this reason the EU has planned a pre-accession strategy which prepares countries for future membership through financial assistance. This financial assistance aims at helping these countries to undertake necessary political, economic and administrative reforms to bring them into line with EU standards. Before joining the EU a country must have a functioning market economy, as well as the ability to cope with competitive pressure and market forces within the EU. In addition to this, the financial assistance before accession encourages regional cooperation, contributes to its sustainable development and reduction to poverty impacts. EU funding is designed to facilitate in general medium-term and long-term changes of the economy and society.

Prior than IPA became operational in January 2007, EU has provided support to candidate and potential candidate countries in the framework of various assistance such as: PHARE, ISPA (Instrument for Structural Policies for Pre-Accession), SAPARD (Special Accession Programme for Agriculture and Rural Development), and CARDS (Community Assistance for Reconstruction, Development and Stabilization). Albania has benefited from Phare and CARDS programmes. Albania benefits from IPA funds, respectively under IPA I - Component I “Transition Assistance & Institutional Building” and Component II “Cross Border Cooperation” and as well as actually from IPA II.

In the framework of the assistance, countries of the Western Balkans receive funding to prepare them for meeting membership criteria in the political, economic and legal realm. The extent to which IPA can contribute to the convergence of the Western-Balkans will be decisive in determining the pace of the enlargement process in the near future. In this regard, building administrative infrastructure in the pre-accession period is of very high importance for EU accession countries to efficiently manage pre-accession financial funds and thus prepare for EU structural funds.

Financial assistance under the IPA plays a key role in the development of the administrative capacities of the Western Balkans

countries. By strengthening the administrative capacities of these countries, IPA will enable them to take over the funds, the program management and ultimately the overall integration process. To this end, there is currently ongoing process to implement the gradual transfer or decentralization of competencies and IPA management from the EU institutions to the national authorities of some Western Balkans countries, while it has already occurred in some of these countries.

This would be an indispensable transitional element to ease the remaining steps to integration, which mainly focus on the concrete economic and social transformation of these countries. The in-direct management of EU funds would not only make pre-accession assistance more effective, but it would also train these countries in handling the crucial responsibilities they would take on as members, namely the effective management of large EU cohesion and structural funds. Thus, the IPA regulatory framework provides detailed regulations in the responsibility of each actor involved in the management of funds and establishment of new structures in candidate countries. Among other things, the IPA has been designed to help strengthen ties between neighboring countries, including EU Member States, via cross-border cooperation projects.

The European Union comprises of 28 Member States forming a community and single market of 508 million citizens. However, great economic and social disparities still remain among these countries and their regions. European Cohesion Policy is at the center of the effort to improve the competitive position of the Union as a whole, and its weakest regions in particular. Through the European Regional Development Fund (ERDF) and the European Social, otherwise known as Structural Funds and Cohesion Funds, it aims at reducing regional disparities in terms of income, wealth and opportunities. Both those funds are financial tools set up to implement the Cohesion Policy and applied to member states countries. Once the Albania join the European Union, can have the opportunity to benefit from these funds.

Overview of the Albania-EU relations

On 18 February 2008 the European Council adopted a new European Partnership with Albania, which was aimed at realizing the European perspective. The main priorities of this partnership are listed as below:

- Strengthening the administrative capacity in preparing the implementation of the Stabilization and Association Agreement and Interim Agreement of Engagement.
- Promoting constructive dialogue between political parties and stakeholders in implementing the reforms.

- Increasing the independence, accountability and transparency of the justice system.
- Implementing the Anti-Corruption Strategy (2007-2013).

Given the strong links between the parties and the values they share and their desire to strengthen those links and establish a close and lasting relationship based on reciprocity and mutual interest, which should allow Albania to further strengthen and extend the relations with the Community and its Member States, the Stabilization and Association Agreement (SAA) was signed. This Agreement was signed on 12 June 2006 and came into force on 1 April 2009 replacing the Interim Agreement on trade. SAA includes the commitment of the Parties to contribute by all means in stabilizing the political, economic and institutional development in Albania and in the region, through the development of civil society and democratization, regional trade integration and increasing economic cooperation. This agreement creates a new climate for economic relations among member parties for trade and investment development, which are seen as crucial factors for economic restructuring and modernization. Stabilization and Association Process (SAP) is a long-term commitment to the region both in terms of political efforts and financial and as well as of human resources.

Overview of EU financial assistance for the Western Balkans

EU prior to membership provides financial assistance focusing on countries aspiring to integrate into the European Union. Before joining the EU a country must have a functioning market economy, as well as the ability to cope with competitive pressure and market forces within the EU. In addition to this, the financial assistance before accession encourages regional cooperation, contributes to its sustainable development and reduction to poverty impacts. EU funding is designed to facilitate in general medium-term and long-term changes of the economy and society.

PHARE programme

Phare programme is one of three pre-accession instruments financed by the European Union to help candidate countries of Central and Eastern Europe in their preparations for joining the EU. This program covered Czech Republic, Estonia, Hungary, Latvia, Poland, Slovakia, Slovenia, Bulgaria and Romania as well as assisting these countries in the period of massive economic restructuring and political change. Until 2000 the Western Balkan countries (Albania, Bosnia and Herzegovina and the Former Yugoslav Republic of Macedonia) were beneficiaries of Phare.

The objectives of this programme are listed as below:

- Strengthening of public administration and institutions for effectively functioning within the EU.
- Promoting convergence with the general law of the European Union and reduce the need for transition periods.
- Promotion of Economic and Social Cohesion (ESC). In this regard Phare promotes the functioning of market economy and helps build capacity to cope with competitive pressure and market forces within the EU, which is the key to fulfilling the obligations of membership.

Significant investments are necessary to ensure that utilities and infrastructure in the candidate countries comply with Community standards. In order to avoid overlapping with ISPA and SAPARD programmes, Phare does not support large investment projects in the fields of environment, transport or agriculture, except cases where the regulatory infrastructure is not suitable for ISPA or SAPARD. Economic and Social Cohesion is a complex target and can be fulfilled if each country has a coherent and integrated strategy that takes into account the need to promote competition and reduce internal disparities.

CARDS programme

In 2000 aid to the region was made effective through a new programme called CARDS (Community Assistance for Reconstruction, Development and Stabilization). CARDS programme was characterized by a much more structured approach than the one used before. The programme has the objective to support the participation of Western Balkan countries (Albania, Bosnia and Herzegovina, Croatia, Serbia and Montenegro, including Kosovo) in the Stabilization and Association Process (SAP).

It included bilateral co-operation tailored to the specific needs of the Western-Balkan countries, as well as regional cooperation among them. In general terms, financial assistance to these countries (totaling €4.6 bn) has been concentrated on the areas of justice and home affairs, economic and social development, democratic stabilization, environment and natural resources, administrative capacity building and other areas of assistance.

From 2007, a new instrument, IPA (Instrument for Pre-Accession Assistance) has replaced all previously existing pre-accession instruments unifying them under a single legal basis in the context of the Pre-Accession Assistance. IPA provides a general framework for financial support, specifically IPA I for the period 2007-2013 includes a support from €1.5 bn, together with the support for Turkey; while IPA II for the period 2014-2020 will ensure financial assistance for the Western Balkan from €10 bn.

Management mode of the assistance of the EU

The points listed below describe the ways the European Commission may implement the budget:

a. Direct Management.

The European Commission is in charge of all EU budget implementation tasks, which are performed directly by its departments either at headquarters or in the EU delegations or through European executive agencies. Therefore, the European Commission or the European executive agency is the contracting authority and takes decisions on behalf and for the account of the partner countries.

b. Indirect Management.

Under indirect management, the European Commission entrusts budget implementation tasks to:

- partner countries (or to bodies designated by them)
- international organisations
- development agencies of EU Member States
- other bodies.

c. Shared management.

The European Commission delegates implementation tasks to the EU Member States. This mode is rarely used in the implementation of external actions, but there are a few cases such as joint operational programmes on cross-border cooperation implemented by a joint managing authority (for instance under the European Neighbourhood Instrument (ENI) or the Pre-accession Assistance, IPA II).

Indirect management/decentralization involves the transfer of responsibilities from the Commission to the Contracting Authority of the beneficiary country. Contracting Authority is responsible for tendering and contracting, and financial and administrative management of projects. The objective of decentralized management in the context of pre-accession strategy is 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) requires the establishment of new structures and designation of authorities responsible for implementation of IPA funds. These authorities and structures are already established and functional.

Issues to be raised

The Instrument for Pre-Accession (IPA) helps the country by preparing it to benefit from the European funds even after accession. Therefore, it is of great importance the way how Albania absorbs these funds. Over the years, a number of problems have been encountered which

have not resulted in getting the maximum benefit for Albania. The problems are mainly related to the lack of efficiency from state authorities. There are many legal and bureaucratic obstacles that could delay the implementation of projects.

Regarding IPA II, there is the possibility that if the funds cannot be used on due time, they will be transferred to other sectors with the best performance, as well as to other countries of the region if the performance as a whole is not satisfactory. This is one more reason to prepare not only the state/public structures at central and local level, but also the private ones like businesses, organizations, etc.

Furthermore, the financial assistance has had a reasonable emphasis on issues related to justice and security in the past years. Many courts or prisons have been constructed by EU funds. Actually, there is a need that the EU aid should be more economic and social oriented. Private sector development will promote at the same time the enhancement of public sector's performance in stimulating competitiveness in absorbing projects. The public authorities and structures should include in this process interested stakeholders at the very first phase which is the programming one.

The European Union financial assistance, through the IPA funds, especially through Component I "Technical Assistance and Institution Building" has contributed to strengthening the institutions and improving the infrastructure. This support was usually offered through: technical assistance, investments in infrastructure, grants, and implementation of financial facilities in cooperation with financial institutions. In order to implement this assistance the beneficiary country should have adopted the legal and institutional basis, as required by the EU. The support provided by IPA, begins with the stage if it has contributed (or not) to strengthening of institutions and to improving the infrastructure of programming on annual basis and it is finalized with the approval of a financing agreement, which provides in details the conditions for the projects implementation of a certain year.

The projects, which are supported by the IPA Programme, may be those projects which provide technical assistance through the strengthening of institutions or projects focused on infrastructure. In fact, the key purpose of IPA Component I is the institutional support, but due to low infrastructure in Albania, this support has been offered as well as in infrastructure projects.

A very important element for the approval and implementation of projects is the co-financing issue by the Albanian beneficiary institution. Co-financing aims at enhancing the role of beneficiaries in project implementation. So far the planning and projects implementation have faced with various problems.

Co-financing is one of the obligations to be fulfilled by all projects beneficiary institutions. The co-financing amount is 15% for infrastructure projects, 10% for projects of technical assistance and 5% for twinning projects. This amount is foreseen during the programming phase of the project, by clearly defining the activities which will be implemented through co-financing.

The lack of budget for co-financing or not planning it in time has led to non-implementation of some activities, which have had a direct impact to the entire project implementation.

Due to this situation, since 2011, providing co-financing from the beneficiary institution is considered a prerequisite for the approval of a project.

Payment on Value Added Tax (VAT)

Pursuant to the Law "On ratification of the Framework Agreement between the Council of Ministers of the Republic of Albania and the Commission of the European Communities on the rules for cooperation regarding the assistance for Albania, in the framework of the Instrument for Pre-Accession (IPA)" it is stated that: Unless specified otherwise in a Sectoral Agreement or a Financing Agreement, custom duties, import duties/taxes or other taxes of equivalent effect, are not applicable for the IPA Programme

But given the fact that the Albanian legislation obliges every company to pay the VAT, which is later reimbursed, this rule has been applied to payments made under the projects financed from the IPA Programme. As in the case of co-financing, some institutions have not planned this tax, resulting in a delay for realizing activities for several projects.

Being in such complex situations, the Council of Ministers has adopted relevant decisions on the allocation of additional funds from the budget of the beneficiary institutions or from the reserve fund of the Council of Ministers.

Ensuring relevant permits for infrastructure projects and land ownership are also very important for the implementation of a project. Due to frequent changes in the legal framework regarding different permits before the construction begins some of the infrastructure projects have faced problems during their implementation.

In this regard, in order to overcome such issues, these two elements have been considered as pre-conditions for the approval of a project/signing the contract. The beneficiary institution (central or local) is obliged to provide all necessary documentation prior to the signature of the contract.

The coordination among the beneficiaries is also an issue, which is more encountered in those projects having more than one beneficiary. An unclear definition of responsibilities of each beneficiary institution affects the proper implementation of the project. Some institutions avoid responsibilities even when they are clearly defined, mainly subordinated institutions, for which the coordination is more difficult.

Some institutions have insufficient staff regarding their projects preparation and implementation. For example: in institutions which have had projects almost every year, it is crucial to increase the number of staff to manage these projects. This problem becomes more imperative especially after the decentralization process, when the Albanian institutions are managing EU fund themselves.

The sustainability of projects is a very important element which assesses the impact of a certain project. This requires the commitment of beneficiary institutions to provide the required financing or the staff motivation trained by the EU projects.

Conclusion

Findings and recommendations for an efficient management

Strengthening administrative capacity and preparing national and local structures and authorities to plan and implement such programmes remain major challenges which the enlargement countries need to address rigorously from an early stage of the process.

Experience with the so far implementation of IPA assistance in Albania as well as findings of evaluations from audit missions need to consider the following lessons learned:

- Strengthening the capacity in absorption and well-usage of the EU funds the authorities needs to be ensured. This largely depends on project maturity and institutional capacity.
- 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.

It is very important to keep the administrative capacity trained as a preparation for the next levels and funds toward the EU integration. Europe has to find common solutions to the global challenges in partnership with national, regional and local levels. They impact directly on regional and local communities and they require that public and private partners work together.

Increase the level of knowledge about IPA and the ways in which the country can benefit from such a financial instrument. IPA rules and procedures are complex and at times difficult to interpret or apply. The insufficiency of information affects parties in both the central and local government circles. Thus, there is a need to disseminate the information among stakeholders of this process.

The National Authorities should frequently assess the needs of the central and local authorities dealing with IPA projects; increase the availability of information and awareness-raising activities; frequent cooperation via seminars and workshop must be supported between the homologue structure of the countries and/or between these structures and the representatives of EU institutions; ensure the accurate and timely internal flow of information.

On the basis of the other countries experience some recommendations can be formulated:

- more ownership is needed by national authorities so that they are fully committed to the objectives and undertake wholeheartedly the necessary reforms and actions for well implementing all pre-accession funds as well as other funds after fully joining the EU;
- mutual trust has to be build between the Commission and the national administrations;
- more dialogue between central and local authorities, as well as other stakeholders such as civil society. At the same time, increasing cooperation between the public sector, the social partners and civil society will increase effectiveness of IPA projects by providing a stronger link between education and employment.
- ensuring a stronger link between financial assistance and sector strategies as a way to a better streamlining of IPA funds.

Direct management of EU funds from the Albanian authorities and structures requires a 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.

It also requires the fulfillment of a number of key conditions, such as setting up national specialized offices in charge of EU administrative and financial procedures, especially in the Ministry of Finance and Ministry of Integration.

Establishing a system by taking into consideration the above mentioned issues can result on more efficient management of the European Union pre-accession funds and latter the structural funds and as well as domestic expenditure, in case of co-financing. However, calls for greater efficiency are likely to become even stronger in the future. Interestingly, this is a similar challenge for some old member states, who are increasingly concerned with the integration of EU and national expenditures and their cost-effectiveness.

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