



# Study on progress in regional policy of the WB6 and Turkey

Final Report

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# **Study on progress in regional policy of the WB6 and Turkey**

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\*This designation is without prejudice to positions on status and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence



## List of Acronyms

Abbreviations	Text
AA	Audit Authority
AIR	Annual Implementation Reports
ALMPs	Active Labour Market Policies
CAP	Common Agricultural Policy
CARDS	Programme of Community Assistance for Reconstruction, Development and Stabilisation
CBC	Cross Border Cooperation
CFCU	Department for Contracting and Financing of EU Funded Programmes
Chapter 22	Regional Policy and Coordination of Structural Instruments
CHU	Central Harmonisation Unit
CLLD	Community-Led Local Development
CoR	Committee of Regions
Country Reports	Reports prepared by the European Commission on the progress of candidate countries and potential candidates
COVID-19	Coronavirus disease 2019
CPR	Common Provisions Regulation
CSOs / NGOs	Civil Society Organisations
DG	Directorate-General
DG AGRI	Directorate-General for Agriculture and Rural Development
DG EMPL	Directorate-General for Employment, Social Affairs and Inclusion
DG NEAR	Directorate-General for European Neighbourhood Policy and Enlargement Negotiations
DG REGIO	Directorate-General for Regional and Urban Policy
EC	European Commission
ECA	European Court of Auditors
ECCP	European Code of Conduct on Partnership
EDP	Entrepreneurial Discovery Process
EIA	Environmental Impact Assessment
EIGE	European Institute for Gender Equality

ENI	European Neighbourhood Instrument
ERDF	European Regional Development Fund
ERP	Economic Reform Programme
ESF	European Social Fund
ESIF	European Structural and Investment Funds
EU	European Union
EU MS / MS	European Union Member States
EU27	27 European Union Member States
EUD / DEU	European Union Delegations
EUR	Euro, currency
EUSAIR	EU Strategy for the Adriatic and Ionian Region
EUSDR	EU Strategy for the Danube Region
FBiH	Federation of Bosnia and Herzegovina
FIs	Financial Instruments
GDP	Gross Domestic Product
HRM	Human Resources Management
IA	Internal Audit
ICT	Information and Communications Technology
IFIs	Independent Fiscal Institutions
ILO	International Labour Organisation
IMBC	Indirect Management by the Beneficiary Country
Interreg / ETC	European Territorial Co-operation
IPA	Instrument for Pre-Accession Assistance
IPA Beneficiaries	Albania, Bosnia and Herzegovina, North Macedonia, Kosovo*, Montenegro, Serbia and Turkey
IPA I	Instrument for Pre-Accession Assistance for the period 2007-2013
IPA II	Instrument for Pre-Accession Assistance for the period 2014-2020
IPA III	Instrument for Pre-Accession Assistance for the period 2021-2027
IPARD	Instrument for Pre-Accession Assistance for Rural Development

ISPA	Instrument for Structural Policies for Pre-Accession
ITIs	Integrated Territorial Investments
JASPERS	Joint Assistance to Support Projects in European Regions
LAGs	Local Actions Groups
LED	Local Economic Development
LSG	Local Self-Government
LSGUs	Local Self-Government Units
MAAPs	Multi-Annual Operational Programmes
MSMEs	Micro, Small & Medium Enterprises
NAO	National Authorising Officer
Natura 2000	Network of nature protection areas in the territory of the European Union
NEET	Not in Employment, Education or Training
NIPAC	National IPA Coordinator
NUTS	Nomenclature of territorial units for statistics
OECD	Organisation for Economic Co-operation and Development
OLAF	European Anti-Fraud Office
PAR	Public Administration Reform
PES / NES	Public Employment Services
PFM	Public Financial Management
PHARE	Assistance for Restructuring their Economies
PIFC	Public Internal Financial Control
PIM	Public Investment Management
PIMA	Public Investment Management Assessments
PPF	Project Preparation Facility
PPS	Purchasing Power Standards
PRAG	Practical Guide to contract procedures for EU external actions
R&D	Research and Development
RD&I	Research, Development and Innovation
RDAs	Regional Development Agencies

RDIs	Research and Development Institutes
RS	Republic of Srpska
SAIs	Supreme Audit Institutions
SAO	State Audit Office
SAPARD	Special Accession Programme for Agricultural and Rural Development
SBA	Small Business Act
SBS	Sector Budget Support
SDG	Sustainable Development Goals
SEA	Strategic Environmental Assessment
SECO	Sector Civil Society Organisations
SEE	South-East Europe
SMEs	Small and medium-sized enterprises
SOPs	Sector Operational Programmes
SPP	Single Project Pipeline
SR	Strategic Response
STP	Science and Technology Parks
Study	Study on progress in regional policy of the WB6 and Turkey
SWGs	Sector Working Groups
TA	Technical Assistance
TACSO	Technical Assistance for Civil Society Organisations
TENs	Trans-European Networks
TFBI	Task Force for Better Implementation
TNC	Trans-National Cooperation
UN	United Nations
UNCRPD	United Nations Convention on the Rights of Persons with Disabilities
WB	Western Balkans
WB6	Albania, Bosnia and Herzegovina, North Macedonia, Kosovo*, Montenegro and Serbia
WBIF	Western Balkans Investment Framework
YG	Youth Guarantee

## Abstract

This Study examines the extent to which IPA Beneficiaries are prepared to implement Cohesion Policy, the main policy tool of the European Union directed to strengthening economic, social and territorial cohesion in the Union and correcting territorial imbalances taking into consideration the new political priorities of the Union, especially the green and digital transition. In the context of progress in the accession process and the relevant negotiating chapters, the Study focuses on two main dimensions, whether policy and planning frameworks and their implementation in practice are in place as an enabling environment for economic, social and territorial cohesion and the extent to which pre-accession assistance is effectively supporting policy efforts in convergence objectives.

The Study offers recommendations on how IPA Beneficiaries can progress, supported by the Commission, and how assistance can be better directed towards convergence. In a forward-looking approach, the Study recommends learning from the experiences of new Member States in their convergence efforts and mirroring as far as possible Cohesion Policy practices in the design and delivery of IPA. It builds on an extensive desk review, interviews with the European Union Delegations and IPA institutional representatives, 3 thematic stakeholder workshops and a pan-IPA survey.

## Executive Summary

The overall aim of the Study is to review the current IPA assistance dedicated to supporting the preparation of candidate countries and potential candidates for the implementation of EU cohesion policy and to make recommendations for improvements to forthcoming IPA III programmes and their implementation and the support offered by the Commission, as well as provide an input to the debate on future EU cohesion policy programming and implementation arrangements in candidate countries and potential candidates. The specific objectives are: to identify the main obstacles to harmonisation and providing an enabling environment for the implementation of EU cohesion policy, such as legal and administrative gaps, and identify good practices and new approaches to overcoming or easing these obstacles; to provide orientations on how progress in regional policy and efforts towards economic, social and territorial cohesion could speed up and become more sustainable, with the assistance of the Union and to detect potential challenges each IPA Beneficiary is expected to face in accession negotiations as regards Chapter 22 and readiness for Regional Policy, in a forward-looking approach in the light of the green and digital transition, and to articulate proposals on potential approaches to address them.

To address these objectives, a methodology consisting of the following elements was developed: a desk review of available literature; interviews with the Delegations of the European Union and relevant IPA institutional stakeholders; a public consultation (on-line survey) of IPA stakeholders and thematic workshops with CSOs from the WB6 and Turkey on three key Cohesion objectives: A Smarter Europe, A Greener Europe and A More Social Europe. 21 background Issue Papers were prepared. The interim findings were presented and discussed in a Workshop “Candidate countries' progress in regional policy” during the 19th European Week of Regions and Cities.

The Study provides an overview of the current state of play in the WB6 and Turkey in alignment with EU acquis and progress regarding Chapter 22 - Regional Policy and coordination of structural instruments, and ten other negotiating chapters considered particularly relevant for convergence objectives and regional and territorial development, with a view to understanding the level of preparedness for EU Cohesion Policy. IPA Beneficiaries are at different stages in their trajectory towards accession, but common challenges have emerged that should be the focus of support. However, **the underlying issue is the lack of a clear perspective for accession, undermining the momentum for reform and in particular progress as regards Regional Policy and preparations for Chapter 22; the impetus to establish an institutional set-up or start programming is weak** and risks being seen as an abstract exercise. In general, the benefits of coordinating accession negotiations with preparations for Cohesion Policy are not understood.

The readiness of IPA Beneficiaries as regards the four horizontal enabling conditions applicable to all specific objectives under the 2021-2027 Cohesion Policy framework was assessed. As regards public procurement, knowledge and capacities of contracting authorities are generally weak, especially at local level, while there is still a strong tendency to use the lowest price criterion. In the sphere of State Aid, capacities are woefully insufficient and, as regards IPA Funds, there is very little understanding of State Aid issues. As regards the respect for fundamental rights and the UNCRPD, the priority given to fundamental rights in the Fundamentals cluster under the new Enlargement methodology provides a good basis but their reflection in programme preparation, implementation and monitoring remains weak.

The research also found that **the partnership principle as set out in the European Code of Conduct on Partnership (ECCP) has not been consistently applied for IPA programming**. In general, the sector approach introduced in IPA II made a limited contribution to the promotion of the partnership and better involvement of CSOs in the

planning and programming of IPA. Efforts at including CSOs in programming and monitoring of IPA have not been sustained over time. Despite significant public administrative reform efforts supported by IPA and other donors, consultation processes are not fully mainstreamed into the public administrative culture. Partnership and participatory planning, as opposed to public consultation, is at a nascent stage. **IPA-funded multi-annual operational programmes provide the best examples of practice for partnership to be mainstreamed into the wider administrative culture.** The Study also noted a **general lack of transparency in the delivery of IPA assistance**, exception made for ETC programmes with Member States under shared management in terms of operations financed, financial contracting and absorption and the achievements. This not only **undermines the overarching Union commitment to transparency but impedes progress towards EU integration.**

The **readiness of the institutions and authorities in the WB6 and Turkey to drive and reinforce economic, social and territorial cohesion through the implementation of Cohesion Policy is directly connected to the quality of their policy and strategic frameworks.** The Study found **significant challenges related to the policy dimension.** The candidate countries and potential candidates are marked by **persisting territorial imbalances** but in practice, there is **only fledgling policy orientation and investments are directed to address territorial disparities** in the WB6.

**Insufficient political weight** tends to be **given to regional policy**; in Turkey, policy making is highly centralised. Four of the WB6 have no regional development strategic framework in place, hindering the effective delivery of consistent place-based interventions and the harmonised implementation of policies for territorial cohesion. **Decentralisation in the WB6 needs further efforts in terms of real fiscal autonomy and sufficient administrative capacities and financial resources** to perform their assigned competences. **Vertical coordination is weak** and **multi-level governance** mechanisms often a **formality.**

**Coordination of donor assistance remains a key concern** in general; in practice mechanisms of internal coordination are weak and donor coordination patchy, leading to overlapping of initiatives and wasted efforts. Furthermore, there is **a lack of synergy between IPA programme and national policies.** **Policy monitoring** practices in the WB6 are in general **inconsistent and weak**, especially the quality and timeliness of monitoring processes, the publication of monitoring reports and the engagement of external stakeholders in monitoring, whereas in Turkey there is no systematic approach to monitoring.

The research also found that the contribution of IPA to the achievement of SDG goals is not consistently tracked or monitored. There are no direct linkages between identified IPA indicator targets and the nationalized SDG goals and targets to which they will contribute and there are critical data gaps for both the SDGs and the EU accession agenda. While policy frameworks are generally in place for gender equality, interinstitutional coordination, funding and implementation need improvement.

As regards the Policy objective *A Smarter Europe*, **IPA allocations to the competitiveness and innovation sector are far lower in proportion than those allocated to the same sector under ERDF in Member States leading to an inevitable worsening of the gap in competitiveness.** A principal concern in the WB6 is **access to finance which remains the constant and most significant obstacle to the investment, innovation and internationalisation of SMEs.** Although the candidate countries are progressing as regards smart specialisation, with S3 strategies approved in Montenegro and Serbia, major challenges remain for S3 governance. As regards innovation, research and development, national funding lags significantly behind the EU average and in some cases is not seen as a key policy area; except in Serbia and Turkey, systematic measures



to promote innovation are weak or inexistent and business-academia collaboration needs to be fostered in general. Generally, the public research system is chronically underfunded. Overall, public research performance is low and the WB6 and Turkey are suffering from a brain drain.

**The WB6 and Turkey face critical environmental and climate infrastructural challenges which IPA funds cannot address;** although policy frameworks for the environment and climate change are being introduced, implementation, monitoring and enforcement remain weak. **Insufficient institutional capacities and poor vertical and horizontal coordination impede effective implementation of environmental measures. Strategic project prioritisation suffers from politicisation and insufficient consideration of maturity issues, exacerbated by a general low quality of technical documentation,** Feasibility Studies and Cost Benefit Analysis. Internal capacities are lacking for strategic investment planning and implementation and Technical Assistance risks masking the shortcomings of the institutions. Capacities for preparing EIAs and SEAs need strengthening, especially as regards stakeholder consultations and follow-up of recommendations and measures.

As regards *A more Social Europe*, **IPA assistance in the education, employment and social affairs sector has been limited** except in the two countries with multi-annual operational programmes in the field, and **insufficient to address the gaps between IPA Beneficiaries and the EU in key indicators.** The capacities of smaller local administrations are very weak in the social sector, especially as regards infrastructure and service delivery. Although in general employment policies are in place, implementation of the regulatory framework remains challenging. Coordination and monitoring mechanisms are weak. Rates of temporary employment and informal employment are in general high, and unemployment rates are well above EU averages. The education system is largely failing to produce the skills needed, mechanisms for transition to work are ineffective and the take up of lifelong learning initiatives is limited. Efforts to increase female employment rates are ongoing but they continue to remain significantly below EU averages. Even if the capacities of public employment services have improved, caseloads are very high. Active labour market programmes still need to target better vulnerable and minority groups. Urgent action is needed as regards young people not in employment, education or training (NEETs) to avoid long-term exclusion.

**Territorial cooperation provides the best opportunity for IPA territorial and local actors to prepare and implement projects addressed towards convergence objectives,** even though budgets are not sufficient to significantly impact on the severe regional disparities, particularly in environmental infrastructure. Moreover, the limited funds available for transnational cooperation limit the potential benefits for cooperation and integration into larger areas that share the same challenges. **Cooperation between IPA Beneficiaries is held back by very modest budgets** that cannot significantly address the challenges identified, especially as these are often regions marked by the greatest disparities.

**While IPA III seems to be much more aligned with the Cohesion Policy requirements, practice has shown that changes to the requirements under successive financial perspectives may prove ineffective. Furthermore, there is an increase in the administrative burden as several systems are running in parallel. Changes in terminology tend to lead to confusion among IPA Beneficiaries. Efforts should be made to reduce the administrative burden and streamline as far as possible. The EU legal framework (IPA) should ensure continuity in the requirements and use the same terminology while still allowing policy to evolve. Successive IPA cycles show a shift from a focus on operations (IPA I) to a sectoral approach in IPA II and in IPA III, a focus on policy.**



The Study also examined the readiness of institutions to deliver EU Cohesion Policy, identifying the gaps in institutional capacities and setting out recommendations and solutions to progress in institutional readiness. **The implementation of IPA Funds is hampered by the lack of qualified resources in the system; unattractive salary structures and lack of merit-based recruitment**, performance assessment and career advancement prospects, exacerbated by a lack of motivation, lead to understaffing and a gradual loss of qualified staff, with significant repercussions on IPA performance and **resulting in a loss of institutional memory as well as a lack of sustainability of capacity-building actions** supported by IPA Funds. IPA Units under national annual action programmes do not gain the necessary experience for preparing and implementing convergence operations, due to excessive divisions at project level of responsibilities concerning planning, monitoring and financial implementation in the IMBC system. **The IPA system does not reflect the typology of Cohesion Policy beneficiaries, leaving them without EU project preparation and management experience.**

From the research carried out, it emerges that **the introduction of the sector approach in IPA II had a limited contribution to readiness of candidate countries or potential candidates as regards regional policy** in general. The **progress in preparations for the implementation of EU Cohesion Policy has stagnated both due to the lack of a clear perspective for accession and the shift away from indirect management by the Beneficiary country** in candidate countries and **limited – where existing - use of multi-annual sector operational programmes for convergence objectives in IPA II in the WB6**, thereby **depriving their institutions of the most valuable learning-by-doing experience.**

**It should take no more than 10 years for an IPA Beneficiary to get prepared for Cohesion Policy under the demanding negotiating Chapter 22 if capacity is built in a timely fashion and sustained and experience gained in the indirect management of funds.** However, there is still a **lack of understanding among IPA Beneficiaries of the complexities of implementing Cohesion Policy**, the **time needed to build capacities and how to make structures sustainable** as well as the **importance of regional policy for economic, social and territorial cohesion.**

Furthermore, the **lack of direct support from DG REGIO and DG EMPL for national Action Programmes** – unlike the case of IPARD where DG AGRI provided support and guidance and fostered relevant links with EU networks such as the European Network for Rural Development – **deprived the IPA Beneficiaries of valuable support and peer-learning and exchange.** The **experience of working with Member States on shared management Territorial Cooperation Programmes provided the only experience of cohesion policy implementation in practice for IPA Beneficiaries**, but this was **not mainstreamed throughout the institutions** while different rules for cooperation between IPA Beneficiaries created parallel systems and an excessive administrative burden.

**A more strategic approach to the preparation for Regional Policy needs to be developed**, through coordination between clusters and focused training actions to the countries in the process of establishing or implementing Chapter 22 Action Plans, supported by DG REGIO. **Direct cooperation with policy DGs** – as was practice in IPA I - **should be fostered** and candidate countries able to participate in EU networks and working groups as observers to gain greater understanding and start working with Member State peers on convergence priorities, the enabling conditions and implementation modalities for peer exchange and peer-learning as a constant practice. **More focus needs to be given in preparing for the specific enabling conditions linked to each policy objective** which aim for effective implementation. Parallel enabling conditions could be introduced for IPA III sector operational programmes.

**Learning-by-doing must be prioritised to allow IPA Beneficiaries to take on responsibilities, foster ownership** and learn from their mistakes. **Multi-annual operational programmes**, prepared and implemented **in line with the ECCP**, should **mirror Cohesion Policy programmes** and be seen as a learning experience to encourage National Authorities to take responsibility for programme management, including the decommitment risk, and prioritise national capacity mobilisation and gain experience in financial forecasting and planning. The allocation of significant IPA III resources to the Economic and Investment Plan for the Western Balkans implemented through the vehicle of the Western Balkans Investment Framework means that national authorities will have less opportunities for learning-by-doing in convergence priorities and does not foster nascent steps towards more integrated regional policy making in accordance with the partnership principle. The Commission should establish **direct cooperation between the national authorities and line DGs** (DG REGIO, DG EMPL) able to provide high quality of support and advice regarding the management of EU pre-accession funds in convergence sectors. A similar practice was introduced under IPA I components III and IV, and proven appropriate to prepare for Cohesion Policy, as in the case of Croatia. The Commission **should align IPA rules, procedural and institutional requirements to the maximum extent with Cohesion Policy requirements**. The use of ex-ante control should be limited to IPA potential candidates that have no experience of IMBC, in favour of more targeted advisory support. The **responsibility for the entire multi-annual operational programme should be assigned to one institution that already implements national investments in the same field, mirroring the responsibilities assigned to Member State Managing Authorities**, including as applicable the establishment of Intermediate Bodies with competencies in the relevant field under MA responsibility. The practice of excessive and too strict segregation of duties should be abandoned, in favour of the Financial Regulation requirements that Member States follow. Timely agreement on the number and scope of sector operational programmes would allow for the designation of the programme bodies (with apposite legal acts), that then need to plan their resources, build capacities in advance and prepare procedures for accreditation packages for IMBC with ex-post control. Dedicated technical assistance needs to be made available as soon as possible to avoid a late start to entrustment and implementation.

**A far wider use of grant schemes – the major delivery mechanism for Cohesion Policy – needs to be prioritised in programmes as learning-by-doing practice, extended also to private sector beneficiaries.** The Commission could set up a Task Force and provide targeted support for IPA Beneficiaries for the preparation and implementation of Sector Operational Programmes under IPA III.

More **structured technical assistance should be introduced**, linked to the specific sector programme and managed by the responsible sector institution, in line with Cohesion Policy rules. The **use of Technical Assistance to support retention policy and finance salaries/bonuses**, as for Member States, should be allowed subject to specific regulations or Human Resource Action Plans/ Administrative Capacity Building roadmaps being in place; their implementation could be supported through IPA Technical Assistance with support linked to milestones and targets. Innovative schemes to attract young professionals to the civil service or support the qualification of mid-career civil servants could be envisaged.

Tailored support should be provided in the implementation of financial management and control in national institutions that are likely to take over the mandate of managing authority/intermediate body or have relevant policy mandates to create a wide pool of training public servants. Special emphasis should be placed on risk management as the weakest segment of the internal control framework. IPA support under Window II should continue to address key issues in Public Administration Reform and Public Financial Management. Internal Audit control needs to be strengthened and move its focus away from mere compliance audits and become a tool to support the achievement of institutional goals.

**Simplification measures should be adopted based on lessons learnt from IPA implementation and Cohesion Policy approaches.** This includes the harmonisation of rules and procedures, the use of electronic systems for applications, monitoring and reporting, Simplified Costs Options, simplified grant schemes in terms of language and secondary procurement and the Seal of Excellence concept. Mechanisms to support sub-national entities in applying for EU Funds need to be rolled out throughout the region.

**Alignment between rules and practices in ETC should be prioritised,** including for IPA-IPA programmes, while IPA Beneficiaries should strive to streamline institutional responsibilities and capitalise on acquired experience in ETC programme preparation and implementation to the benefit of the whole EU Funds system.

**IPA III should mirror the transparency and communication requirements for Cohesion Policy;** information should be accessible to the public on a single national level website, fed by structured information from EU Delegations including updated financial information on allocations and disbursements by programme and window. An IPA Communication Strategy at Beneficiary level and Sector Communication Plans should be developed and funded through Technical Assistance to address serious deficiencies in communication.

**IPA funds alone cannot address the severe territorial disparities** and contribute significantly to economic and social cohesion; more efforts should be made to **blending IPA with other funding sources**, such as financial instruments with support from Fi-compass, innovative approaches to financing such as EaSI initiatives, supported by DG EMPL, and loans from IFIs in convergence priorities, as well as better harmonised donor coordination. **IPA support should be directed strengthening the territorial dimension of sector policies at all governance levels**, providing consistent support for regional and local strategy development and implementation, through inclusive processes, and piloting and rolling out appropriate integrated investment tools such as ITIs and CLLD. Extensive efforts to involve local government consistently in the programming and delivery of IPA III, accompanied by targeted capacity-building would underpin strategic directions for territorial cohesion and help to prepare for the delivery of cohesion policy.

**IPA should support strong engagement in developing a system of indicators based on the EU Cohesion policy requirements;** common indicators and methodologies could be proposed based on those in place for Cohesion Policy which would improve practice and capacities in preparation for post-accession implementation. Further efforts are needed to build up sector-specific statistical data for evidence-based policy planning and monitoring. Further attention needs to be paid to the proper monitoring of the IPA III contribution to the SDGs and horizontal policy objectives such as climate change mitigation and gender equality moving beyond a mere tick-box approach and formal methodologies for assessing the financial contribution to alignment in indicators.

**Targeted support should be provided as regards capital investments to be financed through EU Funds, avoiding over-reliance on external expertise,** eventually through a JASPERS-like instrument for advice on major projects, the application of the EU Taxonomy and to build capacities of competent institutions to provide a solid basis for achieving the ambitions of the Green Agenda. Further **strengthening of the Single Project Pipeline to be the sole mechanism (EU, external and own resources) for selection and prioritisation of infrastructural projects** with a focus on maturity issues and scoring homogeneity within and across sectors is essential. Technical assistance to project pipelines similar to the existing PPFs should continue to support timely and quality preparation of project documentation in line with the Single Project Pipelines priorities, thus preparing beneficiaries for large investments.

# 1. Introduction and Methodology

The overall aim of this Study is to review the current IPA assistance dedicated to supporting the preparation of candidate countries and potential candidates for the implementation of EU cohesion policy and to make recommendations for improvements to forthcoming IPA III programmes and their implementation and the support offered by the Commission, as well as provide an input to the debate on future EU cohesion policy programming and implementation arrangements in the candidate countries and potential candidates. The specific objectives are:

- To identify the main obstacles to harmonisation and providing an enabling environment for the implementation of EU cohesion policy, such as legal and administrative gaps, and identify good practices and new approaches to overcoming or easing these obstacles.
- To provide orientations on how progress in regional policy and efforts towards economic, social and territorial cohesion could speed up and become more sustainable, with the assistance of the Union.
- To detect potential challenges each IPA II beneficiary is expected to face in the EU accession negotiations as regards Chapter 22 and readiness for Regional Policy, in a forward-looking approach in the light of the green and digital transition, and to articulate proposals on potential approaches to address them.

In order to address these objectives, the study team developed a methodology consisting of the following elements:

- a desk review of literature at IPA Beneficiary level, regional level and in Europe as relevant, information and data on IPA programming and implementation for each IPA Beneficiary, and a review of the relevant legal and administrative acts in place for each IPA Beneficiary;
- a programme of interviews with the Delegations of the European Union and relevant IPA institutional stakeholders (such as NIPAC offices, CFCUs etc);
- a public consultation (on-line survey) of IPA stakeholders;
- three thematic workshops with CSOs from the WB6 and Turkey on the key Cohesion objectives: A Smarter Europe, A Greener Europe and A More Social Europe.

Three background Issue Papers were prepared for each IPA Beneficiary, covering:

- Progress in negotiation chapters and clusters relevant for EU Cohesion Policy.
- The strategic and policy framework for economic, social and territorial cohesion.
- The institutional set-up and capacities for the delivery of EU assistance and Cohesion Policy.

Interim findings from the research were discussed in a workshop “Candidate countries' progress in regional policy” attended by more than 60 participants from the European Union and the Western Balkans region on 13 October 2021 in the 19<sup>th</sup> European Week of Regions and Cities<sup>1</sup>. The above provided the basis for this Final Report. A significant issue during the research phase was represented by the lack of transparent data on IPA implementation. This has impacted on the accuracy and breadth of the desk research which is based on publicly available information and data<sup>2</sup>; gaps and limitations to available information and data are indicated as appropriate in the Study. Any inaccuracies in the data presented are therefore due to these limitations.

<sup>1</sup> <https://europa.eu/regions-and-cities/programme/2021/sessions/1922>

<sup>2</sup> The sources used for data collection on IPA are the web portals of DG NEAR, the DEUs and the relevant institutions in IPA Beneficiaries and where publicly available, annual implementation reports. Some additional information was provided from the interviews; in some cases, the data provided by different sources did not match as timeframes were not aligned.

## 2. The Path to Convergence

In accordance with the new enlargement methodology, as set out in the European Commission's Communication "*Enhancing the accession process - A credible EU perspective for the Western Balkans, for the purposes of screening and the subsequent negotiations*"<sup>3</sup>, the acquis is broken down into six thematic clusters, each covering a specific policy area: Fundamentals, Internal Market, Competitiveness and inclusive growth, Green agenda and sustainable connectivity, Resources, agriculture and cohesion, and External relations.

**Table 2 - 1 Cluster division according to the new methodology**

Cluster	Chapters/areas
1. Fundamentals	23-Judiciary and fundamental rights 24-Justice, freedom, security 5-Public Procurement 18-Statistics 32-Financial control ...Economic Criteria ...Functioning of democratic Institutions ...PAR <sup>4</sup>
2. Internal Market	1-Free movement of goods 2-Freedom of movement for workers 3-Right of establishment and freedom to establish services 4-Free movement of capital 6-Company Law 7-Intellectual property rights 8-Competition 9-Financial services 28-Consumer and health protection
3. Competitiveness and inclusive growth	10-Information society and media 16-Taxation 17-Economic and monetary policy 19-Social policy and employment 20-Enterprise and industrial policy 25-Science and research 26-Education and culture 29-Customs union
4. Green agenda and sustainable connectivity	14-Transport policy 15- Energy 21-Trans-European Networks 27-Environment and climate change
5. Resources, agriculture and cohesion	11-Agriculture and rural development 12-Food safety, veterinary, phytosanitary services 13-Fisheries 22-Regional policy and coordination of structural instruments 33-Financial and budgetary provisions
6. External relations	30-External relations 31-Foreign, security & defence policy

The negotiating chapters are organised in thematic clusters to bring together the chapters or areas according to broader themes and will allow a stronger focus on core sectors. The Commission expects the clusters to provide a stronger focus on key sectors in political dialogue, and that the candidate country could decide which are the most important and urgent reforms by sector. Cluster division has been initiated in order to bring dynamism into the negotiating process and to foster cross-fertilisation of efforts beyond individual chapters.

<sup>3</sup> [https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/enlargement-methodology\\_en.pdf](https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/enlargement-methodology_en.pdf)

<sup>4</sup> Public Administration Reform



Negotiations on each cluster are opened as a whole, with all chapters within the cluster opened simultaneously.

Policy areas in which particularly serious efforts are required to align legislation with the acquis and to ensure its implementation and enforcement should be addressed at an early stage in the accession negotiations. In line with the new methodology, any agreements reached in the course of negotiations on specific chapters or clusters, even partial ones, may not be considered as final until an overall agreement has been reached for all clusters.

## 2.1. Progress in Accession Negotiations relevant for EU Cohesion Policy

The aim of this section is to provide an overview of the current state of play in the Western Balkans Six and Turkey in alignment with EU acquis and progress regarding Chapter 22 - Regional Policy and coordination of structural instruments, and ten other negotiating chapters considered particularly relevant for convergence and regional and territorial development, with a view to the level of preparedness for EU Cohesion Policy. In particular, the focus is on the level of fulfilment of the conditions relevant for regional policy and the implementation of related EU Cohesion Policy funds. It also considers the relevance and effectiveness of pre-accession assistance (IPA) to reach this goal, and the extent to which EU support has been and may in the future be instrumental in preparing the countries for Cohesion Policy.

The selected related negotiating chapters are listed below in accordance with the new enlargement methodology that clusters the negotiating chapters thematically.

**Table 2. 1 Overview of the negotiating chapters relevant for Cohesion Policy**

Cluster	Related Chapters of the Acquis	Summary
Fundamentals	Chapter 23 – Judiciary and Fundamental Rights	EU policies in the area of judiciary and fundamental rights aim to maintain and further develop the Union as an area of freedom, security and justice. The establishment of an independent and efficient judiciary is of paramount importance. Impartiality, integrity and a high standard of adjudication by the courts are essential for safeguarding the rule of law. A solid legal framework and reliable institutions are required to underpin a coherent policy of prevention and deterrence of corruption. Member States must ensure respect for fundamental rights and EU citizens' rights, as guaranteed by the acquis and by the Fundamental Rights Charter.
Fundamentals	Chapter 5 - Public Procurement	EU rules ensure that public procurement of goods, services and works in any Member State is transparent and open to all EU companies on the basis of non-discrimination and equal treatment.
Fundamentals	Chapter 18 – Statistics	EU rules require that Member States are able to produce good quality statistics in line with the principles of the European statistics Code of Practice and based on professional independence, impartiality, reliability, transparency and confidentiality. Common rules are provided for the methodology, production and dissemination of statistical information.
Fundamentals	Chapter 32 - Financial Control	The EU promotes the reform of national governance systems to improve managerial accountability, sound financial management of income and expenditure, and external audit of public funds. The financial control rules further protect the EU's financial interests against fraud in the management of EU funds and the Euro against counterfeiting.

Internal market	Chapter 2 – Freedom of Movement of Workers	Citizens of one Member State have the right to work in another Member State and must be given the same working and social conditions as other workers.
Internal market	Chapter 8 – Competition Policy	EU rules protect free competition. They include antitrust rules against restrictive agreements between companies and abuse of dominant position, and also include rules on concentrations between companies which would significantly impede competition. EU rules also set out a system of State aid control. Governments are only allowed to grant State aid if restrictive conditions are met, with a view to preventing distortion of competition.
Green agenda and sustainable connectivity	Chapter 14 - Transport	The EU has common rules for technical and safety standards, security, social standards, State aid and market liberalisation in road transport, railways, inland waterways, combined transport, aviation and maritime transport
Green agenda and sustainable connectivity	Chapter 15 – Energy	EU energy policy covers energy supply, infrastructure, the internal energy market, consumers, renewable energy, energy efficiency, nuclear energy and nuclear safety, and radiation protection.
Green agenda and sustainable connectivity	Chapter 21 - Trans-European Networks	The EU promotes trans-European networks (TENs) in the areas of transport, telecommunications and energy to strengthen the internal market and contribute to growth and employment.
Green agenda and sustainable connectivity	Chapter 27 – Environment and Climate Change	The EU promotes strong climate action, sustainable development and protection of the environment. EU law contains provisions addressing climate change, water and air quality, waste management, nature protection, industrial pollution, chemicals, noise and civil protection.

The interconnections between the Chapters are particularly significant in terms of Regional Policy. The ten chapters identified are part of three Clusters. Cluster 1 – Fundamentals, which also covers the areas of economic criteria, functioning of democratic institutions and public administration reform, as well as four chapters: 5, 18, 23 and 32. Furthermore, Cluster 2 on Internal Market combines two chapters: Chapter 2 – Freedom of Movement of Workers and Chapter 8 - Competition Policy, while Cluster 4 – Green Agenda & Sustainable Connectivity includes chapters 12, 15, 21 and 27 as the most important sectoral policies for cohesion policy.

## 2.2. Current state of Play regarding Chapter 22 and other negotiating chapters relevant for EU Cohesion Policy

Regional Policy is the main investment policy of the European Union, contributing to new jobs creation, improving the quality of life of citizens, and increasing the overall economic development of the EU and its Member States. It is also an expression of solidarity, given that the support is directed to less developed regions and Member States, with the aim of strengthening the Union's economic, social and territorial cohesion. The acquis under Chapter 22 consists mostly of framework and implementing regulations, which do not require transposition into national legislation. They define the rules for drawing up, approving and implementing Cohesion Policy programmes reflecting each country's territorial organisation, which are negotiated and agreed with the Commission, but implementation is the responsibility of the Member States. Member States must respect EU legislation in general, for example in the areas of public procurement, competition and environment, when selecting and implementing projects. Member States must have an institutional framework in place and adequate administrative capacity to ensure programming, implementation, monitoring and evaluation in a sound and cost-effective manner from the point of view of management and financial control.

It must be borne in mind that the seven IPA Beneficiaries covered by this Study are at different levels of integration and although some general considerations and recommendations can be made, there are considerable differences in the level of preparedness for Cohesion Policy; as regards Chapter 22, only Montenegro and Turkey have received the closing benchmarks (prior to the adoption of the new Enlargement methodology). In the case of Serbia, once Cluster 5 is ready, Chapter 22 will be opened while Albania and North Macedonia are waiting for the start of accession negotiations. Bosnia and Herzegovina and Kosovo\* are still at an early stage as far as this Chapter is concerned. However, despite this, some general considerations are made, based on successive assessments for Chapter 22 in the EC Country Progress Reports on Enlargement and the experience of new Member States in preparing for the implementation of Cohesion Policy, as well as the Commission's views for Member States concerning framework conditions for effective delivery for the 2021-2027 Cohesion Policy contained in ANNEX D<sup>5</sup> to the 2019 European Semester Country Reports. An overview of progress for each economy in Chapter 22 is presented in the table below:

**Table 2. 2 Overview of Preparedness in the selected Chapters**

IPA Beneficiary <sup>6</sup>	Level of preparedness (2021 EC Country Reports)			Status of Chapter 22
	Early stage of preparation	Moderately prepared/some level of preparation	Good level of preparation	
<b>Albania</b>		Moderate: 5, 18, 15, 22 and 32 Some/moderate: 23 Some level of preparation: 2, 14, 21 and 27		Not open Pre-screening (2019)
<b>Bosnia and Herzegovina</b>	22, 15, 18, and 32 Early/some: 27	Some level of preparation: 2, 5, 8, 14, 21 and 23		Not open
<b>Kosovo*<sup>7</sup></b>	Early stage: 27  Early/some level: 8, 14 and 23	Some level/moderate: 5 and 2 Some level of preparation 18, 32, 15 and 21		Not open
<b>Montenegro</b>		5, 8, 32, 18, 22 and 23 Some level of preparation: 2 and 27	15 Moderate/good 14 and 21	Opened
<b>North Macedonia</b>	21	22, 5, 18, 32, 8, 14 and 15 Some/moderate: 23 Some level of preparation: 27	2	Not open Pre-screening (2019)
<b>Serbia</b>		2, 5, 8, 15, 18, 21, 22 and 32	14	Not open Action Plan prepared
<b>Turkey</b>	2 and 23	22, 5, 18, 14 and 15 Some level of preparation: 8 and 27	21 and 32	Yes

<sup>5</sup> For the first time, in 2019, a specific Annex was prepared as part of the European Semester Country Reports for Member States regarding INVESTMENT GUIDANCE ON COHESION POLICY FUNDING 2021-2027 presenting the preliminary Commission services views on priority investment areas and framework conditions for effective delivery for 2021-2027 Cohesion Policy. The Annexes provides the basis for a dialogue between Member States and the Commission services in view of the programming of the cohesion policy funds (European Regional Development Fund, Cohesion Fund and European Social Fund Plus). [https://ec.europa.eu/info/publications/2019-european-semester-country-reports\\_en](https://ec.europa.eu/info/publications/2019-european-semester-country-reports_en)

<sup>6</sup> Chapter 22 is not assessed in the EC Progress Report the case of Kosovo\*. The bilateral EU support for Kosovo\* under IPA II 2014-2020 amounts to EUR 562 million. The 2019 and 2020 action programmes include an EU contribution of EUR 181 million. The assistance is implemented under direct management by the EU Office in Kosovo\*, as well as budget support to public administration reform, public financial management and socio-economic recovery.

<sup>7</sup> In the case of Kosovo\*, there is no direct reference to Chapters in the Report although the cluster approach is followed and unlike the other countries, not all Chapter-related themes are monitored. Regional Policy and structural instruments are not monitored yet.



It can be noted that there was very little progress in general over the last year, if Country Reports from 2020 and 2021 are compared, which is to a large extent explained by the impact of the COVID-19 pandemic on the priorities and working of the government and administration, further exacerbated by the lack of readiness for remote working in carrying out day-to-day business. Assessment of progress is in groups according to the stage in the accession.

Montenegro, Serbia and Turkey have all opened accession negotiations and progress is presented regarding the both the Chapters and the status of negotiations where they are in progress. Both Montenegro and Serbia have adhered to the new negotiation methodology by cluster which shall affect the further progress in related chapters.

Montenegro has **opened all the chapters analysed** directly linked to Chapter 22. The **varying levels** of progress within the chapters show that Montenegro has surpassed an early phase of preparation, although it can be noted that further progress has slowed down recently. However, several **important issues** still remain to be addressed – such as the sensitive cases of State aid, better control of public procurement, fight against corruption as well as investment in environment infrastructure that is lagging behind EU standards. Finally, it should be noted that these **eleven chapters** have to a great extent been **negotiated individually** and with only **sporadic communication** and exchange of information on the mutual importance and progress in the alignment with the EU acquis and standards as confirmed by the key stakeholders. Even at this advanced stage of negotiations, there is not only a **lack of inter-agency coordination** and **information sharing**, but also an **understanding** of the benefits deriving from exchange for the administration working on the fulfilment of various accession objectives.

**Serbia has opened all the four chapters of Cluster 1 Fundamentals (5, 18, 23 and 32) while chapters 2, 8, 14, 15, 21, 27 and 22 have not been opened yet<sup>8</sup>.** In the case of Chapter 22, Serbia prepared the Action Plan for the opening benchmark in 2019, but the chapter has not been opened. The levels of preparedness demonstrate the fact that **Serbia has managed to progress in its integration efforts** and is in the most areas midway when it comes to reaching the goal of closing those chapters which are open.

Within the framework of **accession negotiations with Turkey**, 16 chapters have been opened and one provisionally closed; however, these are now **effectively at a standstill<sup>9</sup>**. Turkey faces the **most difficult challenges in Chapters 23, 8 and 27**, which have both political, administrative and financial sensitivity and significance, with Chapter 23 seeing some backsliding. Given the suspension on negotiation of specific chapters, and considering the current moment in the accession process, Turkey has still a long way to travel in order to meet the criteria that are necessary for a balanced accession to the regional policy and structural funds. Compared to Western Balkan candidates and having in mind the size of the country, Turkey has considerable administrative capacities, but as IPA III for Turkey will focus on policy reform in the field of EU values (basic principles, rule of law, migration), there will be less space to focus on convergence issues.

**Albania and North Macedonia are still waiting to open accession negotiations.** Once negotiations open, both countries will need first to focus their attention and work on the Cluster 1 Fundamentals – before being able to open any other chapter under this assessment. As the importance of this cluster is extremely high, both can start addressing the requirements for the fundamentals' chapters 5, 18, 23 and 32 (four out of five in Cluster

<sup>8</sup> Chapters 15 and 8 have opening benchmarks, which Serbia is working on while no opening benchmarks have been set in Chapters 2, 14, 21 and 27.

<sup>9</sup> The General Affairs Council conclusions of June 2019 reiterated the Council's position of June 2018 that no further chapters can be considered for opening or closing. <https://www.consilium.europa.eu/en/press/press-releases/2019/06/18/council-conclusions-on-enlargement-and-stabilisation-and-association-process/>

1). Besides, further in the process, the countries will have to fulfil the interim benchmarks for the rule of law chapters 23 and 24, as a condition for starting the closure of other chapters. Therefore, the focus on the rule of law should be given utmost priority. Parallel to this, the countries should start preparing for the structural funds and regional policy hand in hand with the implementation of IPA III once the Cluster 5 becomes ready for opening. There is a risk, as has been seen in the case of Montenegro and Serbia, that less attention is paid to Chapter 22, not realising the importance of preparing in good time for the implementation of Cohesion Policy as a member state.

Overall, Albania's standing as regards the chapters monitored shows that **Albania is moderately advanced in its preparations**, with none of the chapters scanned in an early phase. Due to the protracted opening of accession talks, the country has managed to improve in reaching EU standards and will be ready to approach the start of work on chapters from a better position. Reporting of Chapter 22 requirements is still mostly **focused on the implementation of pre-accession assistance** lacking a more advanced focus on regional policy and the requirements of the EU membership. There is also **a lack of a common approach to dealing with Chapter 22 in conjunction with the other 10 chapters** under this survey as the public administration in Albania still sees them as separate areas of work.

**North Macedonia**, in comparison for example with the two WB6 countries that are now negotiating (Montenegro and Serbia), is rather advanced in its preparations considering its current (pre-negotiation) integration stage, the result of the work and investments during the last 20 years of integration efforts. The usually heavy and demanding chapters 23 and 27 still need considerable efforts and investments to improve in the next years. The early level of preparation for Chapter 22 is linked to the fact it is considered less challenging and does not call for special attention in the period before accession talks are opened.

Both **Albania and North Macedonia** went through the **pre-screening** (explanatory screening) for **Chapter 22** in February 2019, the process of preparation for the bilateral screening has been extended to two and a half years at this stage. This means that the institutional memory of the screening exercise needs to be preserved through constant coordination and work on preparing for the bilateral screening and monitoring any new acquis in the area of structural funds and regional policy in a forward-looking perspective (given the new regulatory perspective 2021-2027 and key political Cohesion policy directions, especially the Green and Digital Agendas).

**Bosnia and Herzegovina** still has a long way to go until it reaches good progress in Chapter 22 and the chapters directly related to the success of the alignment with the regional policy and structural funds. What is **worrying** is that the country is at a **very low level of preparedness**, not only for the main Chapter 22, but also in the areas of statistics and financial control. In these areas, the **lack of cooperation and coordination** at the state level prevents further progress. Besides, early stage of preparation in policies such as energy and environment demonstrate the **inability** of the country **to produce state-level strategic documents** or a single project pipeline in all sectors as well as the cost to be borne by the country in the **financially very demanding Chapter 27**. Considerable effort needs to be invested in order to level up the progress in the inter-related chapters to ensure a balanced advancement needed for regional policy and coordination of structural instruments.

Although there is no special designation of the preparation of Kosovo\* in Chapter 22, other **levels of preparedness** demonstrate that Kosovo\* is still at an early stage of preparation in the **most challenging** chapters (like, 8, 23 and 27), which influence heavily regional policy and structural funds. Therefore, **there is a great deal of work ahead** to reach the necessary standards in order to start building up proper legal and administrative instruments necessary for Chapter 22.

The following table provides details on the progress of the countries as regards Chapter 22.

**Table 2. 3 Chapter 22 Regional Policy and coordination of structural instruments**

Chapter 22 Regional Policy and coordination of structural instruments	
<b>Albania</b>	<p>Albania is <b>moderately prepared</b> in the area of regional policy and coordination of structural instruments, also given the early stage of integration; as accession negotiations have not opened, reporting of Chapter 22 requirements is still mostly focused on the implementation of pre-accession assistance. Efforts need to focus on the <b>requirements of the future structural/cohesion funds in the institutional set-up, financial management and control systems and administrative capacity</b>, ensuring <b>compliance with EU requirements in terms of programming and partnership principles</b>. Inter-agency coordination for pre-accession assistance needs improvement, and strategic planning, implementation and monitoring capacity of infrastructure projects strengthening. To foster the development potential of all regions in Albania and proceed with decentralised interventions based on local and/or regional integrated plans and strategies, the National Strategy and Plan for Regional Development and Cohesion (2021-2027) and Regional Development Plans (2021-2024) need to be completed. The <b>administrative capacity</b> of central, regional and local bodies, especially at central level as regards pre-accession assistance, needs to be <b>strengthened</b>, in particular by ensuring <b>adequate staffing</b> and a proper <b>retention policy</b>.</p>
<b>Bosnia and Herzegovina</b>	<p>Bosnia and Herzegovina remains at an <b>early stage of preparation</b> in the area of regional policy and coordination of structural instruments. No progress was achieved in 2020, therefore the 2019 recommendations remain to a large extent valid. Bosnia and Herzegovina should in particular start preparing a countrywide regional development strategy; improve public investment planning and develop a single project pipeline in all relevant sectors, and ensure its endorsement by the BiH Investment Committee and its regular update; and reach an agreement on coordination modalities for the effective use of pre-accession funds while respecting the NIPAC functions as provided for in the IPA Framework Agreement. <b>Weaknesses in the administrative capacity</b> in key institutions managing EU funds still need to be addressed. The capacity for programming and managing EU pre-accession funds and introducing cohesion policy needs to be improved. A systematic plan such as a <b>management and control system roadmap to help prepare administrative capacities to implement EU regional policy should be developed</b> already now, to avoid an absorption shock at a later stage.</p>
<b>Montenegro</b>	<p>The Chapter was opened in June 2017 and 6 closing benchmarks established. Montenegro is <b>moderately prepared</b> regarding regional policy and coordination of structural instruments. Several successive Reports have noted only <b>limited progress</b>, particularly with administrative capacity, as well as with investment planning and preparation. Montenegro should <b>continue the implementation of the action plan</b> for meeting requirements deriving from <b>EU cohesion policy</b> and <b>increase the administrative capacity</b> of central, regional and local bodies to more effectively safeguard IPA funds, ensuring that the positions in the structures are filled on a permanent basis, <b>retaining key staff</b> while increasing engagement into <b>effective coordination mechanisms</b> for improved project preparation and monitoring, with emphasis on the strengthening the single project pipeline. Furthermore, Montenegro needs to ensure that all instruments are <b>compliant with EU requirements in terms of programming and partnership principles while factoring the requirements of future structural/cohesion funds</b> into the increase of the institutional set-up.</p>
<b>North Macedonia</b>	<p>North Macedonia is <b>moderately prepared</b> in the area of regional policy and coordination of structural instruments. Limited progress was made 2020 and most of 2020 recommendations remain valid. North Macedonia should <b>upgrade the administrative and technical capacity</b> across the IPA operating structures, adopt a <b>retention policy</b> and put in place a <b>permanent capacity-building mechanism</b> for all structures involved in EU Funds management and <b>improve the dynamics in implementation of the EU-funded projects</b>, including planning, management and monitoring of the infrastructure investments and, particularly for the ongoing Economic and Investment Plan projects. It should ensure the implementation of the legal and strategic framework for regional development, <b>upgrade the local and regional project planning and implementation capacity</b> and put in place an integrated system to monitor national investments at local level. and keep fiscal decentralisation high on the agenda to build a <b>long-term sustainable financial framework for municipalities</b>, based on predictable resources and collection of local taxes.</p>

<b>Serbia</b>	Explanatory and bilateral screenings were held in 2015 and Serbia has prepared a detailed Action Plan <sup>10</sup> as a benchmark for opening Chapter 22 with the related time framework, completed in 2019; however, comments on the Action Plan have not been received. Serbia is <b>moderately prepared</b> on regional policy and coordination of structural instruments. Limited progress was made in 2020 and the previous recommendations remain largely valid also in the coming year. Serbia should in particular <b>implement the adopted action plan for meeting the requirements of the EU cohesion policy</b> , including <b>nominating the institutions and bodies</b> as necessary and appropriate, in line with planning; <b>further improve capacity of central, regional and local bodies</b> , with an emphasis on the indirect management of programmes under EU pre-accession assistance and guarantee that the <b>key positions in the structures are filled on a permanent basis, while retaining key staff</b> ; and <b>ensure that all instruments are compliant with EU requirements in terms of programming and partnership principles</b> and <b>factor the requirements of the future structural/cohesion funds in the institutional set-up</b> .
<b>Turkey</b>	The Chapter was opened in November 2013 and 7 closing benchmarks established. Turkey is <b>moderately prepared</b> in the area of regional policy and the coordination of structural instruments. Overall, some progress was made in this area, especially in accelerating the absorption of IPA II funds and in addressing some structural weaknesses. Turkey should in particular improve the <b>formulation of a general framework and appropriate statistical tools for monitoring and evaluation of the National Strategy for Regional Development (NSRD) and Regional Development Agencies' (RDA) performance</b> and continue the implementation of the action plan established by the National IPA Coordinator (NIPAC), National Authorising Officer (NAO) and Audit Authority (AA) in order to <b>strengthen the monitoring activities</b> concerning the implementation of sector operational programmes and prioritisation of actions as well as <b>improve the overall performance in managing EU funds</b> .

It is clear from the above recommendations that common key challenges for all countries regard the need to strengthen **administrative capacities** (at both central, regional and local levels), accompanied by sufficient levels of staffing and an appropriate **retention policy** for staff involved in the EU funds system, which also results in a loss of institutional memory. Other common challenges regard the need to **support decentralisation** and ensure **EU principles for programming and partnership** are adhered to.

However, readiness for the implementation of Regional Policy and the coordination of structural instruments also requires a high level of readiness in linked Negotiating Chapters in the accession process, that either represent relevant framework conditions (democratic and economic criteria) for the successful implementation of Cohesion Policy or cover key sectors, as set out above. The overview presented below indicates significant differences in progress, with some key aspects lagging even in the more advanced countries, but fundamentally a lack of coordination between chapters related to Cohesion Policy. It should be noted that the level of preparedness indicated in the EC Country Reports also depends on the stage in accession of the specific country; consequently, direct comparison cannot be made across all countries, but in the specific context or between countries at similar stages.

As evidenced above, Montenegro and Turkey have the clearest perspective with regards to Cohesion Policy as they have opened Chapter 22 and received closing benchmarks. Unlike other Chapters, Chapter 22 consists mostly of Regulations for the implementation of the Cohesion Policy Funds established for a seven-year financial perspective, which do not require transposition into national frameworks. In this respect it should be noted that there have been considerable changes in the regulatory framework over successive financial perspectives, to take into account new policy objectives and building on lessons learnt, evaluation recommendations and audit findings. Most significantly from the perspective of

<sup>10</sup> [https://www.mei.gov.rs/upload/documents/pristupni\\_pregovori/akcioni\\_planovi/action\\_plan\\_22.pdf](https://www.mei.gov.rs/upload/documents/pristupni_pregovori/akcioni_planovi/action_plan_22.pdf)



preparations for the implementation of Cohesion Policy are the 80 simplification measures<sup>11</sup> proposed by the Commission for the 2021-2027 framework. Consequently, these changes need to be taken into consideration in working further on Chapter 22, requiring some update of prepared Action Plans.

**Table 2. 4 Chapter 22 Closing Benchmarks**

Montenegro – opened 20 June 2017	Turkey – opened 5 November 2013
<ul style="list-style-type: none"> <li>• A satisfactory level of implementation by Montenegro of the EU pre-accession funding approved for indirect management, in particular for the components and sectors relevant for the implementation of the future ESI Funds has been demonstrated;</li> <li>• Montenegro sends to the Commission an advanced and comprehensive draft of its Partnership Agreement (PA) document, which outlines arrangements to ensure alignment with the Union strategy for smart, sustainable and inclusive growth, the selected thematic objectives and the main expected results for each of the ESI Funds; this will comprise outline indications of the planned Operational Programme, including sources of funding as well as a summary of the assessment of the fulfilment of applicable ex-ante conditionalities.</li> <li>• Montenegro provides a detailed plan and timetable for the finalization of its PA and for the preparation and finalisation of the operational programme. This plan should include information on how and at which level Montenegro intends to organise the programming process and on the precise role and tasks of all the institutions involved at national and at regional/local level.</li> <li>• Montenegro adopts an institutional set up for implementing EU Cohesion policy, including the formal designation of institutional structures (with specific tasks and responsibilities) for the operational programme. This will include Managing Authority, Certifying Authority and Audit Authority, as well as intermediate bodies where appropriate and already identified. Adequate separation of functions between relevant institutions needs to be ensured.</li> <li>• Montenegro adopts individual organisational development strategies for all key organisations involved in the management/implementation of future ESI Funds (including the strengths, weaknesses, opportunities and threats analysis, training needs assessment, staffing plans, training/capacity building plan) as well as an overall institutional development and capacity building/training strategy, based on an adequate risk assessment of all bodies involved (including beneficiaries where already identified).</li> <li>• Montenegro provides to the Commission a detailed plan and timetable with regard to the setting up of a monitoring and evaluation system, including the set-up of an electronic Management and Information System (MIS).</li> </ul>	<ul style="list-style-type: none"> <li>• Turkey has to fulfil its obligation of the full non-discriminatory implementation of the Additional Protocol to the Association Agreement towards all Member States;</li> <li>• Turkey demonstrates a satisfactory performance of the indirect management system under IPA in the regional development and human resources policy areas;</li> <li>• Turkey adopts an institutional set-up for the implementation of EU Cohesion Policy, including the formal designation of the Managing Authorities, the Certifying Authority and the Audit Authority as well as the Intermediate Bodies, ensuring adequate separation of functions;</li> <li>• Turkey submits to the Commission a capacity building plan for EU Cohesion Policy covering actions at national, regional and local levels;</li> <li>• Turkey designs and demonstrates the effective functioning of its national policy leading to the strengthening of its economic, social and territorial cohesion in line with Articles 174 and 175 of the Treaty on the Functioning of the EU and the EU Cohesion Policy requirements;</li> <li>• Turkey submits to the Commission drafts of a national strategic planning document and Operational Programmes under EU Cohesion Policy which complement Turkey's own policy in this field. Turkey demonstrates its ability and readiness to address and implement programmes under all objectives of EU Cohesion Policy for which it would be eligible;</li> <li>• 7. Turkey designs and completes the set-up of its Management Information System based on a thorough needs assessment and an analysis of good practice across the European Union.</li> </ul>

<sup>11</sup> [https://ec.europa.eu/regional\\_policy/en/information/publications/factsheets/2018/simplification-handbook-80-simplification-measures-in-cohesion-policy-2021-2027](https://ec.europa.eu/regional_policy/en/information/publications/factsheets/2018/simplification-handbook-80-simplification-measures-in-cohesion-policy-2021-2027)

In terms of progress in implementing the Action Plans and meeting the benchmarks, it can be noted that both countries should **update their Action Plans** to take account of the **2021-2027 regulatory Framework**, which also have certain impact on the benchmarks, as further discussed below. Turkey's closing benchmarks were established before the 2014-2020 framework was approved. Several benchmarks are very similar, regarding for example successful implementation of IPA II funds in indirect management, administrative capacities and the establishment of an electronic Management and Information System.

One of the key benchmarks relates to successful experience in **indirect management** of funds **under IPA II**; however, as further discussed in section 4.1 of this Study, **the amount of funds implemented under indirect management has decreased in general, with a shift towards direct management, meaning that valuable experience and capacity will be weakened and the effectiveness of this benchmark in preparing for cohesion policy in practice is undermined**. In the past waves of accession, the new Member States had significant experience in implementing multi-annual convergence type programmes and **one full cycle of indirect management is necessary** to fully prepare for cohesion policy; upon accession, the IPA I Programmes implemented under decentralised management in Croatia became Cohesion Policy programmes. The gradual shift seen since IPA I from multi-annual sectoral programmes undoubtedly impacts on the readiness for implementing shared management programmes.

Furthermore, it is worth pointing out that the second benchmark for Montenegro, regarding the preparation of the Partnership Agreement, under the new Common Provisions Regulation (EU) 2021/1060<sup>12</sup> (CPR), is no longer so relevant, given the significant simplification of the Partnership Agreement as a short and concise overview. Furthermore, the fact that there is **no clear timetable for accession, nor the consequent possibility to estimate the funds available, makes the preparation and finalisation of draft programming documents very complex**. What should be established as an initial step is how to organise the programming process and on the precise role and tasks of all the institutions and stakeholders involved at national and at regional or local level, with full respect of the partnership principle. **Regional and local governments, as well as social partners, civil society organisations and equality bodies must be involved in the preparation** of partnership agreements and **programmes** and take part in the **programmes' implementation through the monitoring committees**. The European Code of Conduct on Partnership continues to apply.

Equally, one of the benchmarks for Montenegro is the requirement to develop individual organisational development strategies for all key organisations involved in the management/implementation of future ESI Funds, as had been requested for Croatia prior to accession. No template or guidance has been provided for these organisational development strategies. In this respect, administrative capacity-building is also a critical issue for Member States, and the **new provisions of the draft Common Provisions Regulation (CPR) for 2021-2027 place more emphasis on capacity building** than in past programming cycles to support a bespoke approach by making available a wider menu of tools and encouraging **more strategic use of funding for capacity building measures**. Administrative capacity has been identified as key to effective implementation of the funds, especially in the investment guidance of the 2019 European Semester country reports (Annex D) and in some cases, the Commission has recommended **the development and implementation of a roadmap on administrative capacity building necessary for the effective administration and implementation of the EU Funds**<sup>13</sup>, building on a pilot action on frontloading administrative capacity building to prepare for the post-2020 programming period carried out by the OECD<sup>14</sup> on behalf of and in close partnership with

<sup>12</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32021R1060>

<sup>13</sup> For example, Bulgaria, Croatia, Latvia, Hungary, Romania and Slovenia.

<sup>14</sup> <https://www.oecd-ilibrary.org/sites/b2f3442f-en/index.html?itemId=/content/component/b2f3442f-en>

DG REGIO. The European Commission services prepared a toolkit<sup>15</sup> aiming to provide inspiration for Member State administrations seeking to develop roadmaps for building their administrative capacities to facilitate programme implementation. This could provide the basis for guidance to the countries preparing the implementation of Action Plans for Chapter 22.

**Delays are also seen in the adoption of the institutional set up for implementing EU Cohesion policy**, whether through an internal regulation or a legal act; again, as the date of accession still remains elusive, the focus on the preparation of the legal framework for the institutional set-up has somewhat waned. However, given the importance of preparing the institutions in time for the implementation of Cohesion Policy, it is critical that the **institutional framework is established, staffing and recruitment plans developed and administrative capacity-building for Cohesion Policy starts as soon as possible.**

The experiences of new Member States in the delivery of ESI Funds 2014-2020 and lessons learned could be taken on board to further assess areas where attention should be focused. These include, apart from the focus on administrative capacity building, **simplification of the procedures in implementation of the EU funds, eliminating excessive burden for applicants and beneficiaries; strengthened capacity of local authorities; strengthened capacity of beneficiaries, stakeholders, social partners, civil society and other bodies to prepare and implement high quality projects and enhanced dialogue; improved public procurement performance, and improved and more efficient measures to prevent and address conflict of interest, fraud and corruption**<sup>16</sup>. The experiences of other new Member States provide valuable lessons for countries on the path to implementing cohesion policy and formal and informal networks and channels for exchange should be fostered.

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<sup>15</sup> [https://ec.europa.eu/regional\\_policy/sources/policy/how/improving-investment/roadmap\\_toolkit.pdf](https://ec.europa.eu/regional_policy/sources/policy/how/improving-investment/roadmap_toolkit.pdf)

<sup>16</sup> These Factors for effective delivery of Cohesion policy have been identified for several Member States in the 2019 European Semester country reports (Annex D)

Table 2. 5 Country specific findings on relevant Accession chapters

IPA Beneficiary	Finding	Recommendation
<b>Albania</b>	Reporting of Chapter 22 requirements is mostly focused on the implementation of pre-accession assistance.	Pay more attention to address regional policy and preparation for the requirements for implementing funds under Cohesion Policy.
	A lack of common approach to dealing with Chapter 22 in conjunction with the other 10 chapters	Invest additional efforts to set up efficient coordination of activities and communication of public administration working on the Chapter on regional policy and coordination of structural instruments and the remaining 10 chapters., also involving the Albania Development Agency, as the executive agency responsible for regional policy.
	Civil service salaries are low and higher levels of responsibility not sufficiently remunerated. There is no retention policy in place in practice for the public administration. Staff turnover is high and key positions often unfilled for lengthy periods, especially for EU Funds.	Roll out effectively the planned reforms to the salary system and introduce a proactive retention policy. Consider options for financial and non-financial incentives for staff working on EU Funds, potentially with competency-based top-ups, that could – if possible - be financed through Technical Assistance.
	The process of preparation for the bilateral screening has lasted almost three years with a risk of institutional memory loss.	Preserve institutional memory through constant coordination and work on preparing for the bilateral screening and monitoring in line with the new financial perspective 2021-2027 regulations. Strengthen administrative capacities to deal with accession negotiations hand in hand with the preparation and the work on IPA III to overcome challenges from the long pre-negotiation phase of its European integration.
	Focus will be needed on Cluster 1 once accession talks open, especially the rule of law.	In parallel, start preparing for the structural funds and regional policy hand in hand with the implementation of IPA III ready for the opening of Cluster 5.
<b>Bosnia and Herzegovina</b>	The complex structure for the coordination of EU integration hampers efficient and effective responses.	Engage in further efforts to support the coordination mechanism adopted in 2016 allowing for the harmonisation of positions among various state and entities' stakeholders in their shared competences.
	The complexity of administrative and political structures in the country has meant that the sectoral approach is not properly developed and many strategic planning documents needed for IPA III are not in place.	Use IPA III as a catalyst for strategic planning for multi-annual programme development, supported by the involvement of DG EMPL and DG Regio in IPA III preparation and roll-out of convergence priorities.
	A generally low level of understanding and knowledge about the Regional Policy of the EU and a need for public administration training and coaching on IPA and Cohesion Policy. It would, therefore, be very important to plan capacity building programmes on this topic for Bosnia and Herzegovina through IPA III support.	Develop an administrative capacity building roadmap for IPA III with a perspective to Cohesion Policy to be rolled-out with IPA III sort
	Inability to produce state-level strategic documents or single project pipelines in some sectors as well as lack of financial resources for Chapter 27.	Invest considerable efforts in the relevant chapters in order to level up the progress and ensure a balanced advancement needed for regional policy and coordination of structural instruments.



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	<p>As Bosnia and Herzegovina is still a long way to organising the screening process and preparing the opening of first chapters, these fields of work do not have enough political and technical focus.</p> <p>A very low level of preparedness not only for Chapter 22, but also in the area of statistics and financial control where the lack of cooperation and coordination at the state level prevents further progress. A lack of understanding of Chapter 22 requirements and no proper administrative structure dealing with regional policy and structural instruments. Annual country reports do not even report on the Regional Policy and Structural Funds acquis at this stage.</p> <p>Regional distribution and regional development agencies have not proven functional in terms of regional policy due to cultural and ethnic differences. Beneficiaries of cross-border programmes face implementation hurdles. Public entities have weak project preparation and implementation capacities and small municipalities cannot agree on common projects impacting on effectiveness and the achievement of concrete results.</p> <p>Emergency support to address COVID 19 led to the postponement of several projects planned for IPA II to IPA III 2021-2022. The agricultural sector will be supported through IPARD</p> <p>The switch from fixed allocations to a more competitive environment will present a test due to the lack of mature projects.</p> <p>Considerable work ahead to reach the necessary standards that would enable the level of preparation to start building up proper legal and administrative instruments for Chapter 22 standards.</p>	<p>Engage in a more dynamic dialogue between the EU and BiH. upgrade the country's approach to these chapters.</p> <p>Awareness-raising and capacity building to improve the knowledge of EU Regional policy and structural instruments, especially as all funds are implemented through direct management.</p> <p>Roll-out significant capacity-building activities to local and regional entities, particularly local administrations and support mechanisms to foster inter-municipal cooperation through IPA III.</p> <p>Ensure postponed projects have a forward-looking perspective. Support the Paying Agency in the implementation of IPARD.</p> <p>Monitor closely the introduction of IPA III, benefit from lessons learnt and build upon positive experience in IPA II.</p> <p>Start early preparation for the most challenging chapters and requirement for the Fundamentals.</p>
<b>Montenegro</b>	<p>Very slow progress in implementing the Action Plan for Chapter 22.</p> <p>Due to the new Cluster methodology, there is likely to be a delayed focus on the fulfilment of closing benchmarks and closing of other chapters before the necessary conditions are created for the rule of law chapters.</p> <p>Certain important issues still remain to be addressed – such as the sensitive cases of State aid, better control of public procurement, fight against corruption as well as the investment in environment infrastructure that is lagging behind EU standards.</p> <p>Chapters for the most part are negotiated individually and with only sporadic communication and exchange of information on the mutual</p>	<p>Update the detailed work planning for the Action Plan in the light of the 2021-2027 framework, in discussion with DG REGIO. Set up the institutional framework for the implementation of cohesion policy and draft an administrative capacity-building roadmap, to be supported by IPA III. Establish the partnership in line with the ECCP and build their capacities. Devise a detailed plan for the MIS.</p> <p>Ensure momentum is still high and properly addressed also under IPA III support.</p> <p>Direct IPA III support to these critical issues.</p> <p>Address the lack of inter-agency coordination and information sharing, and raise understanding about the benefits of exchange.</p>

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	importance and progress in the alignment with the EU acquis and standards.	
<b>North Macedonia</b>	Reporting of Chapter 22 requirements is mostly focused on the implementation of pre-accession assistance.	Pay more attention to address regional policy and preparation for the requirements for implementing funds under Cohesion Policy.
	The process of preparation for the bilateral screening has lasted almost three years with a risk of institutional memory loss.	Preserve institutional memory through constant coordination and work on preparing for the bilateral screening and monitoring in line with the new financial perspective 2021-2027 regulations.
	A redirection in IPA 2019-2020 of sectors apart from transport and environment back to direct management, while the social sector is half managed by the EUD and half by the Ministry of Labour. Timidity among the public administration of switching to indirect management with ex post evaluation under IPA III. Lack of maturity of projects in heavy investment sectors where IPA II (indirect management) is underperforming.	Consolidate political commitment to the Economic and Investment Plan and awareness of how indirect management of IPA can prepare for structural instrument. Continue to pay attention to the speed of implementation of EU projects. Build administrative capacities for line ministries in implementing programmes and projects with the support of IPA III.
	High turnover of staff working on IPA is seen as an acute problem.	Introduction of a sustainable retention policy in accordance within the law for administrative servants, as well as improving and building capacities through constant training and coaching. Consider options for financial and non-financial incentives for staff working on EU Funds, potentially with competency-based top-ups, that could – if possible - be financed through Technical Assistance. Develop and deliver an administrative Capacity Building Roadmap supported by IPA III.
	Lack of understanding, knowledge and consequently coordination on the links between Chapter 22 and the linked chapters.	Invest in efforts and awareness raising in order to ensure a balanced advancement needed for regional policy and coordination of structural instruments in the relevant chapters.
<b>Serbia</b>	Delays in proceeding with the drafted Action Plan for Chapter 22, in particular the identification of the institutional framework.	Foster commitment and understanding of the importance of an early approach to preparation for Chapter 22, especially given the risk that this is seen as less of a priority under the new Cluster methodology. Exploit the opportunities offered by IPA III multi-annual sectoral programmes to prepare for structural instruments.
	Challenges persist in progress with chapters 23 and 27, which have critical political, administrative and financial importance.	Support efforts with these chapters through IPA III assistance.
	Chapters for the most part are negotiated individually and with only sporadic communication and exchange of information on the mutual importance and progress in the alignment with the EU acquis and standards.	Address the lack of inter-agency coordination and information sharing, and raise understanding about the benefits of exchange. Monitor the effectiveness of the new cluster-based negotiation structure and the overall coordination in the MEI and foster high-level political commitment.
	Since opening Chapter 22, attention is more on a project level, as attention has somewhat stalled.	Refocus on structural instruments, also with an involvement of DG REGIO and DG EMPL for IPA III, to address technical issues. Continue investing in indirect management to reinforce acquired capacities.

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<b>Turkey</b>	Need to improve monitoring of sector operational programmes and prioritisation of actions as well as the overall performance in managing EU funds.	Develop and deliver an administrative capacity building roadmap.
	Significant challenges in Chapters 23, 8 and 27, which have political, administrative and financial sensitivity and significance. Combined with the suspension on negotiation of specific chapters, and the current moment in the accession process, Turkey has still a long way to travel in order to meet the criteria that are necessary for a balanced accession to the regional policy and structural funds.	

**Key Takeaway n. 2.1: A lack of coordination on Chapter 22 requirements and progress in other related chapters** can be noted. No IPA Beneficiary has managed to set up an effective coordination mechanism, in part due to a lack of understanding of the requirements for the chapter and its connections with other related chapters; this illustrates the lack of understanding of the benefits that the administration working on fulfilment of various accession objectives could have from this exchange.

The **lack of a clear perspective for accession has a significant impact on preparations for Chapter 22** and has undoubtedly slowed down progress in Montenegro and Serbia on implementation of the Action Plans; the **impetus to establish an institutional set-up or start programming is weak and risks being seen as an abstract exercise**.

### 2.3. The enabling conditions for the delivery of Cohesion Policy

**Over different financial frameworks, conditions have been established** to ensure the necessary prerequisites **for the effective and efficient use of Union support** granted by the Funds; these requirements have taken a different shape throughout the years as a result of the evaluation of their impact, priorities of the Cohesion policy, and as a result of political agreements. The common denominator is the rationale of these conditions as requirements related to the disbursement of EU financial resources to influence and streamline policy actions of the EU member states towards EU policy priorities. Such **Conditionalities** are essentially “an established EU governance tool” as defined by the European Parliament in a relevant Study<sup>17</sup>.

The EU Cohesion policy enabling conditions for the 2021-2027 period focus on the policy areas with the highest impact on the effectiveness of the policy that cannot easily be improved through existing legal obligations, but other more appropriate means such as the establishment of programming priorities, project eligibility criteria or administrative capacity measures. The CPR 2021-2027 introduced twenty **enabling conditions** (Art.11, Annexes III-IV), which replace and improve the established ex-ante conditionalities of the 2014-20 financial period.

In effect, the readiness for Chapter 22 should also include an assessment of the extent to which the countries meet these enabling conditions; Annex III and Annex IV of the CPR provide a concise and exhaustive set of objective criteria for their assessment. In some cases, they are related to and build on other Chapters of the negotiating framework, as will be illustrated below.

Each enabling condition is linked to a specific objective and is automatically applicable where the specific objective is selected for support. Without prejudice to the rules on decommitment, where those conditions are not fulfilled, expenditure related to operations under the related specific objectives should not be reimbursed by the Commission. In order to maintain a favourable investment framework, the continued fulfilment of the enabling conditions should be monitored regularly. **Four horizontal enabling conditions are applicable to all specific objectives and therefore should be a primary focus of attention.**

As regards the first horizontal enabling condition, *Effective monitoring mechanisms of the public procurement market*, the emphasis is on the effective implementation of the public procurement directives in Member States. Public procurement plays a key role in the implementation of EU investments and is an essential element of the Single Market, representing no less than 19 per cent of the EU's GDP. For the 2014-2020 perspective, the Commission took several concrete actions aimed at helping Member States improve the

<sup>17</sup> Policy Department for Structural and Cohesion Policies Directorate-General for Internal Policies PE 617. 498 - September 2018.

performance of both administrations and beneficiaries in applying public procurement for EU-supported investments during the 2014-2020 programming period, including Guidance<sup>18</sup>, an expert exchange system for Managing authorities to share experiences and expertise in public procurement capacity, the use of Integrity Pacts as a tool to increase transparency and accountability, and the development of country specific action plans for countries non-compliant with the Public procurement ex-ante conditionalities. Annex III of the CPR covering the 2021-2027 period requires that Member States benefiting from EU funds have in place adequate monitoring mechanisms for public procurement contracts to ensure collection of reliable data, analysis and reporting in accordance with the relevant procurement directives, as well as the arrangements for data transparency and discovery/reporting of potential bid-rigging situations to relevant national investigation bodies. The need to improve public procurement performance for 2020-2021 delivery of Cohesion Policy has been noted for the majority of Member States<sup>19</sup>. From experience accrued and a consolidated understanding of the need for support in implementing public procurement, closing Chapter benchmarks are unlikely to be sufficient in themselves, and **additional support could be offered through IPA III, also at multi-regional level and by rolling out some of the Actions introduced for Member States to Candidate Countries**. One issue that should be addressed is that many IPA beneficiary administrations do not have the experience in using aligned public procurement since they are using PRAG, hence a parallel system. **PRAG rules do not fully prepare the future contracting authorities for procurement tasks under the Cohesion Policy Framework due to a different institutional set-up and differing procedures, with the consequent administrative burden as well as an increased risk of (unforced) error**. The Framework Agreements for IPA II provide the prospect of using national procurement for IPA funds once there is alignment and certain criteria have been met. However, it should be borne in mind that in some cases public procurement law may contain provisions not aligned with the acquis<sup>20</sup>. This is further discussed in section 4.1.1. of this Report.

On a more positive note, e-procurement systems are developed for the most part (Bosnia and Herzegovina is at an early stage of e-Procurement and in Serbia post contract award modules are pending) and being rolled out. However, in most cases, **contracting authorities need to build knowledge and capacities**, especially with respect to green, social or innovative procurement (Montenegro, Serbia) and at local level, while there is still a strong tendency in all cases to use the **lowest price criterion**. A further worrying trend is a **widespread public perception of corruption in public procurement**. The first steps are certainly reinforcing the e-procurement systems and increasing capacities of contracting authorities and bodies in the procurement system, ensuring effective remedies and the proper functioning of the appeal systems in place, as well as further action to prevent corruption in the procurement cycle, all of which should be supported by IPA III.

#### **Box 1: Substantial progress on procurement in Albania but room for more improvement**

In Albania, all public procurement procedures are conducted through the electronic public procurement system, including negotiated procedures without prior publication of a contract notice. Low-value procurements are also conducted electronically. The forecast and execution functionality, essentially a procurement planning module, was added to the system in January 2018, and has made information about forthcoming procurement transactions available not only to the national Public Procurement Agency (PPA) but also to economic operators, which facilitates planning on their side. The PPA provides

<sup>18</sup> [https://ec.europa.eu/regional\\_policy/en/policy/how/improving-investment/public-procurement/guide/](https://ec.europa.eu/regional_policy/en/policy/how/improving-investment/public-procurement/guide/)

<sup>19</sup> Annex D of 2019 European semester Reports for Austria, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia, Slovenia and Spain.

<sup>20</sup> The Serbian Public Procurement Law of 2020 contains provisions that disable market competition by allowing national authorities to circumvent procurement process in case of projects of "special importance for Serbia". Compulsory domestic price advantages and offsets, which allow authorities to demand compensating measures if goods are not produced domestically, in place in Turkey and some thresholds are not in line with the EU acquis.

consultations regarding operation of the electronic procurement system. The PPA also runs an electronic archive system to store all historical information on transactions involving public procurement, PPPs and concessions, and public auctions. Electronic procurement and real-time access to primary data on procurement transactions allow statistical information on the public procurement system to be collected on a permanent basis. Its Annual Reports are publicly available<sup>21</sup>. 2020 was characterized by significant public procurement challenges due to the November 2019 earthquake and the COVID-19 pandemic which required emergency measures to be taken. Efforts were made by the PPA to assist contracting authorities in avoiding the use of negotiated procedures without prior publication of a contract notice by focusing on the use of competitive procedures to ensure process transparency, free competition and value for money. Thus, despite the emergencies, the number of negotiated procedures without prior publication of a contract notice in 2020 was 8.3% of the total number of finalized procedures, of which 3.83% were procedures conducted as part of the post-earthquake reconstruction process and the process of coping with the pandemic situation. 2020 saw a significant increase in Public Procurement as a proportion of GDP compared to 2019, reaching 14.7% compared to only 6.5% in 2019, the lowest in the WB6.

Notably in 2020, the new legal framework of procurement in the fields of defence and security has been adopted, in accordance with the acquis; the new law on public procurement has been adopted, which has been drafted based largely on the relevant European directives and which aims to bring about significant improvements to the public procurement process; and the National Strategy for Public Procurement and its action plan have been adopted.

Public procurement training is well organised in cooperation between the PPA and the Albanian School of Public Administration (ASPA) and organised at different levels; it is primarily directed to contracting authorities' staff. There is no requirement for formal certification of staff managing public procurement. Despite the pandemic, 970 participants were trained (on-line) in 2020, 446 more participants compared to 2019, notably including 234 participants from local institutions and 84 participants from independent institutions. Webinars covered general legislative issues, and dedicated training for IT professionals on using the electronic public procurement system, practical discussion sessions on low-value procurements and Public Procurement in COVID-19.

Action to expand the use of the most economically advantageous offer must be reinforced following a slight improvement over the last year. Training could also be offered to economic operators and NGOs. Further efforts are needed to prevent conflict of interests and corruption in the procurement cycle. Capacities to deal with appeals in the Public Procurement Commission and the Administrative Court of Appeals need to be enhanced.

Progress in Chapter 5 is for the majority of IPA assessed as moderate; however, experience from Member States shows that **improving public procurement performance** is an ongoing challenge essential for the delivery of Cohesion Policy.

The second horizontal enabling condition refers to *Tools and capacity for effective application of State aid rules*. Although in most cases, progress in Chapter 8 is considered moderate or even good, a more detailed analysis shows that for the most part (a partial exception made for Montenegro) the countries' capacities are woefully insufficient, with a **significant lack of national and local state aid experts** needed to give guidance on state aid issues in the Funds. In those countries where the legislative framework is broadly speaking aligned, further alignment of implementing legislation on certain elements or to be in line with EU guidance is needed (North Macedonia, Serbia). In general, however, even in Montenegro which is judged to be well-aligned, the enforcement of state aid is a major

<sup>21</sup> <http://www.app.gov.al/about-us/annual-reports/>



issue<sup>22</sup>, with inadequate staffing, capacities and resources of the competent bodies. Even where national state aid bodies are in place, their proper functioning and independence needs to be ensured; their track record is generally poor, and negative or recovery decisions not taken. It is important to step up advocacy activities among aid grantors and raise awareness of the state aid bodies among line ministries, regional and local authorities to ensure prior notification of aid measures and strengthen the enforcement of State aid rules. **In the sphere of IPA Funds, there is very little understanding of State Aid issues and the Delegations have insufficient specific expertise.** Only in ETC programmes under shared management is there clear guidance to beneficiaries on state aid issues<sup>23</sup>.

The third horizontal enabling condition, *Effective application and implementation of the Charter of Fundamental Rights* refers to the requirement to have effective mechanisms in place for the Cohesion Policy programmes to ensure compliance with the Charter of Fundamental Rights of the European Union, including reporting arrangements to the monitoring committees in the case of non-compliance. The fourth horizontal enabling condition refers to the *Implementation and application of the United Nations Convention on the rights of persons with disabilities (UNCRPD) in accordance with Council Decision 2010/48/EC*, whereby apart from the national framework to ensure implementation of the UNCRPD, arrangements need to be in place to ensure that the accessibility policy, legislation and standards are properly reflected in the preparation and implementation of the programmes. **The priority given to fundamental rights in the Fundamentals cluster provides for a good basis for readiness in Chapter 22 from the perspective of these two enabling conditions**, although it should be recalled the European Charter also includes provisions on Solidarity which are primarily addressed under other chapters, but **the key focus is how they are reflected in programme preparation, implementation and monitoring, which are also the weakest elements in candidate countries and potential candidates.** Without going into details on the level of progress with respect to these rights, which is outside the scope of this Study, some general comments can be made in the context of regional policy and structural instruments. A first general issue regards **the effective implementation of legislation** in place on fundamental rights i. An **absence of comprehensive monitoring and data** makes it challenging to assess the implementation of fundamental rights in legislation, policies, analyses. **Coordination of fundamental rights mechanisms** in general needs to be strengthened at central and local levels; relevant authorities are still dependant on donor support and need to assume **greater ownership** while **human and financial resources are lacking**. While IPA programming documents all refer to applicable fundamental rights issues, there is no evidence that these are monitored and reported during implementation, except where the Actions have a direct and explicit focus.

Specific recommendations concerning the **thematic enabling conditions** are included in section 2 of this Study; on a general note, **direct contact and guidance from the relevant DGs in the Commission** would support preparations and readiness of the IPA Beneficiaries.

**Key Takeaway n. 2.2:** Specific support is needed for IPA Beneficiaries if they are to meet the requirements of the four horizontal enabling Conditions to implement Cohesion Policy.

As regards **public procurement, contracting authorities need to build knowledge and capacities**, especially with respect to green, social or innovative procurement and at local level while there is still a strong tendency in all countries to use the lowest price criterion. A further worrying trend is a widespread public perception of corruption in public procurement.

<sup>22</sup> The case of EUR 155 million of public funding was granted to Montenegro Airlines without a prior informed opinion of the State aid authority, was reported in the EC 2020 Country Report.

<sup>23</sup> For example, [http://www.ipa-cbc-programme.eu/gallery/Files/2nd%20Call/12\\_CBC\\_StateAid\\_Factsheet.pdf](http://www.ipa-cbc-programme.eu/gallery/Files/2nd%20Call/12_CBC_StateAid_Factsheet.pdf)

In the sphere of State Aid, capacities are woefully insufficient in general; **as regards IPA Funds**, there is **very little understanding of State Aid issues** and the **Delegations have insufficient specific expertise**. Where national state aid bodies are in place, their track record is generally poor, and negative or recovery decisions not taken.

As regards **respect for fundamental rights and the UNCRPD**, the priority given to fundamental rights in the Fundamentals cluster provides for a good basis for readiness but the **key factor is how they are reflected in programme preparation, implementation and monitoring**, which are **the weakest elements in IPA Beneficiaries**.

## 2.4. The Partnership principle

One of the key principles for the implementation of regional policy and structural funds is the **partnership principle**, established through the **European Code of Conduct on Partnership** (ECCP)<sup>24</sup>. Partnership has a clear added value in **enhancing the effectiveness of the implementation of Cohesion Policy**; it enhances collective commitment and ownership of Union policies, increases the available knowledge, expertise and viewpoints in the design and implementation of strategies and ensures greater transparency in decision-making processes.

The **partnership principle** establishes that each programme is **developed and implemented** through a **collective process** involving authorities at national, regional, and local level, economic and social partners, organisations from civil society and other relevant stakeholders. This **enhanced consultation, participation and dialogue** through partnership applies to **all stages of the programming cycle**, from design, through management and implementation to monitoring, assessment of results and evaluation. It is the responsibility of each Member State to organise and implement a comprehensive partnership in accordance with its institutional and legal framework, as well as ensuring that partners have sufficient capacities to participate in all processes. The ECCP regulates the organisation of partnerships, identifying a number of key principles related to selection procedures, criteria for selection and representativeness of partners, special attention to most vulnerable and marginalised groups, as well as continuous investment in strengthening the capacities of relevant partners.

In application of the ECCP, the **preparation for Cohesion Policy 2021-2027 requires the establishment of a transparent system for the selection of partners** who should be representative of the relevant stakeholders, including **at least national, regional, local, urban and other public authorities, economic and social partners, environmental partners, non-governmental organisations, bodies responsible for promoting social inclusion, fundamental rights, rights of persons with disabilities, gender equality and non-discrimination and research institutions and universities, as appropriate**. The system shall also ensure that the **partners are nominated as duly mandated representatives** taking into consideration their competence and capacity to participate actively. The partnership established shall operate in accordance with the **multi-level governance principle** and envisages **the active involvement of partners through a place-based, bottom-up and participative approach**; each Member State shall involve those partners in the preparation of Partnership Agreement, and throughout the preparation, implementation and evaluation of programmes including through participation in monitoring committees. Appropriate **capacity-building should be ensured for social partners and civil society organisations** for their role as partners. Furthermore, **equality between men and women, gender mainstreaming and the integration of gender perspective** must be taken into account and promoted throughout the preparation, implementation, monitoring reporting and evaluation of programmes as well as appropriate **steps to prevent any discrimination** based on gender, racial or ethnic origin, religion or belief, disability, age or sexual orientation. In particular, **accessibility for persons with disabilities must be taken**

<sup>24</sup> <https://eur-lex.europa.eu/legalcontent/EN/TXT/PDF/?uri=CELEX:32014R0240&from=EN>

**into account.** In this way, the partnership shall support the fulfilment of the third and fourth horizontal enabling conditions.

The importance of the **partnership** principle as envisaged above has somewhat belatedly been **fully** taken into account for **IPA Beneficiaries, exception made for European Territorial Cooperation (ETC) programmes with Member States, IPARD and the Sector Operational Programmes in Turkey.** With the introduction of IPA III<sup>25</sup>, its importance has been recognised, **with reference to the ECCP in the guidance for drafting the Strategic Response** while the **EC 2021 Country Reports** for the first time make specific reference to **compliance with EU requirements** in terms of programming and **partnership principles.**

The experience of Member States in developing and implementing Cohesion Policy in 2014-2020<sup>26</sup> allows for the identification of key takeaways for the application of the partnership principle for 2021-2027 which should be taken into account by IPA counties: the need to ensure the **balanced and representative participation of regional, local, and urban authorities in the partnership**; the need to ensure **the respect of fundamental rights and equality principles in the implementation of EU funded programmes**; the need to establish **active engagement of economic and social partners in the design and implementation** of EU funded programmes, also ensuring their representativeness and the **mobilisation and wide and inclusive representation of civil society in the partnership**, such as environmental partners, non-governmental organisations, and bodies responsible for promoting social inclusion, fundamental rights, rights of persons with disabilities, gender equality and non-discrimination and **creating an environment for their voice to be heard as equal partners in the preparation and implementation of the programmes.**

The role of the **partnership (active involvement through task forces, working groups and monitoring committees)** should be **distinguished from other types of civic participation**, namely: the provision of information, consultation and dialogue, more commonly practiced participation types in the WB6, and which are discussed in section 3.2.3. of this Study.

From the perspective of the partnership for Cohesion Policy, the most valuable experience for all IPA Beneficiaries in implementation of the partnership principle has been gained through participation in **ETC Programmes with Member States, and to a lesser extent in programmes between IPA Beneficiaries.** Participation in several cycles of shared management programmes has resulted in **relatively consolidated partnership mechanisms functioning in participating candidate countries and potential candidates**, according to an established shared methodology at programme level, broadly in line with ECCP principles, with shared methodologies for the participation of the partnership in programming and wider stakeholder consultation. However, **a territorial imbalance in active and wider participation in the programming of relevant IPA stakeholders** has been noted in most cases, particularly those coming from less developed regions. In general, stakeholders from regions bordering with Member States are more active. Furthermore, it can be noted that **the participation of candidate countries and potential candidates in the Monitoring Committees of CBC programmes is not always balanced**, in some cases lacking CSO representation. In general, the capacities and participation of Partners in the programming of CBC Programmes with candidate countries

<sup>25</sup> The IPA III Regulation 2021/1529 does not make explicit reference to the ECCP but in article 6 refers to the principle of inclusive partnership.

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<sup>26</sup> Implementation of the partnership principle and multi-level governance in 2014-2020 ESI Funds – Final Report, Sweco & Spatial Foresight & Nordregio, July 2016.

[https://ec.europa.eu/regional\\_policy/sources/policy/how/studies\\_integration/impl\\_partner\\_report\\_en.pdf](https://ec.europa.eu/regional_policy/sources/policy/how/studies_integration/impl_partner_report_en.pdf)

Review of the European code of conduct on partnership (ECCP) Thematic network on partnership. Technical Dossier no. 7, June 2018 <https://op.europa.eu/en/publication-detail/-/publication/d26c92e2-9abc-11e8-a408-01aa75ed71a1/language-en>

and/or potential candidates are poorly developed in comparison to shared management programmes with Member States.

**Valuable experience** in terms of the application of the partnership principle has been gained in those countries implementing **IPARD programmes**. **Structured cooperation with partners** and other stakeholders has been in place for the preparation of successive IPARD cycles, following **guidance by DG AGRI**. The IPARD II Programme Documents include detailed information on how the partnership principle has been applied and the consultation process, the list of designated partners and an annex table of the results of the consultation. **IPARD Monitoring Committees** are composed following recommendations from DG AGRI and **include a wide range of partners**: competent regional, local and other public authorities, economic, social and environmental partners and farmers associations, **ensuring that the national territory is covered** and that the **partners** selected are **active in their specific field**.

In the case of Turkey, where **multiannual sector operational programmes** have been approved for both IPA 2007-2013 and 2014-2020 programming cycles in the sectors of Environment, Transport, Regional Competitiveness and Employment, Education and Social Policies, their **preparation was organised in line with partnership principles**. Sector Lead institutions conducted comprehensive consultations with wide range of different institutions, local administration, CSOs, social partners, etc. and in close cooperation with Sector Monitoring Committees (SMCs). The SMCs include representatives of public institutions (IPA responsible institutions and Sector policy making bodies) and relevant partners, such as CSOs, economic and social partners, universities, chambers, local authorities and regional development agencies. Each Sector Operational Programme elaborates on the conducted consultation process; however, the reports on conducted consultations are not publicly available.

In the case of National IPA II Actions implemented under Annual Programmes, there has been **no structured approach to partnership or consultation processes**<sup>27</sup> consistently in place<sup>28</sup>; in general, the partnership principle in programming and monitoring has not been actively promoted nor have the IPA Beneficiaries been supported in its enforcement. Consequently, the mechanisms in place vary considerably between countries, often depending on the national frameworks for consultation, and **the involvement of partners** – principally CSOs – is rather **ad-hoc**, not based on any clear and transparent selection criteria, a consequence of individual initiative of the EUD and/or beneficiary countries for specific Action Documents depending on their scope or needed expertise. There is **no monitoring of partners' participation in the preparation of programming documents or even in SMCs** although some attention is paid to the participation of civil society representatives in the IPA Monitoring Committees. However, the work of the IPA Monitoring Committees is limited, mostly focused on summary information sharing with limited analysis provided for discussion, unlike sector monitoring committees for multi-annual operational programmes.

At sectoral level, the situation is somewhat different, although not consistent among IPA Beneficiaries and over time. For example, in Serbia, to ensure the transparent and effective involvement of CSOs in the planning, programming and monitoring of EU funds and other development assistance, the Sector Civil Society Organizations (SECO) mechanism was set up 2011 which relied on project-level support. However, challenges such as poor access to information, lack of knowledge of CSOs in relation to IPA programming instruments, processes and procedures, insufficient time to comment on documents, the selection and representativeness/diversity of working groups, the lack of local participation,

<sup>27</sup> The IPA II Framework Agreements between the European Commission and the IPA Beneficiary Countries on the implementation of IPA clearly specify the requirement for consultation with the relevant stakeholders only in the case of multi-annual operational programmes under indirect management (Art. 62)

<sup>28</sup> The Sector Civil Society Organizations (SECO) mechanism in Serbia active at the beginning of IPA II was financed through on a project basis and is no longer operational.



acknowledgement of input, the degree to which input is taken into account, and the feedback and publication of consultation results broadly remained; furthermore, the inherent lack of sustainability in the functioning of the mechanism meant the SECO mechanism is no longer operational. **In general, the sector approach introduced in IPA II made a limited contribution to the promotion of the partnership nor the greater involvement of CSOs in the work of mechanisms that are responsible for the planning and programming of IPA or sector policies.** This is due to the fact that CSO participation in Sector Working Groups was on an invitation, ad-hoc basis (Kosovo\*), or even if regulated (Montenegro), their role was not clear.

Consequently, **the outreach and extended representation of stakeholder views particularly from outside the capitals or CSOs used to working internationally, is limited.** Perhaps unsurprisingly, the most active are CSOs working in the areas of justice and human rights with considerable experience and expertise as well as organisational capacities. There is no formal obligation for the IPA Monitoring Committee or the Sector Monitoring Committees (excluding multi-annual operational programme Monitoring Committees) to respect the partnership principle. Even where **civil society organisations** and other stakeholders participate, they **do not have the capacities to be fully involved;** no support was secured from IPA for the strengthening of their capacities to ensure their effective contribution to programming/monitoring processes.

In the case of the IPA II Indicative Strategy Paper, consultations took place with relevant institutions such as the judiciary, local government, civil society, international financial institutions, international organisations and other donors, organised by the Commission. A programming level novelty was introduced by IPA III, whereby the Beneficiary Countries prepare a Strategic Response, according to a specific template with sections on consultations carried out for each Window, to be prepared on the basis of the **draft IPA III Programming Framework** provided by DG NEAR (Ref. Ares(2020)7153206 – 27/11/2020), **with explicit reference to partnership principle for the first time:** “*The partnership principle ensures that regional, local, and urban public authorities, trade unions, employers, NGOs, and other civil society bodies promoting issues such as social inclusion, gender equality, and non-discrimination are involved in all stages of the planning, implementation and monitoring of projects. In order to make this principle more effective across all Member States, the Commission adopted the European Code of Conduct on Partnership in 2014, which should also be followed for the IPA III programming of the 2021-2027 period*”. However, it must be recognised that the timeframe for completing the first version of such a complex document (15 March 2021<sup>29</sup>) – **given that Beneficiaries had not received any prior draft documents nor been given any information regarding setting up the partnership,** meant that **no true partnership process could be organised.** Under the circumstances, Beneficiary countries adopted **an ad-hoc approach to partnership principle in the Strategic Response (SR):** for example, in Bosnia and Herzegovina the SR was sent to the Consultation Forum which also included participants from civil society identified through a public call and presented to EU Member States. Only in **Albania was a concerted effort made to address all the typologies of partners and the donor community** in finalising the Strategic Response, respecting the national public consultation framework and providing a report on the results of the consultation (Box 2). Therefore, due consideration should be considered in setting programming deadlines of the time needed for the proper application of the ECCP and extensive stakeholder and public consultations.

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<sup>29</sup> Later extended to May 2021

**Box 2: Partnership for the IPA Strategic Response – a best practice example**

In line with both the partnership principle and the new Guidelines on public consultations in Albania, an extensive and inclusive consultation process was held with regard to the preparation of the IPA III Strategic Response. This comprised of the publication of the Strategic Response in the Electronic Register (public consultation) with a series of questionnaires, the presentation and discussion of the Strategic Response during a meeting with the lead institutions of each of the Integrated Policy Management Groups / Thematic Groups, a dedicated consultation with development partners, and the dissemination of the draft document to stakeholder institutions and organisations included within a dedicated database, by Window and by typology of partner. Public consultations lasted for 20 days and the report on consultations was published. The National IPA Coordinator and the Prime Minister's Office organised a remote consultation meeting in the framework of Integrated Policy Management Group policy coordination mechanism, attended by eight participants from CSOs, nine representatives of Donor offices in Albania and thirty-six public officials from central public administration institutions and the Prime Minister's Office. The document was also consulted with the Donor community and a Report on the donor consultation presenting the salient points and the responses from the Albanian institutions was prepared and sent to the Development Partners Community.

**Key Takeaway n. 2.3: The partnership principle for IPA programming has not been consistently applied in candidate countries and potential candidates, exception made for ETC and IPARD and in the case of Albania the Strategic Response for IPA III. In general, the sector approach introduced in IPA II did not significantly contribute to the promotion of the partnership nor the greater involvement of CSOs in the work of mechanisms that are responsible for the planning and programming of IPA.**

Efforts at including CSOs in programming and monitoring have not been sustained over time.

## 2.5. Transparency

The principle of **Transparency** is one of the principles that must be respected for the implementation of Cohesion Policy Funds under shared management, in line with the Financial Regulation<sup>30</sup>. Programme authorities, beneficiaries and stakeholders in Member States should raise awareness of the achievements of Union funding and inform the general public accordingly. Transparency, communication and visibility activities are essential in making Union action visible on the ground and should be based on true, accurate and updated information. The 2021-2027 Regulatory framework **builds on the principles of transparency already established for the 2014-2020 perspective. Member States** are responsible for **ensuring the visibility of support** in all activities relating to operations supported by the Funds as well as **communication to Union citizens of the role and achievements of the Funds through a single website portal** providing access to all programmes involving that Member State. Furthermore, a **communication coordinator for visibility, transparency and communication** activities must be identified in order to coordinate communication and visibility measures across programmes (art. 48). The communication coordinator shall involve European Commission Representations and European Parliament Liaison Offices in the Member States, as well as Europe Direct Information Centres and other relevant networks, educational and research organisations and other relevant partners in the visibility, transparency and communication activities. Communication officers are to be identified at the level of each programme by the Managing Authority. A **network of communication coordinators, communication officers and**

<sup>30</sup> Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union.



**Commission representatives to exchange information on visibility, transparency and communication activities is established by the Commission.** The **Managing Authority of each Programme is responsible for transparency on the implementation of the Programme** on its website, ensuring the list of operations selected for support by the Funds is publicly available, and updated every 4 months. A timetable of the planned calls for proposals, updated at least three times a year, is to be published on the programme website or the single national website portal. Programme Monitoring Committees must work applying the principle of transparency. Communication and Visibility obligations are discussed in section 4. **Transparent financing information as well as information on the achievements under the ESI Funds 2014-2020** are published through the **Open Data Platform** <https://cohesiondata.ec.europa.eu/>. The platform visualises, for over 530 programmes, the latest data available, at EU level, by theme, by Country (linked to programmes) or by fund. Datasets can be visualised, embedded in other sites or downloaded to analyse. In the new 2021-2027 framework, the envisaged frequent electronic data transmission from Member States will feed into the Open Data Platform.

The **delivery of IPA assistance so far**, exception made for ETC programmes with Member States under shared management and to some extent IPARD, **has not sufficiently respected the principle of transparency.** There is **no single national website or portal** where all information on IPA funds can be found (including ETC, IPARD as applicable, and multi-regional initiatives). **Financial information on IPA Funds and information on specific operations is not generally available;** only in the case of **indirect management is some information available on beneficiaries of operations, in line with Framework Agreement obligations.** Availability of documents and information with regards to **IPA implementation results is very limited**, especially financial information related to contracting and absorption results or information on achievements. On the (new) **DG NEAR website**, only **indicative allocations** are published; while approved annual programming documents are published, there is **no structured information available on their implementation and no information on contracting or absorption of funds or the achievements of Annual Action Programmes.** **IPA II Annual Implementation Reports** (exception for multi-annual programmes) are drawn up by the NIPAC with a specific focus on indirect management so **do not provide a complete overview** and include limited financial information; for the most part they are not published despite the obligation to do so (except in the case of Albania). In particular, **very little information is available on Actions delivered under indirect management by entrusted entities**, often limited to short project descriptions on delegated entities' websites. Information on **projects implemented under direct management** by the EU Delegations is **sporadic and not structured.** Monitoring Reports are not available, and evaluation reports available only on the DG NEAR website. Follow-up of evaluation findings is not reported. Monitoring Committees and working groups for IPA are not transparent and their membership not publicly available, except in the case of ETC programmes under shared management and IPARD. **The lack of transparency on IPA Funds** – in terms of operations financed, financial contracting and absorption and the achievements – not only undermines the overarching commitment to transparency but **impedes progress towards EU Integration**, as IPA citizens all too often do not understand how EU funds are being spent in their interests. Furthermore, a significant portion of IPA assistance is dedicated to capacity-building and the fulfilment of political criteria; whereas the volume of more convergence-focused projects, with physical results that have a more immediate and direct impact on citizens is relatively modest.

**Key Takeaway n. 2.4:** The delivery of IPA assistance, exception made for ETC programmes with Member States under shared management and to some extent IPARD, **does not sufficiently respect the principle of transparency.** The **lack of transparency on IPA Funds** – in terms of operations financed, financial contracting and absorption and the achievements – not only **undermines the overarching commitment to transparency but impedes progress towards EU Integration.**

### 3. The Strategic Framework for economic, social and territorial cohesion in the WB6 and Turkey

The **readiness of the institutions and authorities in the WB6 and Turkey to drive and reinforce economic, social and territorial cohesion through the implementation of Cohesion Policy is directly connected to the quality of their policy and strategic frameworks.** Policies and strategies should be based on informed needs analyses, designed to meet the EU socio-economic context, reflecting national and regional contexts, as well as meet the recommendations related to the Economic Reform Programmes, which mirror the EU Semester Country Reports, the latter providing an assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176(2011). The focus of the 2020 EU Semester Country Reports<sup>31</sup> is on competitive sustainability to reflect the ambition of the European Green Deal as the new growth strategy towards achievement of the EU climate neutrality by 2050 and rests on four dimensions: environmental sustainability, productivity gains, fairness and macroeconomic stability.

#### 3.1. Territorial cohesion and Regional Development

**European policymaking** is inherently **multidimensional**: on the one hand, it has to encompass a broad framework providing objectives for the EU as a whole, while on the other it needs to acknowledge the often specific needs of national and subnational territories. **The territorial dimension of EU policy is increasingly recognised**, as job creation and the transition towards a green and digital economy depend on making the best use of all assets, while ensuring that common resources are used in a coordinated and sustainable way.

The **place-based approach to policy making contributes to territorial cohesion.** It is based on **horizontal and vertical coordination, evidence-informed policy making and integrated territorial development.** It addresses different levels of governance (multi-level governance approach) contributing to subsidiarity.

##### 3.1.1. The availability of regional statistics

At the **heart of regional statistics**, the EU's classification of territorial units for statistics (**NUTS**) is based on a **hierarchy of regions and subdivides each Member State into regions that are classified according to three different levels**, covering NUTS levels 1, 2 and 3 from larger to smaller areas. The **NUTS classification provides the basis for regional boundaries and geographic eligibility for cohesion policy.** Statistics from regional accounts are used in the allocation of cohesion policy funds based on regional GDP per inhabitant (in purchasing power standards (PPS)). Regional indicators are presented by Eurostat for the following 13 subjects: population, health, education, the labour market, living conditions, the digital society, the economy, business, research and development, tourism, transport, the environment and agriculture. These statistics serve the growing needs of policymakers within the context of cohesion and territorial developments.

The analysis below first considers **the candidate countries**, where the concept of **statistical regions is used for the collection of regional statistics**, in agreement with

<sup>31</sup> COMMUNICATION FROM THE COMMISSION 2020 European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176(2011) COM(2020) 150 final <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1584543632863&uri=CELEX%3A52020DC0150>. It can be noted that the European Semester has been temporarily adapted to coordinate with the Recovery and Resilience Facility.

Eurostat instead of NUTS, based on the same principles as those used in the establishment of the NUTS classification<sup>32</sup>.

**Table 3. 1 Number of statistical regions in candidate countries (Eurostat)**

IPA Beneficiary	Level 1	Level 2	Level 3
Montenegro	1	1	1
North Macedonia	1	1	8
Albania	1	3	12
Serbia	2	4	25
Turkey	12	36	81

Source: Eurostat Regional Yearbook 2021

The development of the candidate countries as measured by GDP PPS<sup>33</sup> in 2019<sup>34</sup> ranked below the average development of the EU-28 (ranked as 100), ranging from 39% (Albania) to 67% (Turkey), notably only in the case of Turkey above some EU Member States.

Although **all the candidate countries have established their statistical regions**, there are **significant lacunae in the collection of regional-level statistics** and **efforts are needed to fulfil completely the requirements** (both in terms of scope and quality) **within the framework of Cohesion policy** as well as **provide the basis for evidence-based regional policy development and the monitoring and evaluation of implementation of policies**. This is recognised in the strategic programmes of the national statistical institutes which note the need to improve statistical indicators and increase the scope of data collection at regional level<sup>35</sup>; in general, **the majority of indicators published in the Eurostat regional yearbook<sup>36</sup> for these countries are produced only at national level**. Generally, modest improvements over the years have been noted in EC Country Reports and IPA and donor support has been provided in this area but statistical institutes are hampered by **a lack of sufficiently skilled staff** and in some cases financial resources<sup>37</sup>.

In the case of Bosnia and Herzegovina, the NUTS 2 equivalent classification has been only provisionally accepted by the European Commission, until the full classification is adopted including the definition of the NUTS III level. The Agency for Statistics has adopted the Statistical Programme of Bosnia and Herzegovina 2021 - 2024<sup>38</sup> which envisages the preparation of the Proposal for the nomenclature of statistical territorial units (NUTS1, NUTS2 and NUTS3). In addition, it defines activities to adopt indicators related to: GDP per capita, investment activity and employment at the level of labour market statistics, agriculture, business statistics, energy, transport, environment, science and technology, tourism, health, education, and population. No relevant regional statistics indicators have been adopted yet. As a single statistical region, BiH reached only 41% of the average development of the EU-28, measured by GDP PPS in 2019.

<sup>32</sup> On the basis of gentlemen's agreements between the countries concerned and Eurostat (rather than having any legislative basis).

<sup>33</sup> GDP by Purchasing Power Standard.

<sup>34</sup> Eurostat: [https://ec.europa.eu/eurostat/documents/portlet\\_file\\_entry/299552/12-15122020-BP-EN.pdf/cd3fcb0f-faee-d0ce-0916-9be3ac231210](https://ec.europa.eu/eurostat/documents/portlet_file_entry/299552/12-15122020-BP-EN.pdf/cd3fcb0f-faee-d0ce-0916-9be3ac231210); <https://ec.europa.eu/eurostat/documents/3217494/13389103/KS-HA-21-001-EN-N.pdf/1358b0d3-a9fe-2869-53a0-37b59b413ddd?t=1631630029904>

<sup>35</sup> Albania: Official Statistical Programme 2017-2021 [http://www.instat.gov.al/media/3705/psz-2017-2021\\_english.pdf](http://www.instat.gov.al/media/3705/psz-2017-2021_english.pdf);

Montenegro: Strategy for Development of Official Statistics for the period 2019 – 2023

<http://www.monstat.org/userfiles/file/strategija%20razvoja/19%20%2006%2019%20Strategija%20razvoja%20zvanicne%20statistike%202019-2023-%20eng.pdf>;

North Macedonia: Programme for Statistical Research 2018-2022

<https://www.stat.gov.mk/pdf/Programa20182022.pdf>;

Serbia: Official Statistics Programme 2021 – 2025

<https://www.stat.gov.rs/en-us/o-nama/dokumenti/> published in the Official Gazette of RS no24/21.

<sup>36</sup> <https://ec.europa.eu/eurostat/documents/3217494/11348978/KS-HA-20-001-EN-N.pdf/f1ac43ea-cb38-3ffb-ce1f-f0255876b670?t=1601901088000>

<sup>37</sup> As reported in the 2021 EC Country Reports in the case of Albania, Montenegro, North Macedonia and Serbia.

<sup>38</sup> [https://bhas.gov.ba/data/Dokumenti/Planovi/STATISTICKI\\_PROGRAM\\_BIH\\_2021\\_2024.pdf](https://bhas.gov.ba/data/Dokumenti/Planovi/STATISTICKI_PROGRAM_BIH_2021_2024.pdf)

Kosovo\* does not yet have an officially established statistical classification of territorial units<sup>39</sup>.

**Key Takeaway n. 3.1: Regional-level statistical data are insufficient both in terms of scope and quality for the requirements of Cohesion policy. The lack of data hampers the development of evidence-based policy at territorial level and its monitoring and evaluation. Capacities and resources need to be enhanced in national statistical institutes.**

### 3.1.2. Territorial imbalances

The WB6 and Turkey are marked by **persisting territorial imbalances** which have led to significant internal migration flows to capital cities in the main, as well as abroad. Spatial inequalities permeate a wide range of domains including: demography and society; economic performance; innovation and education; climate change and loss of biodiversity; air, soil and water quality; secure, affordable and sustainable energy; physical and digital accessibility; the circular economy; the bioeconomy; accountable and good governance; and last but not least, quality of life and well-being. Today, increasing spatial disparities are an ever more pressing concern, and **as divisions, diversity, and disparities between different types of territories grow, territorial fragmentation emerges as a major and complex challenge** not only among IPA beneficiaries but also across Europe. Policy responses need to adopt **a place-based approach**, embrace **stronger territorial governance** and, **envisage territorial strategies embedded in the potential of functional areas and increased cooperation** between places, sectors, and groups of society. The **Territorial Agenda 2030**<sup>40</sup> underlines the importance of **strategic spatial planning** and **strengthening the territorial dimension of sector policies at all governance levels**.

In practice, there is **little evidence that policy and investments are directed to address territorial disparities among IPA beneficiaries**, also given that the national and regional development planning framework is missing in much of the WB6 as illustrated in section 2.1.2. Unfortunately, **IPA II has managed to partially address this**; the focus on the sector approach and support to central levels of governance means that only sporadic initiatives – outside territorial cooperation – have addressed territorial imbalances so far, with rural areas particularly suffering. One exception is support provided to the Sustainable Urban Development Strategy of the Republic of Serbia until 2030 which also envisages the use of Territorial Integrated Investments and Community Led Local Development. This is supported by IPA II, through the EU Local Development Programme EU PRO Plus supporting 99 local self-governments in two regions to develop and implement Integrated Sustainable Territorial Development strategies/plans and build capacities of national authorities to define and implement the Integrated Sustainable Territorial Development model. Furthermore, in the WB6, IPARD programmes are still in the process of setting up measures for rural infrastructure and implementing LEADER, so opportunities have been lost. In some cases, LEADER type actions have been financed through national funds, and preparatory actions under IPARD I. Turkey on the other hand has implemented LEADER through IPARD since IPA I and 50 Local Action Groups are supported by the EU for their local development strategies.

The table below briefly illustrates the main territorial imbalances identified in spatial planning documents.

<sup>39</sup> Envisaged in the National Stabilization and Association Programme 2017-2021 <https://www.mei-ks.net/repository/docs/pkzmsa20172021srb.pdf>

<sup>40</sup> [https://territorialagenda.eu/wp-content/uploads/TA2030\\_jun2021\\_en.pdf](https://territorialagenda.eu/wp-content/uploads/TA2030_jun2021_en.pdf)

Table 3. 2 Spatial Plans and identified territorial imbalances

IPA Beneficiary	Territorial imbalances
Albania	<p>The <b>General National Spatial Plan until 2030</b> provides the strategic framework for sustainable territorial development for 15 years, with the aim to ensure the balanced economic and social development of the country, responsible management of natural resources, environmental protection and rational land use. Spatial planning at regional level is done through Regional Spatial Plans and Sectoral Plans and the General Local Spatial Plan at the local level.</p> <p>A <b>high concentration of the population and rapid urbanisation</b> are evident in the central region (Tirana-Durres) as well as <b>migrations from rural and suburban areas to the urbanized centres in the Western Lowland</b> of the country. This further deepens the <b>gap between the urban and rural areas in terms of economic and social development</b>. The GNSP focuses on the <b>development of other cities such as Shkodra, Vlora, Saranda</b>, etc and defines the main directions for urban development focusing on the development of port cities, that will contribute to <b>polycentric development of the territory</b>. It also recognizes the <b>importance of the coastal area region</b> for economic development, in the tourism, energy, agriculture and infrastructure sectors. It sets out the <b>Blue Line aiming to protect prohibited uses of the coastal areas and monitor the economic activities</b>.</p> <p>To tackle the identified imbalances, the GNSP proposes:</p> <ul style="list-style-type: none"> <li>- Polycentric territorial development and a new urban – rural relationship,</li> <li>- An inspection of the physical expansion of cities and urbanised areas,</li> <li>- Better access to more effective and environmentally friendly multimodal infrastructure,</li> <li>- Smart use and management of the urban eco system (water, energy and waste),</li> <li>- Conservation and development of natural assets and assets of historical cultural heritage.</li> </ul>
Bosnia and Herzegovina	<p><b>Spatial planning is carried out at entity level</b> (and in FBiH at canton level). The modernisation of integrated urban planning in the Canton of Sarajevo, including the elaboration of cantonal Urban Plan Sarajevo 2040, is supported by donor funds<sup>41</sup>.</p> <p><b>Negative demographic trends</b> are noted in the Republic of Srpska and Federation of Bosnia and Herzegovina. There are <b>no separate data for urban and rural areas</b> since the classification methodology is not adopted at country level nor at entity level. There is an <b>increasing migration</b> of the population from rural to urban areas and abroad. The rural areas in Bosnia and Herzegovina have <b>poor physical infrastructure and limited availability of public services</b>.</p>
Kosovo*	<p><b>Spatial planning</b> in Kosovo* is carried out at <b>central and local level</b>. Three planning documents covering the entire territory of Kosovo* - the Spatial Plan of Kosovo*, Zoning Map of Kosovo* and Spatial Plans for Special Zones. The Spatial Plan of Kosovo* as a multi-sectoral document identifies economic, social and spatial policies contributing to sustainable and balanced development in the whole territory. Municipal Development Plans are eight-year spatial plans including measures for economic development, development of agricultural areas, residential, commercial, industrial, technological mixed areas as well as terms of construction, and the improvement of local technical and public infrastructure. In June 2021 the UN-Habitat Kosovo* signed a Memorandum of Understanding with the Environment and Spatial Planning Committee of the Assembly of Kosovo* as a framework for future cooperation for the development of sustainable urban development, spatial planning, housing, mobility and local climate action policies and legislation to meet the SDGs and New Urban Agenda.</p> <p>The <b>focus in spatial planning has shifted to the rural areas, where over 60% of Kosovo*'s population lives</b>. The unequal development of municipalities in Kosovo* has caused <b>migration of citizens from rural to urban areas</b> and from urban to more developed urban areas. This resulted in the <b>irrational use of land</b> – abandoned land, empty and unused properties, etc. pointing to weak local governance. Urban development has resulted in a high increase in traffic that affects the quality of life of Kosovan citizens. The UN-Habitat Kosovo* has prepared national Guidelines for Sustainable Urban Mobility Planning for Kosovo* and municipalities that want to focus on green mobility.</p>

<sup>41</sup> The Urban Transformation Project Sarajevo' started implementation in 2021.  
<https://www.unsa.ba/en/novosti/urban-transformation-sarajevo-project-cooperation-between-eth-zurich-university-sarajevo>



	<p>The EC 2021 Country Report stressed <b>the need for Kosovo*to take urgent and effective measures to stop the loss of agricultural land and implement the legislation on spatial planning.</b></p>
Montenegro	<p>Under the 2017 law, <b>spatial planning and construction powers have been transferred from local authorities to the central level.</b> According to the Spatial Plan of Montenegro, <b>the concentration and centralisation of the population and activities in some regions of Montenegro has continued.</b> The development of certain municipal centres has intensified, <b>deepening further the gap in relation to peripheral areas with slower economic and social development.</b> Rural areas show low population density, where most of the population is employed in agriculture and forestry. The depopulation of the Northern region is evident. The Coastal region faces various challenges such as illegal constructions, big seasonal anthropogenic space pressure, a narrow coastal area and weak connections with the hinterland. The Central region faces migrations of population in rural areas and agricultural land abandonment. The Strategy for the Development of Agriculture and Rural Areas 2015-2020 identifies the need for infrastructure development and incentive measures for re-population. The insufficiently developed road network limits connections within the country as well as connections with neighbouring countries. Further economic weakening and depopulation of more remote rural areas will be avoided only if national policies provide better living conditions and a more favourable economic environment.</p> <p>The <b>National Strategy for Integrated Coastal Zone Management 2014-2030</b> of Montenegro <b>targets its coastal zone as a valuable national resource and area with high potential for the future economic and social development,</b> seeing both land use planning and marine spatial planning as essential and linked processes. It is intended to enable coastal municipalities to respond jointly to urbanization pressures, climate change challenges and threats to coastal ecosystems. Capacities for Marine Spatial Planning/monitoring have improved with donor support.</p>
North Macedonia	<p>The <b>Programme for balanced regional development defines measures to tackle economic, climate, demographic, social, environmental challenges as well as to improve urban-rural relations.</b> Annual budget allocations of at least 1% of GDP are destined to stimulate balanced regional development (55% for financing development projects in the planning regions, 15% for financing projects for development of urban areas and sustainable urban development, 15% for financing projects for development of the areas with specific development needs and 15% for financing rural development projects).</p> <p>Spatial Planning is conducted at national, regional and local levels. The National Spatial Data Infrastructure enables automated and public access to spatial data and data exchange between state institutions. <b>Urbanization as a complex, dynamic process is the key element in directing spatial development</b> of North Macedonia. <b>The socio-economic development of North Macedonia has been rather dynamic but uneven, resulting in visible regional disparities</b> with a tendency towards their <b>deepening.</b> There is a continuous process of migration of population mainly towards the urban centres and nearly half of its territory is agricultural land. According to the data in the Spatial Plan until 2020, out of 1,795 registered settlements, only 29 settlements fall under the category of urban settlements, while 98.4% are rural. The polycentric development of urban centres in North Macedonia takes into account the population size, the spatial and gravitational range: the State Centre with international influence - the City of Skopje; Macro-regional Centres-including urban settlements; Meso-regional Centres; and Centres of micro-regions - urban settlements with a population below 30,000. Connectivity is identified as a top priority to connect the various city centres, including those located in the border areas.</p>
Serbia	<p>The <b>preparation of the Spatial Plan 2021-2035 was initiated in 2019 and is pending adoption.</b> Spatial plans for all local self-governments and 9 regional spatial plans are adopted.</p> <p><b>Disparities between the most developed and less/least developed areas of Serbia are growing.</b> The metropolitan areas of Belgrade and Novi Sad have the highest concentration of population and activities. A <b>negative migration balance in Serbia is evident</b> (128 local self-government units recorded negative values in 2018), notably in eastern and south-eastern Serbia, while a positive trend is noted in centres such as Belgrade, Nis and Novi Sad. The proposed Spatial development of the Republic of Serbia focuses on reducing existing territorial disparities, mitigating negative demographic trends in the long run, particularly reducing the emigration of young, skilled people, preventing the fragmentation and disintegration of space, especially underdeveloped areas, connecting Serbia with the neighbouring area and wider environment; encouraging the development of rural areas; legalizing illegal construction wherever possible; limiting the expansion of construction areas, ensuring the preservation of regional, urban and rural identity, developing and applying the circular economy, and protecting cultural and natural heritage and natural resources.</p>



	The <b>Sustainable Urban Development Strategy of the Republic of Serbia until 2030 takes on board the EU Urban Agenda</b> and other relevant global and national strategic documents. According to the data presented in the Strategy, over 90% of the economic activities take place in about 9% of the urban area of Serbia. There is a high concentration of economic activities in the metropolitan areas of Belgrade and Novi Sad (appx. 66% of GDP). Thus, the implementation of national urban development policy relies on the development of the urban economy. The Strategy states that rural-urban linkages are neglected at the national and local level. Increasing disparities in the quality of life of urban and rural citizens leads towards unplanned expansion of urban settlements and shrinking/vanishing of rural settlements. Measures identified in the 2021-22 Action Plan include the introduction of new technologies in transport to improve accessibility, urban mobility and climate change mitigation.
Turkey	According to the legal framework, <b>various plans related to regional development planning and spatial planning are developed</b> . These plans are intercepted and include Country Plans, Regional Plans, Spatial Strategy Plans, Environmental Order Plans, Master Development Plans and Implementation Plans. <b>Improvements in transportation, communication and IT services in the last two decades have strengthened links between rural and urban areas</b> . The <b>Integrated Urban Development Strategy and Action Plan 2010-2023 focuses on restructuring the spatial planning system</b> , improving the quality of space and life in settlements, and strengthening the economic and social structures of settlements, <b>including managing rural-urban migration</b> . The National Rural Development Strategy 2021-2023, aligned to the country's Eleventh Development Plan, directs rural development activities in Turkey and <b>aims to reduce differences in development between rural and urban areas</b> .

**Key Takeaway n. 3.2:** The WB6 and Turkey are marked by **persisting territorial imbalances** which have led to **significant internal migration flows to capital cities** in the main, as well as abroad. **Spatial inequalities permeate a wide range of domains** including, but not limited to: demography and society; economic performance; innovation and education; climate change and loss of biodiversity; air, soil and water quality; secure, affordable and sustainable energy; physical and digital accessibility; the circular economy; the bioeconomy; accountable and good governance; and last but not least, quality of life and well-being.

### 3.1.3. The regional development policy framework

Overall, candidate countries and potential candidates are **very far from having an evidence-based regional development policy framework** in place. As illustrated above, **the lack of regional-level statistics hampers territorial-level policy making**. In **Albania, Bosnia and Herzegovina, and Serbia there is no regional policy framework in place** at all, while in Montenegro the strategic framework has expired. Bearing in mind that most policies have significant territorial impacts and influence territorial development opportunities in different ways, **a regional development strategic framework allows for coordinated and place-based policies that can significantly increase their coherence and effectiveness and reduce the negative effects of conflicting policies**. Coherence between all EU, national and sub-national policies underpins territorial cohesion.

**Albania** has a two-tier subnational government structure, made up of 12 administrative regions (NUTS 3 equivalent) and 61 municipalities. The 12 administrative regions have fewer powers than municipalities; they do not have hierarchical influence over municipalities and their major tasks are to coordinate and harmonize national programmes and develop and implement regional policies although they can also be delegated services by the national government or municipalities. In 2018, the Albanian Development Fund (ADF)<sup>42</sup> was mandated as the National Agency for Regional Development. The Law on Regional Development and Cohesion<sup>43</sup> was approved in 2020, but the **National Strategy and Plan**

<sup>42</sup> <https://www.albaniandf.org/projekte/>

<sup>43</sup> <http://www.parlament.al/Files/ProjektLigje/20200804114915ligj%20nr.%20102.%20dt.%2029.7.2020.pdf>

for **Regional Development and Cohesion (2021-2027) and Regional Development Plans (2021-2024) are still in the drafting stage**. Some support for regional development has been fostered by the donor community<sup>44</sup>, in partnership with the Government of Albania.

In **Montenegro** there is no intermediate level of government with defined competencies. The Law on Regional Development<sup>45</sup> divided the country into three geographic regions (North, Central and Coastal) with no legislative or implementing powers. **The (expired) Regional Development Strategy 2014-2020<sup>46</sup>**, under the responsibility of the Ministry of Economy, set strategic goals were set **in line with the sectoral approach and with a focus on the priorities relevant for the balanced regional development** of the North, Central and Coastal Regions: transport and other public infrastructure; agriculture and rural development; energy; environmental Protection; competitiveness and innovation; industry, tourism and culture; and education, employment and social policy. Annual Action Plans were prepared in line with the Economic reform programme and priority measures established for each Region identifying financial resources, with the source of funding, timeframe and responsible institutions; the identified domestic sources came from the State capital budget, local government budgets and loans<sup>47</sup>. Other sources of identified financing were donors and international organisations and financial institutions. According to the Report on the implementation of the Regional Development Strategy 2019<sup>48</sup>, around 86.5% of the planned funds were spent; and divided by source of funding: 25% national budget, 55% loans; 14% private capital; a significantly smaller stake in total funding came from LSG budgets - just 4%- while **the EU contribution was under 1%** and other donor support was 1%<sup>49</sup>. The very low level of investments from EU funds is striking; and only 31.8% of the envisaged support from EU funds was forthcoming. This shows the **challenges faced in costing the regional development strategy** where an envisaged reliance on IPA assistance was not forthcoming, due to the shift away from the multi-annual regional development operational programme<sup>50</sup>.

**North Macedonia** has 8 planning regions equivalent to NUTS level 3 established for the objectives of regional development policy whose main task is to implement regional development programmes on the basis of the ten-year Strategies for Regional Development. **North Macedonia is relatively advanced in regional development planning compared to the other economies in the Region**, with a long-term strategy forming the basis of programmes for the 8 planning regions, although some shortcomings have been identified. As noted by the 2021 Country Report, regional policy improved with the amended Law on balanced regional development adopted in January 2021, committing 1% of the GDP to regional development, the Strategy for balanced regional development (2021-2031) and the national programme upscaling the state funds for regional development. However, an integrated system allowing planning, management and monitoring of the national investments in regional development is yet to be put in place. According to the final evaluation of the Regional Development Strategy 2009 – 2019 and respective programmes in the planning regions *“successive governments have recognised that the Strategy is addressing an important political issue, more political weight could have been thrown on making it an even higher national priority, and more effective implementation mechanisms introduced – including clearer quantitative targets, more financial resources with proper status of the responsible Ministry, and securing the necessary information flows – which would all contribute to more transparency, and better*

<sup>44</sup> Regional Development Programme Albania IV co- funded by the Swiss Agency for Development and Cooperation (SDC) and the Austrian Development Agency (ADA) <http://rdpa.al/permbledhje-e-programit/?lang=sq>

<sup>45</sup> “Official Gazette of Montenegro”, no. 20/11, 26/11 and 20/15

<sup>46</sup> <https://wapi.gov.me/download/90196ce9-308d-4f8a-851a-8ec5a2d68f30?version=1.0>

<sup>47</sup> These included incentive measures for regional development through state aid; Investment and Development Fund loans, agro-budget and other support programmes of the Ministry of Agriculture and Rural Development, loans from the Employment Service of Montenegro, and other domestic loans

<sup>48</sup> <https://zakoni.skupstina.me/zakoni/web/dokumenta/zakoni-i-drugi-akti/37/2388-13980-00-72-20-52.pdf>

<sup>49</sup> The structure by sources of funding in 2018 showed larger investments from the national budget (39%) and a lower proportion of loans (34%).

<sup>50</sup> As discussed in Chapter 3, under IPA I, 22.24 million € was allocated to the OP Regional Development IPA 2012-2013, but no regional development programme was approved under IPA II.

results.”<sup>51</sup> The Evaluation report concluded that the government's financial resources were below the established overall target of 1% of GDP, and the actual cash flows from the budget significantly less. During the period 2009-2019, the Ministry of Local Self-Government, along with other 8 ministries, reported around 380 million EUR (year average 35 million EUR). Over the 11 years, 2,247 projects were sponsored in all 8 Planning regions, with an average cost of 173,000 EUR per project. In conclusion, **the total achievements are modest**, but not to be overlooked, given the circumstances in the newly independent country. The new **Strategy for Regional Development 2021-2031**<sup>52</sup> outlines the country's regional development objectives, and priorities, as well as the measures, instruments, and financial and other resources necessary to implement them, **consistently with EU Regional Policy fundamental strategic objectives**. It aims to reduce economic, social, and territorial disparities through a polycentric development model, aimed at raising the quality of life for all citizens, enhancing the competitiveness of planning regions through increased innovation capacity, revitalizing villages and developing areas with specific development needs, as well as fostering inter-municipal cooperation. The Strategy advocates improving IPA funds absorption by establishing a fund to help municipalities in co-financing EU initiatives, supporting municipalities with limited financial capacity and planning regions that have failed to develop.

As regards regional policy in **Serbia**, notably, there is **a policy-level vacuum**: the last strategy for regional developed expired in 2012 and the institutions established within the framework of the law on regional development are not performing their envisaged tasks. There is **no long-term national development plan** in place which would provide for the overall framework for the prioritisation of actions, which should valorise the development potentials of all regions in Serbia and reduce regional and local disparities, has yet to be adopted. A positive example, however, is the Provincial Government of Vojvodina which has initiated the preparation of the new Plan of Development for the period 2022-2030<sup>53</sup>. Consequently, the **investment planning system lacks coherence**, leading to non-transparent investment planning and investment financing and varied technical standards. A recent Study<sup>54</sup> underlines the fact that the “*Republic of Serbia has practically no regional development policy for eight years is hardly mentioned in the public discourse*” and concludes that other sectoral strategies such as the Industrial Policy Strategy from 2021 to 2030, “do not and cannot have the expected effect on the entire territory of Serbia” and that **the lack of institutional mechanisms to support cities and municipalities in less developed regions cannot resolve the dichotomy on how to reconcile the strategic directions of industrial, regional and urban development**.

**Turkey** has a long-standing regional policy, embedded in the **long-standing development planning framework implemented centrally**, however, from the perspective of Cohesion Policy, there are some shortcomings as the regional level is not sufficiently taken into consideration in a highly centralised policy-making approach. The National Strategy for Regional Development (2014-23)<sup>55</sup> aims to coordinate regional development and competitiveness efforts at the national level and to deepen the connections between spatial and socioeconomic development policies. The main objective of the Eleventh National Development Plan (2019-2023)<sup>56</sup> is to transform regions by developing their opportunities and capabilities based on innovation and cooperation, maximise their contribution to the balanced development of the country and reduce the differences in regional and interregional development. The Ministry of Industry and Technology is responsible for regional development policy and under its Directorate General for Development Agencies coordinates **26 regional development agencies (RDAs) in the NUTS-2 equivalent**

<sup>51</sup> [http://www.ecpd.org.rs/pdf/locations/north\\_macedonia/ECPD\\_Final\\_Study\\_2020.pdf](http://www.ecpd.org.rs/pdf/locations/north_macedonia/ECPD_Final_Study_2020.pdf)

<sup>52</sup> <https://mls.gov.mk/files/Strategija-Za-RRR.pdf>

<sup>53</sup> <https://www.planrazvojaapv.rs>

<sup>54</sup> <https://ceves.org.rs/wp-content/uploads/2021/04/Analiza-Put-do-drustvenog-konsenzusa-oko-kljucnih-ciljeva-odrzivog-urbanog-razvoja.pdf>

<sup>55</sup> <https://www.sanayi.gov.tr/bolgesel-kalkinma-faaliyetleri/strateji-belgeleri/01135b>

<sup>56</sup> [https://www.sbb.gov.tr/wp-content/uploads/2020/03/On\\_BirinciPLan\\_ingilizce\\_SonBaski.pdf](https://www.sbb.gov.tr/wp-content/uploads/2020/03/On_BirinciPLan_ingilizce_SonBaski.pdf)

**regions**; investment support offices within the development agencies operate in the 81 NUTS-3 equivalent provinces. **26 Regional plans for the 2014-2023 period have been developed.** The activity of the RDAs is based on regional plans; a total of 1,265 projects were funded in 2020<sup>57</sup> worth around EUR 70 million under different support programmes. In addition, a COVID-19 and Resilience Programme was implemented with a budget of about EUR 4.2 million (including co-financing) for 63 projects. The EU Country Report 2021<sup>58</sup> states that the “formulation of a general framework and appropriate statistical tools for monitoring and evaluation of the National Strategy for Regional Development (NSRD) and Regional Development Agencies' (RDA) performance needs to be improved. Implementing legislation, which would enable the RDAs' involvement in the decision-making processes at regional level, was not enacted. Despite the existence of a NSRD and the RDAs, regional level considerations were still not fully included in policy-making at central level. The linkage between policy documents and institutional plans remained weak and led to deficiencies in the proper allocation of resources.”

**Bosnia and Herzegovina does not have a country-wide regional development strategy** in place; several regional development agencies with different status have been established with the support of the EU and international donor funded projects.

In **Kosovo\***, five development regions are established in the recently-approved **Regional development strategy 2020-2030**<sup>59</sup>. There is no law on regional development, and legislation related to the economic development in municipalities and inter-municipal cooperation has supported the implementation of regional development through a series of inter-municipal cooperation agreements where the municipalities have been represented by relevant regional development agencies.

**Key Takeaway n. 3.3:** Significantly, **four of the WB6 have no regional development strategic framework in place**, hindering the effective delivery of consistent place-based interventions and the harmonised implementation of policies for territorial cohesion. **Insufficient political weight tends to be given to regional policy**, or, as it the case in Turkey policy making is highly centralised. The **lack of a regional development strategic framework impacts negatively on the coherence and effectiveness of sector policies at territorial level** and therefore **hampers territorial cohesion**. Readiness for the preparation and implementation of Cohesion Policy is consequently low.

### 3.1.4. Planning and development capacities of regional and local administrations and the financing of regional/local government

The place-based approach to policy making, based on horizontal and vertical coordination, evidence-informed policy making and integrated territorial development contributes to territorial cohesion. A place-based approach for national, regional and local strategies will contribute to long-term development and competitiveness for places by unleashing the unique territorial potential related to place-based territorial capital, knowledge and assets through tailored solutions for different types of territories. In this context, the **planning and development capacities of the sub-national administrations take on primary importance**. The Committee of Regions (CoR) has consistently argued for a greater degree of involvement by local and regional authorities in disbursing IPA funds effectively and that more attention should be devoted to strengthening administrative capacity at local and regional level<sup>60</sup>. **A common finding in the WB6 regards a historic underfunding of local administration, despite administrative reforms**, increasing fiscal autonomy of local

<sup>57</sup> <https://www.sanayi.gov.tr/bolge-sel-kalkinma-faaliyetleri/raporlar-ve-yayinlar/01145b>

<sup>58</sup> [https://www.sbb.gov.tr/wp-content/uploads/2020/03/On\\_BirinciPLan\\_ingilizce\\_SonBaski.pdf](https://www.sbb.gov.tr/wp-content/uploads/2020/03/On_BirinciPLan_ingilizce_SonBaski.pdf)

<sup>59</sup> <https://mzhr.rks-gov.net/desk/inc/media/34EC69C2-E0F8-49EA-B4E7-42D71001F22C.pdf>

<sup>60</sup> <https://cor.europa.eu/en/engage/studies/Documents/efficient-funds-LRA-under-IPA-II.pdf>



administrations, and even more significantly, the increasing responsibilities and obligations of local administrations in the delivery of public services. For the most part, the decentralisation process has gained pace, except in the specific situation of Bosnia and Herzegovina, but this has not been accompanied by sufficient capacity building or financial resources; local administrations are heavily reliant on central transfers. In many cases, the local authorities lack authority and financial power and the available municipal resources are below those needed to deliver public services to a consistent level, as confirmed by the Focus Group on Social Europe. Turkey, on the other hand, is one of the most centralized countries in Europe and exerts heavy state control over local authorities. Vertical coordination between the central and local levels in a multi-level governance framework is weak. Furthermore, notable disparities between municipalities exist internally in the WB6 and Turkey exacerbating polarisation and there is an impelling need that urban and rural integration and cohesion guide the ongoing work of municipalities. The challenge of ensuring multi-governance in policy design and implementation is further discussed in section 3.3.1.

**Table 3. 3 Overview of sub-national administrative organisation and identified critical issues**

Albania <sup>61</sup>	
Organisation and responsibilities	Critical issues to be addressed
<p>61 municipalities sharing responsibility for over 41 functions and competencies, including infrastructure and public services; social services; cultural, sports, and entertainment services; agriculture, rural development, forestry and public pastures, nature and biodiversity; local economic development; and public safety. Furthermore, they perform delegated tasks for which they receive conditional transfers from the central level.</p> <p>12 administrative regions responsible for the coordination and harmonisation of national programmes and development and implementation of regional policies, as well as delegated services by the national government or municipalities</p>	<p>While <b>municipalities</b> have been given greater policy making powers, they still <b>lack sufficient financial resources</b> and <b>administrative capacity</b> to exercise them effectively. Low administrative capacity is exacerbated by a <b>high level of politicisation</b> in staff hiring.</p> <p><b>Fiscal decentralisation is not fully consolidated</b>, focusing mainly on municipal expenditure allocations rather than revenue raising rights and fiscal policy formulation. Municipalities are financially dependent on central government funds (conditional and unconditional intergovernmental transfers) with the <b>most revenue from unconditional grants</b>, in general <b>far below the real needs and incomparable with economies in the Region and the EU</b>. Fiscal autonomy is limited in terms of local and shared taxation. <b>Inter-municipal cooperation is rudimentary</b>, mainly in place for solid waste management and economic growth.</p> <p><b>Significant disparities</b> persist in <b>municipal financial resources</b> and <b>public services</b> are <b>insufficient</b> in quality and quantity in urban areas, and even worse in rural areas. They <b>lack a viable and effective financial system for responding to emergencies</b> (as was the case with the earthquakes and COVID-19) seeing the resources available further shrinking, and their recovery capacities are regarded as inadequate.</p> <p><b>Transparency and accountability</b> need to be improved substantially. Capacities for public consultations, cooperation with local actors and real citizen participation is very weak; the involvement of youth organisations, vulnerable groups or women is insufficient in less developed areas.</p>
Bosnia and Herzegovina <sup>62</sup>	
Organisation and responsibility	Critical issues to be addressed

<sup>61</sup> <http://www.co-plan.org/decentralisation-and-local-economic-development-in-albania/>; <https://www.kas.de/documents/271859/0/Local+Government+2020-English.pdf/ed219078-b325-006f-2ab5-62a6c1856347?version=1.0&t=1620730644828>; <https://rm.coe.int/handbook-albania-eng/1680903022>; [https://www.al.undp.org/content/albania/en/home/library/democratic\\_governance/local-governance-mapping-in-albania-2020-.html](https://www.al.undp.org/content/albania/en/home/library/democratic_governance/local-governance-mapping-in-albania-2020-.html); EC 2021 Country Report.

<sup>62</sup> EC 2021 Country Report; <https://rm.coe.int/local-and-regional-democracy-in-bosnia-and-herzegovina-monitoring-comm/168098072a>

<p>4 tiers of governance: the State, Entity, Canton and local government levels. Two Entities: the Republika Srpska (RS), the Federation of Bosnia and Herzegovina (FBiH) and the Brcko District. The Republika Srpska comprises one level of local self-government. The FBiH consists of ten federal units (the Cantons), each of which has their own Constitution, Parliament, Government and judicial powers. Brcko District is under the sovereignty of BiH, but formally a condominium of both Entities. State legislation directly applies to Brcko District and its fields of competence are almost the same as those of the Entities (including executive, legal and judiciary authorities). The local government level is regulated through the constitutions of the Entities. The Republika Srpska has 64 local self-government units. The Federation of Bosnia and Herzegovina has 79 local self-government units.</p>	<p>The system of local government in Bosnia and Herzegovina is <b>extremely complex and incoherent</b>, in particular regarding the delimitation of responsibilities between the municipal and the cantonal or Entity levels, resulting in a failure to respect the principle of subsidiarity in practice. There is a <b>lack of consultation of local authorities</b> on all issues that directly concern them including financial resources and reforms of local autonomy. An important source of legitimacy for local institutions is their capacity of guaranteeing efficient services which depends on the local situation, the comprehensive context and wider processes, such as the allocation of competencies and of financial resources. The <b>cumbersome system of public finance and the public administration affects the financing of local level</b>. Municipalities receive the smallest share in resources compared to the other levels of government. Local fiscal autonomy, notably of smaller municipalities, is weak and local authorities' powers to decide on local sources of revenue need strengthening.</p> <p>The <b>complex and fragmented institutional structure is itself an obstacle to local development and autonomy at municipal level as it impedes cooperation</b>, in particular between neighbouring municipalities belonging to different Cantons or Entities reflecting the absence of a comprehensive framework or co-ordination between the two Entities as well as the weakness of the State level.</p>
<b>Kosovo*<sup>63</sup></b>	
<b>Organisation and responsibilities</b>	<b>Critical issues to be addressed</b>
<p>Kosovo* has a two-tier structure: central government and the municipal levels consisting of 38 municipalities.</p>	<p>Significant <b>disparities between municipalities in their performance and service delivery</b> continue and <b>financial constraints</b> and low administrative capacities undermine municipalities' ability to carry out their local democratic mandates. Due to their limited budgetary powers, <b>municipal assemblies do not play a strong oversight function</b> over the municipal executive. Municipal administrations remain subject to <b>undue political influence</b>.</p>
	<p>The lack of transfer of public property and a poor record in collecting local revenues make municipalities highly dependent on central government. No progress has been made in <b>legislative reforms necessary to realign funding and competences</b> between central and local governments and better <b>define the financing of municipalities</b> based on clear, fair and transparent criteria. Social services funding is insufficient and not earmarked and their planning and delivery, data collection and integrated care need significant strengthening.</p>
	<p>Although <b>consultations</b> in municipalities are integrated into the general Online Platform for public consultation, their implementation is still <b>nascent</b> and <b>citizen awareness-raising needed</b>.</p>
<b>Montenegro<sup>64</sup></b>	
<b>Organisation and responsibilities</b>	<b>Critical issues to be addressed</b>
<p>Montenegro has a two-tier administrative central level and 24 local self-government units (LSGUs): 22 municipalities, the Capital City Podgorica, and the Old Royal Capital City Cetinje.</p>	<p>The <b>financial situation of the LSGUs is critical<sup>65</sup></b>; they are characterised by high indebtedness and outstanding liabilities, due to the economic and financial crisis, changes in regulations governing their system of financing and the high level of public spending at the local level. Consequently, they face many</p>

<sup>63</sup> <https://icld.se/app/uploads/2020/02/Kosovo-.pdf>; EC 2021 Country Report

<sup>64</sup> EC 2021 Country Report;

<sup>65</sup> The Equalization Fund was created as an LSGU financing source created to overcome disparities between municipalities financed by a mix of different tax and non-tax revenues accruing to the CG, excluding conceded revenues.

In 2020, 34.3 million euros were paid in advance to the poor municipalities, accounting for two thirds of the total number in Montenegro. However, considerable disparities remain.



<p>The LSGUs are responsible for local infrastructure maintenance, reconstruction and construction of the streets, squares, local roads, the water supply, sewerage, waste, public facilities construction, support for entrepreneurship development, tourism, education, culture, physical education and sport, technology culture, social and child welfare, employment, primary health care, etc. Capital investments are managed from the central level.</p>	<p>challenges for their proper functioning and the execution of the legally prescribed obligations. The level of development of municipalities is not necessarily reflected in the state of local finances; the more developed municipalities located in the coastal region are at the same time among the most indebted.</p> <p><b>Capacities and specific skills of the local authorities for project planning, preparation and implementation are insufficiently developed and unbalanced</b> between different municipalities, in particular related to the public procurement of infrastructure projects related to water, communal services and the environment in smaller municipalities.</p> <p>The major <b>obstacle</b> for the intensive development of <b>inter-municipal cooperation</b> is the <b>inadequacy of the existing legal framework</b>, reflected through the complexity of procedures and the need to establish bodies that should, on behalf of the founders, perform joint tasks, which makes these structures cumbersome and expensive.</p>
<b>North Macedonia<sup>66</sup></b>	
<b>Organisation and responsibilities</b>	<b>Critical issues to be addressed</b>
<p>Administratively, North Macedonia is divided into 84 municipalities, with the capital Skopje having special status and a unique type of organisation.</p>	<p>There is <b>lack of clarity</b> in law and in practice <b>regarding the division of competences</b>, which leads to an overlapping of competences. There is a general need to increase compliance with integrity obligations in local appointments.</p> <p><b>Local authorities lack adequate financial resources</b> to perform new tasks provided by legislation, and municipalities continue to be <b>highly dependent on central government transfers</b>. The <b>lack of fiscal management at local level</b> is reflected in the inadequate planning of municipal budgets, with significant financial resources are spent on salaries of the extensive local administration. The reform process of the system of local self-government has stalled. More efforts are needed to strengthen public finance management capacities and internal audit at the local level.</p> <p>Many municipalities are small and have <b>limited financial resources or capacities to deliver services</b>; consequently, more than 60 municipalities have <b>intermunicipal cooperation in place</b> for areas including urban planning, internal financial management and inspection, environmental protection, and child protection.</p>
<b>Serbia<sup>67</sup></b>	
<b>Organisation and responsibilities</b>	<b>Critical issues to be addressed</b>
<p>The territorial organisation of Serbia is asymmetrical. According to the regulations Serbia has two subnational government levels (autonomous-province and local self-government level). Local authorities comprise municipalities (169) and cities (29), including the city of Belgrade, which has a special status. The Autonomous Province of Vojvodina has its own assembly and an executive government. The relationship between the province and local authorities within the area of Vojvodina is not hierarchical. The province can delegate</p>	<p><b>Local public finances</b> are burdened with serious <b>structural mismatches</b>. Structural shortcomings in expenditures stem from the continuous deterioration of their economic structure, which is reflected in the reduction of investments and the simultaneous growth of current expenditures which has <b>adversely affected the quality and availability of services</b> provided by the local self-government units to the population, and at the same time represents a brake to achieving higher rates of economic growth. Despite increased responsibilities, they have low fiscal autonomy, are highly dependent on state transfers and all revenues collected are paid into the state budget. <b>Local administrative capacity is weak</b> and <b>significant disparities between municipalities persist</b>.</p>

<sup>66</sup> <https://icld.se/app/uploads/2020/02/North-Macedonia-.pdf>; <https://rm.coe.int/0900001680a42005>; EC 2021 Country Report

<sup>67</sup> [http://www.fiskalniasavet.rs/doc/analize-stavovi-predlozi/Lokalne%20javne%20finansije\\_%20Problemi,%20rizici%20i%20preporuke%20\(2017\).pdf](http://www.fiskalniasavet.rs/doc/analize-stavovi-predlozi/Lokalne%20javne%20finansije_%20Problemi,%20rizici%20i%20preporuke%20(2017).pdf); <http://mduls.gov.rs/wp-content/uploads/Program-za-reformu-sistema-lokalne-samouprave-u-Republici-Srbiji-za-period-od-2021.-do-2025.-godine.docx?script=lat>; EC 2021 Country Report

<p>a part of its competences to the local government units within its territory.</p> <p>Local self-government is a one-tier system consisting of municipalities and cities.</p>	<p><b>Low capacities</b> of local self-government for the <b>planning and implementation of investment projects</b> require new methodologies and capacity-building at local level, to explicitly reflect the most important specifics of capital project management. <b>Challenges</b> persist in the field of <b>property relations and public procurement</b>. Development planning capacities of local self-government need strengthening in general as do capacities for public participation in planning, with some exceptions of those assisted by donor support projects. The <b>consultation of municipal and city bodies</b> regarding relevant <b>laws and bylaws is sporadic</b>, often has a <b>primarily formal</b> character and <b>does not substantially influence the definition of national public policies and regulations</b>.</p>
Turkey <sup>68</sup>	
Organisation and responsibilities	Critical issues to be addressed
<p>A two-tier government structure. The central administration consists of central bodies (ministries, agencies), with de-concentrated but centrally appointed branches dispersed across the territory. This administrative de-concentration divides Turkey into 81 provinces and each province divided into districts (totalling 922 districts).</p> <p>As regards the local government system <i>stricto sensu</i>, Turkey has 51 “Special Provincial Administrations” (second-level local entities) and 1389 Municipalities (first-level units). There are 30 “metropolitan” municipalities, 519 “metropolitan district” municipalities (within metropolitan municipalities), and 840 “regular” or non-metropolitan municipalities; the latter are divided into 51 municipalities that are the capital of their respective provinces; 403 district municipalities and 386 “town municipalities”. Town municipalities consist of human settlements with at least 2,000 inhabitants and are usually of rural nature. The smallest local government unit is the village (köy), a settlement under 2 000 inhabitants, of which there are roughly 18,300.</p>	<p>Overall, <b>Turkey is a very centralised country</b>. Mayors are seen by many as State representatives in the local communities and a large part of the population believes in a strong and unitary country, combined with a mild form of local decentralisation.</p> <p>There is a <b>generally negative situation in local self-government</b> with <b>administrative tutelage over</b> the activities and decisions of <b>local authorities; state overregulation and interventionism</b> in planning decisions of local authorities and the <b>lack of consultation</b> of local authorities.</p> <p>Local authorities have <b>limited capacity to determine the rate of local taxes</b> and a <b>large proportion of local revenues</b> still comes <b>from the state budget, limiting financial autonomy</b>. <b>Appropriate internal financial controls are not in place</b> in many local authorities.</p> <p>Local authorities have <b>limited autonomy in the management of their own staff</b>, as too much regulation is imposed at state level. In addition, <b>professionalisation and employment stability are weak</b> in relation to local government staff.</p> <p>The level of <b>communication and intragovernmental dialogue between the central Government and local authorities</b> (and the degree of institutionalisation) <b>is not satisfactory</b>. There is no formalised or obligatory pattern of dialogue and negotiation between the central government and the local authorities; some dialogue is present through meetings with mayors and contacts of the Ministry of Environment and Urbanisation (the key body dealing with local authorities in the central government) with the national association of local authorities.</p>

**Key Takeaway n. 3.4: Decentralisation in the WB6 needs further efforts** in terms of **real fiscal autonomy and sufficient administrative capacities and financial resources** to perform assigned competences and deliver public services; otherwise already noted internal disparities will worsen. The autonomy of local administrations in Turkey needs to be upheld. In general, vertical coordination needs strengthening and multi-level governance mechanisms not just seen as a formality; the local governance level needs to be fully involved in policy-making within its competences. Extensive efforts to involve local government consistently in the programming and delivery of IPA III, accompanied by targeted capacity-building would underpin strategic directions for territorial cohesion and help to prepare for the delivery of cohesion policy.

<sup>68</sup> <https://rm.coe.int/09000016809cba58>; EC 2021 Country Report

## 3.2. Pathways for economic, social and territorial cohesion

This chapter examines the programming processes in place for IPA and relevant strategic and policy frameworks for economic, social and territorial cohesion, as well as overall policy consultation practices. A brief outline of policy monitoring and evaluation capacities provides an insight into areas where administrative capacity-building support will be needed. An overview of the state of play in key areas for a smarter, greener and more social Europe related to selected enabling conditions is presented for the WB6 and Turkey in order to identify shortcomings and areas where further efforts are needed and IPA III support should be directed.

### 3.2.1. IPA Programming processes

The **IPA programming process in general for IPA I and IPA II**, apart from territorial cooperation programmes with member states and with the exception of Turkey, **does not reflect the programming process for cohesion policy programmes** and so cannot be said to contribute significantly to readiness for programming cohesion policy. The **shift in IPA III programming**, if there are multi-annual operational programmes in convergence sectors, **provides an opportunity for this to be remedied**. However, part 2 of the Strategic Response document setting out the priorities for IPA programming 2021-2024 by window – albeit drafted by the IPA Beneficiaries in a significant boost to ownership - still focuses on individual actions<sup>69</sup> rather than providing a more coherent programming overview with regard to the five Cohesion Policy Objectives. As regards the involvement of partners in IPA programming and initial steps in applying the partnership principle for IPA III, this has already been discussed in Chapter 1. This section consequently focuses on other aspects of the programming process, including coordination mechanisms.

**Coordination of donor assistance remains a key concern in most cases**; the NIPACs are responsible for ensuring coordination with the internal public administrations and coordination with other donors but in practice **mechanisms are weak and donor coordination patchy**, leading to **overlapping of initiatives and wasted efforts**. Furthermore, **coordination of IPA programming and accession negotiations is also of critical importance**. The draft Financial Framework Partnership Agreement for IPA III establishes not only that the NIPAC shall be a high-ranking representative of the government or the central administration of the IPA III beneficiary with the appropriate authority, but that if accession negotiations with the IPA III beneficiary are open, the NIPAC shall be appointed to a senior position in the national structures for co-ordination of accession negotiations. However, the structures established under indirect management for IPA Programming (i.e. IPA Units) and those for accession negotiations are not correlated or coordinated in terms of their work and this lack of coordination is likely to persist.

Key findings regarding the programming of IPA assistance on the side of the IPA Beneficiaries are reported below.

In **Albania, IPA I** was characterised by **low capacities of the beneficiaries and a lack of staff assigned to IPA programming and management**; notably, the Interim and Meta Evaluation of the European Commission's (EC) Instrument for Pre-Accession (IPA) Component I<sup>70</sup> found that although beneficiaries were involved in programming, their opinion was not always reflected in ultimate decisions; furthermore, poor communication between departments resulted in duplication, and some waste of efforts in donor assistance. The situation somewhat **improved under IPA II, as donor coordination has improved**

<sup>69</sup> No instructions were provided as regards multiannual programmes in terms of programming documents or clarifications on the institutional set up requirements for their implementation.

<sup>70</sup> [https://ec.europa.eu/neighbourhood-enlargement/system/files/2019-01/23914\\_rep\\_albania.pdf](https://ec.europa.eu/neighbourhood-enlargement/system/files/2019-01/23914_rep_albania.pdf)

and donor representatives are included in the Integrated Policy Management Groups mechanism but **reform in key sectors** - such as Good Governance – is **supported by a multiplicity of donors** and the need to exchange information across donors, and **avoiding overlapping**, is **burdensome**. The Ministry responsible for Finance is in charge of donor coordination, as of 2018, while the NIPAC and NIPAC support office are located elsewhere, leading to further complexity in donor coordination, with **a series of recent changes in the organisation of donor and IPA related structures** including the establishment of an IPA Agency in December 2021 which **raise doubts on the sustainability of capacity-building activities carried out in the past**. The case of post-earthquake reconstruction has shown the importance of active coordination of the donors and has been successfully coordinated by a single Minister and his team. An additional burden is created by the need to ensure coordination between sectoral reform and the EU screening processes, as well as between reform actions and the implementation of the Medium-Term Budget Programme. Much of IPA II assistance was implemented through Sector Reform Contracts and **Albania is one of the few Beneficiaries which managed to link IPA to the national policy framework**. The DEU provided training and support for Sector Budget Support but implementation of the sectoral reforms is still a challenge. Experience has been gained on costing the implementation of strategies and the establishment of realistic implementation targets under the Sector Reform Contracts; better efforts are also made at ongoing monitoring of the progress of achieving targets and discussion of Sector Reform Contracts is now integrated as part of the reporting documentation for Sector Monitoring Committees.

The **capacities of the Albanian administration for programming have improved but still need support and sustainability assured**. The NIPAC Support Office, IPA management structures and Albanian Beneficiary Institutions did not have continual access to Technical Assistance throughout the course of IPA II; when assistance was available, it was project-based for a relatively short periods of time under rather inflexible framework contracts without the possibility to employ short-term sectoral specialists to support programming. Indeed, the DEU (and other donors) provided some ad-hoc sectoral expertise for the preparation of draft Action Documents for IPA 2021 and IPA 2022. The Project Preparation Facility (PPF) under IPA 1, implemented by the Austrian Development Agency, was not continued under IPA II. In general, the Albanian administration was not fully involved in the drafting process but merely providing an opinion on project fiches, principally due to lack of knowledge of the people involved in the process, lack of staff, issues with staff retention and staff reassignment<sup>71</sup>. In this respect, **the strong coordination by the NIPAC structure and PMO that marked the start of IPA III programming** in drafting the Strategic Response and finalising 53 Action Fiches for IPA 2021-2022, **assisted by an IPA Technical Assistance project, represented a considerable step change for the Albanian beneficiary institutions in terms of programming capacities**; given the recent changes in the organisation of IPA structures in Albania, **it remains to be seen whether this shall be capitalised** on for future programming.

In **Bosnia and Herzegovina**, **IPA I** was characterised by **challenges regarding effectiveness, efficiency, sustainability and impact**; notably, the Interim and Meta Evaluation of the European Commission's (EC) Instrument for Pre-Accession (IPA) Component I<sup>72</sup> reported substantial delays in the contracting of assistance caused in part by the complex institutional and political situation in the country. Implementation and sustainability were hindered by staff turnover and challenging inter institutional collaboration at cantonal, entity and state level. Despite good progress with establishing institutional structures and to some extent capacity building, **impact is constrained by systemic issues of insufficient resources to further elaborate structures and finance operation of systems and tools**; the **limited human resources** and a **worsening political environment** that has made communication and **collaboration between different government levels extremely problematic**. The programming of IPA is complex as the structures established are not fully approved by all entities. With regard to management of

<sup>71</sup> [https://www.emins.org/wp-content/uploads/2018/08/2018\\_IPA-and-the-WB-Countries.pdf](https://www.emins.org/wp-content/uploads/2018/08/2018_IPA-and-the-WB-Countries.pdf)

<sup>72</sup> [https://ec.europa.eu/neighbourhood-enlargement/system/files/2019-01/23914\\_rep\\_bih.pdf](https://ec.europa.eu/neighbourhood-enlargement/system/files/2019-01/23914_rep_bih.pdf)



IPA II, the Council of Ministers of Bosnia and Herzegovina, in 2017, adopted decisions on the Temporary Appointment of the Coordinator for IPA II (NIPAC) and the temporary establishment of the IPA II Board<sup>73</sup>, which should assist the NIPAC in performing the tasks foreseen by the Framework Agreement on IPA II. **The adoption of other legal acts to define the role, competencies and responsibilities of the NIPAC and full functionality and operability of the IPA operating structures and relevant bodies, is still pending.** Consequently, **the institutional framework** which shall enable efficient management of IPA **is still fragile**, consisting of informal operating structures / bodies for planning and programming of IPA as per institutional competences. In accordance with the sector approach, operating structures consist of lead institutions/ministries with dedicated Sector Working Groups (SWGs) including key sector institutions for the respective sector from different levels of government. Currently **the planning and programming of IPA assistance** in Bosnia and Herzegovina is organised **through** these **SWGs**, acting as an informal operating mechanism until the completion of legal framework for their proper embedding into legislative framework. To address discrepancies in the interpretation of the roles and responsibilities of NIPAC, the NIPAC Office, Sector Coordinating Institutions and Sector Working Groups, the NIPAC initiated cooperation between SWGs and the Working groups for EU integration, established under the System for Coordination in the process of EU Integration. However, the latter lack knowledge on the sector approach and understanding of the rules and procedures for IPA planning and programming.

Most of the assistance under IPA II was implemented through direct management by the DEU in BiH and structural problems hindered implementation; **horizontal and vertical sector coordination and donor coordination capacities are extremely challenging** due to the highly complex institutional and legislative competences across all levels of government. Finally, **the lack of country-wide sector strategies hindered the use of IPA II funds** and the initial implementation of the sector approach. However, although the adoption of the sector approach has been slow and uneven, it has improved the quality of dialogue and contributed to the creation of networks and awareness among fragmented institutions.

In **Kosovo\***, **IPA I** assistance focused in particular on the rule of law and competitiveness and innovation sectors (27% and 23% respectively in terms of funding). The IPA I Meta Evaluation of the EU assistance to Kosovo<sup>74</sup> found effectiveness was restricted through a **limited effect** in terms of **strengthening human resources**, especially due to the **insufficient involvement of the beneficiary institutions in programming**, let alone supervision of implementation, as a consequence of capacity issues and centralised management. The **European Court of Auditors** assessment of EU assistance to Kosovo<sup>75</sup> in the field of rule of law found that the assistance has not been sufficiently effective *“Some of the objectives of individual interventions have been achieved, albeit frequently with delays and doubts about the sustainability of the results. However, overall progress in improving the rule of law is slow, particularly with regard to the fight against organised crime and corruption, above all in the north of Kosovo”*.

Assistance to Kosovo\* under **IPA II** relied heavily on **implementation by entrusted entities**. The **quality of programming has improved** compared to IPA I; under the second cycle of the IPA support to Kosovo\*, major progress was achieved in ensuring a much greater involvement of institutions from Kosovo\* in the programming cycle of IPA II<sup>76</sup>. The Ministry in charge for EU integration played an active role in programming, improving the cycle, setting procedures and establishing the Sector working groups; however, **the involvement of the CSOs in the programming process failed**. The Evaluation of the

<sup>73</sup> Consisting of 18 members,; representatives of the governments and institutions from the state, entities, Brčko District and cantons.

<sup>74</sup> <https://mapl.rks-gov.net/wp-content/uploads/2018/04/Draft-Country-report-Kosovo-meta-evaluation-IPA.pdf>

<sup>75</sup> [https://www.eca.europa.eu/Lists/ECADocuments/SR12\\_18/SR12\\_18\\_EN.PDF](https://www.eca.europa.eu/Lists/ECADocuments/SR12_18/SR12_18_EN.PDF)

<sup>76</sup> [https://www.emins.org/wp-content/uploads/2018/08/2018\\_IPA-and-the-WB-Countries.pdf](https://www.emins.org/wp-content/uploads/2018/08/2018_IPA-and-the-WB-Countries.pdf)

Sector Approach under IPA II<sup>77</sup> showed however that the sector assessments prepared under Sector Planning Documents (SPDs) were exclusively done for this process and “*institutions declared little enthusiasm for this process, which diverts limited resources away from other more pressing programming and implementation issues*”; the assessments were not even used for the programming of the annual programmes for 2014-2016. The evaluation also noted that “the introduction of the SA was evidently a slow process and was not always accompanied by sufficiently clear guidance from DG NEAR HQ on how its application should be carried out in practice. Nevertheless, the evaluation found that the relevant authorities – primarily their key technical staff – are now well acquainted with the SA tools and guidelines and are generally able to deploy them in line with IPA II requirements”. The evaluation found that **the stakeholders involved in programming took seriously the process of preparing the sector assessments for SBS** which was lengthy (2 years for PAR in Kosovo\*). This was seen as being worthwhile, as the process **built both ownership and capacity** among the participants.

However, a study<sup>78</sup> prepared by the European Policy Institute of Kosovo\* in the light of the introduction of IPA III put the spotlight on some of the critical issues in the IPA II period: it found **IPA II support in Kosovo\* created a “parallel world” syndrome**, where EU-related processes only occasionally involve the rest of administration, and progress in development and closer alignment would only be possible acting in concord with national policies and financing. A further concern is that there are **no legal procedures or structured outcome-oriented processes regulating IPA** assistance with no written, transparent guidelines and manuals.

In **Montenegro, IPA I** assistance was focused on developing administrative capacity and aligning legislation with EU rules and regulations. In this financial period, Montenegro obtained conferral of management powers for the IPA components, which resulted in the **programming and implementation of two Operational Programmes for IPA component III** (environmental protection, sustainable development, transport and SMEs, and competitiveness) and **component IV** (employment, education, research and innovation and social inclusion. This proved to be **a good programming exercise in convergence sectors and allowed for significant ownership**. The European Court of Auditors Special Report No. 20<sup>79</sup> “*Strengthening administrative capacity in Montenegro: progress but better results needed in many key areas report*” concluded that although IPA I contributed effectively to strengthening administrative capacity in Montenegro, in 12 out of the 19 IPA-funded projects “*effectiveness of the support was reduced by the fact that some of the capacity-building outputs were not fully used or followed up by the Montenegrin authorities*”, pointing out **the lack of sustainability of the capacity building activities**.

The limited funding for pre-accession assistance led to **selective support in IPA II** which undoubtedly **affected the programming process**; only in **one sector** was a **multi-annual programme** approved although programming activity was carried in the environment, competitiveness and transport sectors for a Regional Development Operational Programme 2016-2020 which was, however, not approved. According to the conducted Evaluation of the Sector Approach under IPA II<sup>80</sup> with regard to linkages, although the programming documents have corresponded to the national priorities defined in the sectoral policy documents, there was “*limited coherence between the results at various programme levels*”. Moreover, the design of the Sector Planning Documents was “*sub-optimal, although some improvements were observed in later versions*”. **Ownership over the sector approach** - as introduced by IPA II - has shown **mixed results**; the evaluation found that “*embedding SA into IPA II practice and integrating it into national planning, programming and M&E is often elusive*” due to the lack of political and institutional support. The **programming of EU**

<sup>77</sup>[http://www.evropa.gov.rs/Documents/Home/DACU/12/193/SA\\_IPA\\_II\\_eval\\_Vol\\_1\\_final\\_on\\_19\\_March.pdf](http://www.evropa.gov.rs/Documents/Home/DACU/12/193/SA_IPA_II_eval_Vol_1_final_on_19_March.pdf)

<sup>78</sup><https://cdn.website-editor.net/8a3b242c12494d76b2b60ea75852e5f4/files/uploaded/ROADMAP%2520TO%2520IPA%2520III.pdf>

<sup>79</sup> [https://www.eca.europa.eu/Lists/ECADocuments/SR16\\_20/SR\\_MONTENEGRO\\_EN.pdf](https://www.eca.europa.eu/Lists/ECADocuments/SR16_20/SR_MONTENEGRO_EN.pdf)

<sup>80</sup> [https://ec.europa.eu/neighbourhood-enlargement/sites/default/files/evaluation\\_of\\_sector\\_approach\\_under\\_ipa\\_ii\\_-\\_final\\_report.zip](https://ec.europa.eu/neighbourhood-enlargement/sites/default/files/evaluation_of_sector_approach_under_ipa_ii_-_final_report.zip)



**assistance still requires strengthening** in Montenegro and **coordination capacities** need to be **improved**. The EC 2021 Country Report notes: *“There remains a need to allocate resources efficiently and build sector pipelines for future structural funds management since the lack of project maturity hinders programming and implementation. ... While a decision on the composition of the National Investment Committee (NIC) was adopted in March 2021, there is still a requirement for greater coordination around investment planning, better synergies and coherence between the development of national policies and strategies and EU membership requirements.”*

In **North Macedonia**, under **IPA I**, assistance focused on developing administrative capacity and aligning legislation with EU rules and regulations. In this period, North Macedonia obtained the conferral of management powers for the IPA components, including **programming and implementation of Operational Programmes for IPA component III and IPA component IV**. The European Court of Auditors Special Report No. 11<sup>81</sup> *“Strengthening administrative capacity in the former Yugoslav Republic of Macedonia: limited progress in limited progress in a difficult context”* concluded that **“decentralised management has strengthened capacity in the operating structures. Internal control is stronger and operational decisions are mostly taken at an appropriate level, with less political interference than in other parts of the public administration. Rigorous ex ante controls by the EU Delegation have provided further opportunity for ‘learning by doing’.** The operating structures have become ‘centres of excellence’ in terms of administrative capacity; however, the country was not ready for the volume and complexity of IPA funds for which management was decentralised”. **Despite the positive experience of multi-annual programmes under IPA I**, although the Sector Operational Programme for Environment and Climate Action 2014-2020 and Sector Operational Programme for Transport 2014-2020 were prepared, **financing was only approved for two years of the IPA II Programmes, clearly not respecting the initial programming logic and representing a lost opportunity to support sectoral reform.** Indeed, according to the Evaluation of Sector Approach under IPA II from 2018<sup>82</sup> *“capacity support has been used to varying degrees of usefulness/effectiveness, but evidence suggests that the more structured and systematic the capacity support is (such as in the Republic of North Macedonia), the more effective it is likely to be”*. Furthermore, the same report argues that **multiannual programmes, especially in case of North Macedonia, proved to be more prone to sustain sector reforms.**

In **Serbia**, under **IPA I**, the Serbian authorities **paved the way for the systematic management of pre accession assistance**, establishing systems and procedures aimed at improving the effectiveness of IPA, backed up with political commitment for the most effective use of international assistance in order to accelerate reforms. The transition from emergency to development assistance required structured planning and coordinated assistance programming, which resulted in **the establishment of the Development and Aid Co-ordination Unit (DACU)** which has maintained its function, although its setting in the administration has changed. To address the need for a systematic approach to aid management within each sector and capacity building in line ministries, **the competencies of international cooperation units were expanded to coordinate international aid and manage relevant donor-funded projects.** The **Inter-sector Development and Aid Co-ordination Network (ISDACON)**, established in 2003 to facilitate communication and information on development and international assistance within the state administration, had the **competencies and capacities to proactively programme, coordinate, manage and monitor the implementation of international assistance** in their sectors. In addition, the ISDACON information system was established as a management instrument for programming and monitoring the implementation of international assistance. A series of medium-term assistance planning documents defining priorities for international assistance were approved, and since 2007, strategic priorities for international assistance were defined

<sup>81</sup> [https://www.eca.europa.eu/Lists/ECADDocuments/SR16\\_20/SR\\_MONTENEGRO\\_EN.pdf](https://www.eca.europa.eu/Lists/ECADDocuments/SR16_20/SR_MONTENEGRO_EN.pdf)

<sup>82</sup> [http://www.evropa.gov.rs/Documents/Home/DACU/12/193/SA\\_IPA\\_II\\_eval\\_Vol\\_1\\_final\\_on\\_19\\_March.pdf](http://www.evropa.gov.rs/Documents/Home/DACU/12/193/SA_IPA_II_eval_Vol_1_final_on_19_March.pdf)

in three-year planning documents<sup>83</sup> although the most-recently drafted one, covering priorities until 2025, has not been approved by the Government and probably will not be adopted. In practical terms, **the coordination of programming donor assistance** is achieved through regular **meetings with donors** and **the work of national sectoral working groups (SWGs)**. However, the work of the SWGs is mainly focused on the programming of IPA, rather than contributing to policy discussions or monitoring reforms implementation, as envisaged by their establishment, thereby confirming the lack of a coordinated mechanism between IPA programming and national policy. **The envisaged formalised involvement of CSOs in the programming process**, set up in 2011 through the Sector Civil Society Organizations (SECO) mechanism, **is no longer functional** and in last 4 programming cycles there were no substantial consultations with CSOs. A major issue affecting the quality of programming in Serbia is the **lack of capacities in IPA Units**, both in terms of knowledge and in personnel, due to high rates of staff turnover. Furthermore, **IPA Units do not have close links to negotiating structures or policy planning units within line ministries**, thereby reducing their role to mere exchange of information.

The Serbian operating structures **developed Operational Programmes for IPA I Components III and IV** which significantly contributed to capacity development in preparing multiannual programmes; however, the programmes were **never approved** since the pre-condition for decentralised management, in terms of gaining candidate status, was not met. **No multi-annual sector Operational Programmes were approved under IPA II**. Therefore, **Serbia has missed a significant learning-by-doing opportunity** that Montenegro and North Macedonia were able to benefit from in both IPA I and, to a more limited extent, IPA II.

Of all the IPA Beneficiaries, **Turkey has the most experience in multi-annual programming** reflecting cohesion policy. Under IPA I, Turkey implemented funds under all Components, with the majority of funds implemented under decentralised management. However, **IPA funds were only of limited effectiveness** as regards the IPA objectives, as concluded by the **European Court of Auditors 2018 Special Report “EU pre-accession assistance to Turkey: Only limited results so far”<sup>84</sup>**; the IPA objectives were well designed by the Commission, properly identifying the requirements necessary to progress towards EU accession, and made conclusive sector approach assessments but in practice **the funds spent insufficiently addressed some fundamental needs in the rule of law and governance sectors, where some critical reforms are overdue**. In areas where there was more political will, such as customs, employment and taxation, IPA I projects contributed to aligning Turkey with the *acquis* and strengthening its administrative capacity. However, their **sustainability is at risk because of the difficulties in spending the available IPA funds and backsliding on reforms. Due to the programming and implementation backlogs, IPA I implementation was significantly delayed**, constraining the time available for the Turkish authorities to implement subsequent IPA II. Under IPA II, sector operational programmes have been continued and continuity achieved with IPA I programmes.

According to the conducted Evaluation of the Sector Approach under IPA II<sup>85</sup> unlike elsewhere, **ownership was evident in Turkey**, where **the Sector Approach coincided with national policy priorities in convergence sectors** (Competitiveness, Employment, Education and Social Policy), but for the sector approach in more politically difficult areas (such as Fundamental Rights) support was minimal. However, **some structural weaknesses in programming and implementation persisted in IPA II**, as reported by the European Court of Auditors<sup>86</sup> which have **now** been broadly **resolved**. The EC 2021 Country Report concluded that some progress was made in programming and **project**

<sup>83</sup> Serbia's Needs for International Assistance.

<sup>84</sup> [https://www.eca.europa.eu/Lists/ECADocuments/SR18\\_07/SR\\_TURKEY\\_EN.pdf](https://www.eca.europa.eu/Lists/ECADocuments/SR18_07/SR_TURKEY_EN.pdf)

<sup>85</sup> [https://ec.europa.eu/neighbourhood-enlargement/sites/default/files/evaluation\\_of\\_sector\\_approach\\_under\\_ipa\\_ii\\_-\\_final\\_report.zip](https://ec.europa.eu/neighbourhood-enlargement/sites/default/files/evaluation_of_sector_approach_under_ipa_ii_-_final_report.zip)

<sup>86</sup> [https://www.eca.europa.eu/Lists/ECADocuments/annualreport-Performance-2020/annualreport-Performance-2020\\_EN.pdf](https://www.eca.europa.eu/Lists/ECADocuments/annualreport-Performance-2020/annualreport-Performance-2020_EN.pdf)

**pipelines were established by all IPA structures for the IPA II period 2014-2020 under multi-annual operational programmes (MAAPs), despite budgetary cuts applied to 2019 and 2020 allocations.**

**Key Takeaway n. 3.5:** In general, **IPA I and IPA II programming process do not adequately reflect cohesion policy programming** or contribute to readiness through learning-by-doing, with the exception of Turkey and territorial cooperation programmes with Member States; this has been **exacerbated by the shift away from multi-annual sectoral programmes under indirect management in IPA II. Coordination of donor assistance remains a key concern** in general; in practice **mechanisms of internal coordination are weak** and donor coordination patchy, leading to **overlapping of initiatives and wasted efforts**. Furthermore, there is a lack of synergy between IPA programme and national policies.

### The programming approach for IPA III

Instead of Indicative Strategy Papers prepared by the Commission at country level with national allocations, IPA III no longer envisages country-level allocations but **a competitive approach for access to IPA Funds**, albeit **based on a “fair-share” approach** to ensure that there is no disproportionate level of allocations between IPA III beneficiaries. The allocation will be defined considering the bilateral and multi-country envelopes, the different sectors and the annual programming year in relation to the seven-year cycle. As one example, a large share is allocated to WBIF in the first year of programming to kick-start the process for the green agenda, which will be balanced in the future years. The IPA III Beneficiaries are required to provide an overview of their approach to prioritisation, articulation and sequencing of support across different windows; however, given that IPA Beneficiaries do not have an “indicative” amount to programme or information on overall available allocations under each window, directions are lacking, especially for the annual programming exercise, thereby undermining the prioritisation in practice. Furthermore, the **IPA Beneficiaries prioritisation does not follow the same logic as the Commission**, so **risks becoming a mere academic exercise**. Clear information on the Commission’s prioritisation and allocation logic needs to be provided up front.

As illustrated clearly in this Study, **the preparation and implementation of multi-annual programming is the only complete learning-by doing exercise for the management of EU Funds**. It is understood that in IPA III, five out of seven IPA Beneficiaries will be encouraged to **draft sector operational programmes – SOPs** - (focused on **IPA Windows III and IV**) will be **envisaged for 2023-2027 funds**, and should be **ready to start implementation in 2024**. However, for effective programming, **indicative agreement** must be reached on the IPA thematic objectives to be addressed in each programme and **funds available**, so that the **SOPs are fiscally framed**, in order to establish objectives, measures, targets and breakdown of financial allocations and allow the institutions tasked with SOP implementation to engage in the **necessary and informed resource planning and capacity building** in time. Indeed, this has proved the case for IPARD III and territorial cooperation programmes, which are fiscally framed, allowing for a smooth programming process. The templates for these programmes are clear, and partially mirror those used in Member States. Sufficient **time has to be allowed for the programming process**, which should be driven by the (future) Managing Authority in cooperation with the NIPAC, fully in line with the ECCP and **supported by line DGs from the Commission**. **Funds** available should be **sufficient to allow for the experimentation of different measures/calls for proposals and appropriate multi-annual planning**, and the **potential for a major** (capital investment) **project**, indicatively under Window III, to **provide the widest experience for the implementing bodies**, as well as **clear demarcation as regards the WBIF** in the case of capital investments.

Furthermore, given the regional and territorial disparities noted in Chapter 2, and to encourage progress in regional policy, **regional approaches** and the **development of place-based intervention under the SOPs** should be **fostered**, also through the possibility of using **integrated territorial development instruments** similar to those in place for Cohesion Policy.

The fact that IPA Beneficiary Countries will have more ownership over the process is a welcome development. However, delays in finalising the regulatory framework and no early provision of guidance to the IPA Beneficiary Countries, only in part due to COVID-19, have led to a rather haphazard start to the IPA III perspective. The **haphazard approach** and **reverse programming logic** that characterised the start of IPA III programming (in the absence of a legal framework) must be **avoided with clear guidance** and **templates** provided in a timely fashion – even if in draft versions - **similar to the process adopted for IPARD III**. Given that DG NEAR has offered the possibility for IPA III stakeholders to benefit from the capacity development service contract managed directly by Unit A4, this should prioritise **cross-country assistance on developing the sectoral operational programmes under a levelling-up process, given that some countries have little experience in this exercise**. Support for peer exchange can also be provided through ReSPA<sup>87</sup>.

**Key Takeaway n. 3.6:** Clear directions and timely guidance need to be provided for the post 2022 programming exercise, especially for sector operational programmes. The indicative amount of funding should be provided to allow for an effective multi-annual programming approach, as in IPARD and territorial cooperation. **Appropriate templates should be used for multi-annual programmes, broadly mirroring those in place for Member States, also to facilitate consultation processes and public understanding of IPA assistance.** The **ECCP should be followed consistently in the programming exercise**, as is the case for IPARD. Line DGs should provide specific support for programming, as is the case for IPARD. Cross-country “levelling-up” support and peer exchange would prove valuable.

### 3.2.2. Horizontal policy objectives and progress in embedding the Sustainable Development Goals in policies and programmes

Eurostat monitors the **progress of EU Member States** towards the **17 sustainable development goals (SDG)**; however, **no data is collected from the WB6 and Turkey**. The **IPA countries** signatories to Agenda 2030 for Sustainable Development have prepared **Voluntary National Reviews**<sup>88</sup>.

In the context of **IPA assistance**, as a 2018 study<sup>89</sup> by the Heinrich Böll Foundation pointed out, there has been **no framework to assess the performance** of EU’s development cooperation assistance **coherently and comprehensively vis-à-vis the delivery of SDGs**, in particular to track financial contributions that support the delivery across the 17 SDGs over time.

Under IPA, the **contribution to horizontal policies for climate mainstreaming, biodiversity mainstreaming and gender equality are tracked financially** by the Commission, whereas the contribution to a limited number of Sustainable Development Goals (Goals 5, 8, 9, 13, 16) is reported only for key achievements and performance. The table below presents the financial tracking data for IPA II and estimates for IPA III for climate mainstreaming and biodiversity mainstreaming. The figures reflect the OECD/DAC

<sup>87</sup> The Regional School of Public Administration which is supported by the EU and Germany.

<sup>88</sup> In the case of Turkey, two VNRs have been presented; Montenegro has announced its intention to carry out a second VNR in 2022. Kosovo\* is not a signatory to Agenda 2030.

<sup>89</sup> Sustainable Development Goals and the EU: uncovering the nexus between external and internal policies, 2018 <https://eu.boell.org/en/2018/12/05/sustainable-development-goals-and-eu-uncovering-nexus-between-external-and-internal>



reporting methodology: the budget of interventions contributing to the specific horizontal policy objectives is weighted 100% if it is the main objective of the action and 40% if it is a significant objective.

**Table 3. 4 Financial tracking of contributions to horizontal policies – climate and biodiversity mainstreaming**

Horizontal Policies	IPA II – EUR million	IPA II - % operational commitments	IPA III – financial estimates – EUR million
Climate change mitigation / Climate change adaptation	1605.8	15.4%	2,491.8
Biodiversity mainstreaming	281.5	2.7%	438.5

Source: Commission’s Working Programme Statement on Pre-Accession Assistance (IPA III) <sup>90</sup>

As set out on Recital 25 of the IPA III Regulation, **IPA III should contribute to mainstreaming climate action** in the Union’s policies and to the achievement of an **overall target of 30% of Union budget** expenditure **supporting climate objectives** and the ambition of **7.5% of the budget** reflecting **biodiversity expenditures in 2024 and 10 % in 2026 and 2027**, while taking into account the existing overlaps between climate and biodiversity goals. Actions under IPA III are expected to contribute **18% of the overall financial envelope of IPA III to climate objectives**, with the objective of **increasing this percentage to 20% by 2027**; these figures represent **substantial increases as compared to IPA II**.

As regards gender equality, **gender commitments in IPA II are tracked** reflecting the OECD/DAC reporting methodology. The Programme Statement on Pre-Accession Assistance (reported gender commitments under IPA amounting to EUR 763,33 million in 2019, an increase compared to 2018 (EUR 587 million). It can be noted that the **IPA III Regulation** places a greater focus on furthering gender equality, including the **promotion of gender equality as a specific objective** (article 3, paragraph 2), a requirement that **IPA III programmes and actions are gender mainstreamed** (article 6, paragraph 2) and **Gender equality as an area of intervention** (Annex II): “establishing a more enabling environment for the fulfilment of women’s and girls’ rights and achieving real and tangible improvements in gender equality in strategic policy areas such as freedom from all forms of gender-based violence; sexual and reproductive health and rights; economic and social rights and the empowerment of women and girls; equal participation and leadership; women, peace and security; and the gender dimension of green and digital transformations, including through supporting gender budgeting”. These interventions are **in line with the thematic priorities of EU GAP III**; however, there is **no specific indicator for gender equality and no funds are allocated**. As pointed out by the Kosova Women’s Network<sup>91</sup>, “the absence of a corresponding indicator poses a challenge to adequate reporting. This is a concerning omission, as experience suggests that unless clear indicators are established, gender equality tends not to be adequately addressed, monitored, or evaluated in IPA programming”. Under IPA III programming so far, significantly more attention seems to be given to gender mainstreaming in both the Strategic Response and draft Action Documents, supported by UN Women and the DEUs; however, it remains to be seen **how this will be effectively managed and monitored during IPA III implementation**.

As regards **IPA II** programmes and actions, the **contribution to SDGs** is rather **formalistic and not reported on or integrated into the country-level SDG monitoring process**; this

<sup>90</sup> [https://ec.europa.eu/info/sites/default/files/about\\_the\\_european\\_commission/eu\\_budget/programme\\_statement\\_-\\_ipa.pdf](https://ec.europa.eu/info/sites/default/files/about_the_european_commission/eu_budget/programme_statement_-_ipa.pdf)

<sup>91</sup> <https://womensnetwork.org/wp-content/uploads/2021/11/IPA-III-Lost-Opportunities.pdf>



aspect could be significantly improved. In general, there are **no direct linkages between the identified IPA indicator targets and the nationalized SDG goals and targets** to which they will contribute and there are **critical data gaps for both the SDGs and the EU accession agenda**. **IPA III should establish a closer link with the SDGs**; as stated in recital 26 of the IPA II Regulation: “Actions under IPA III should support the implementation of the United Nations 2030 Agenda for Sustainable Development adopted in September 2015 as a universal agenda, to which the Union and its Member States are fully committed and which all beneficiaries listed in Annex I have endorsed”. However, aside from the climate and biodiversity commitments, there is **no clarity on how this will be monitored**, nor is the contribution of the identified action indicators to national SDG targets made explicit in indicator frameworks.

**Key Takeaway n. 3.7: The contribution of IPA to the achievement of SDG goals is not consistently tracked or monitored.** Budget allocation targets are only foreseen for climate objectives. There are **no direct linkages between identified IPA indicator targets and the nationalized SDG goals** and targets to which they will contribute and there are **critical data gaps for both the SDGs and the EU accession agenda**. Despite an increased attention to gender equality and mainstreaming in IPA III, there is **no specific indicator for gender equality and no funds are allocated**. Although IPA III should establish a closer link with the SDGs, there is no clarity on how this will be monitored.

The table below presents the systems set up to ensure that SDGs are integrated into the strategic framework and to monitor the achievement of progress in meeting SDGs in the WB6 and Turkey.

**Table 3. 5 Systems for SDG implementation**

IPA Beneficiaries	System for monitoring and reporting SDG implementation
Albania	<p>The <b>Inter-ministerial Committee on the SDGs is responsible for ensuring dialogue</b> between the government and stakeholders, as well as <b>integration of the SDGs in Albania’s strategic framework</b>. The Committee is comprised of key government institutions, as well as other stakeholders from the business community, civil society, academia and international organisations.</p> <p>The (expired) National Strategy for Development and Integration 2015-2020 had very limited capacity to be used for monitoring the SDGs implementation in Albania as only 12 out of the 50 indicators of the NSDI-II are also part of the SDG indicators framework. Albania produces <b>regular data for 83 out of the 244 global indicators in the SDG monitoring framework (34%)</b>. Data for a further 56 indicators (23%) is partially available. The <b>most critical SDGs</b>, for which there are <b>no indicators with targets established</b> are <b>Goals 10, 12, 13 and 16</b>. SDGs with a low share of indicators with mid-term targets to the total number of indicators per SDG (10-15%) are Goals 1, 11, 14, 17.<sup>92</sup></p> <p>The United Nations Sustainable Development Cooperation Framework 2022-2026<sup>93</sup> identifies <b>two cross-cutting concerns</b>: (a) Effective policy and programme responses will depend upon the quality and availability of disaggregated statistics to implement and monitor evidence-based policies and plans and nationalized SDG goals and targets to which they will contribute. There are <b>critical data gaps for both the SDGs and the EU accession agenda</b>; (b) <b>Gender-based discrimination and exclusion is driven by entrenched patriarchal attitudes and deeply rooted stereotypes</b> about the roles and responsibilities of men and women within the family and society.</p>
Bosnia and Herzegovina	<p>In September 2015 Bosnia and Herzegovina committed to implement the Agenda 2030 for Sustainable Development. The first step was to develop the <b>SDG Framework in Bosnia and Herzegovina as a joint document of governments at all levels</b> which defines broader development directions. In March 2017, institutions were appointed to lead the coordination process for implementing Agenda 2030 at the level of Bosnia and Herzegovina, the Republika Srpska, the Federation of Bosnia and Herzegovina and the Brčko District. Subsequently, the Council of Ministers established an inter-governmental Working group for the implementation of activities of sustainable development goals and preparation of the</p>

<sup>92</sup> UN, Gap analysis – SDG global indicators in Albania, Working paper, 2020

<sup>93</sup> [https://unsdg.un.org/sites/default/files/2021-06/Albania\\_Cooperation\\_Framework\\_2022-2026.pdf](https://unsdg.un.org/sites/default/files/2021-06/Albania_Cooperation_Framework_2022-2026.pdf).

	<p>SDG strategic framework until 2030 that supported the preparation of the SDGs roll-out and the development of the SDG Roadmap in Bosnia and Herzegovina. During 2018, intensive consultations were held with more than 600 representatives of the public, private and nongovernmental sectors to provide inputs for drafting the first Voluntary Review and the SDGs Framework. Three sub-groups were established within the SDG Working Group: the Sub-group for drafting the Voluntary Review of Bosnia and Herzegovina on Implementation of Agenda 2030 and the SDGs; the Sub-group for the SDGs Framework in Bosnia and Herzegovina; and the Sub-group for statistics. Following extensive multi-sectoral consultations during 2019 and 2020 with all levels of government, CSOs, the private sector and academia, <b>the SDG Framework was adopted in 2020</b> by the Council of Ministers. <b>Three pathways for sustainable development</b> in Bosnia and Herzegovina were determined: 1) <b>Good Governance and Public Sector Management</b>; 2) <b>Smart Growth</b>; 3) <b>Society of Equal Opportunities</b>, and two <b>horizontal themes</b> 1) <b>Human Capital for the Future</b> and 2) the <b>“Leave no one behind”</b> Principle.</p> <p>The early stage of preparations in statistics (Chapter 18) concerning the national statistical system in key statistical areas and need to apply European and international standards impacts on the monitoring of progress in SDGs.</p>
Kosovo*	<p>Although <b>not a signatory to Agenda 2030</b> because of its status as a non-member, <b>Kosovo*</b> took the decision to join global efforts to embrace sustainable development through a <b>parliamentary resolution</b> in 2018 <b>committing to the implementation of SDGs</b>. The UN Kosovo*Team assisted in setting up the management structures in Kosovo*institutions to facilitate SDG integration into a key strategic planning process. <b>The National Council for Sustainable Development (NCSD) is responsible for coordinating SDG action</b> and prepared the National Development Strategy 2016-2021 (NDS). However, <b>concrete actions remain rather limited</b><sup>94</sup>. The resolution aimed to establish the partnership with different stakeholders: civil society, the private sector and citizens in general, for the implementation of the Agenda and functionalize a Council to monitor and ensure the implementation of the SDGs. However, partnership has been rather immobile and the Council on SDGs inactive after one year of establishment with no evaluation reports or sustainable development framework generated so far, as noted by the INDEP Report – Kosovo*and 2030 Agenda: From Political Rhetoric to Concrete Actions<sup>95</sup>.</p> <p>The Government reports on the National Development Strategy 2016-2021 including on the SDGs to the Assembly as well as the UN High Level Forum on Sustainable Development. The Assembly commits to organise annual meetings with Government, CSOs and citizens for public debate on progress in achieving SDGs. The first <i>“Report on the implementation and results of the National Development Strategy”</i><sup>96</sup> published in 2018 found 12 SDGs and only 22 targets are in line with the NDS measures.</p> <p><b>Challenges of data collection</b>, finding reliable and consistent information regarding the indicators of SDGs are noted as obstacles towards measuring progress towards the 2030 Agenda. In particular, data <b>lacks correlation with the SDG targets</b>.</p> <p>The Government adopted the decision on the development of the National Development Strategy 2030 in October 2020, which should include the goal for EU membership and links with the SDGs by setting development priorities, strategic goals and expected results.</p>
Montenegro	<p>In 2017, Montenegro adopted the <b>National Strategy for Sustainable Development until 2030 (NSSD)</b>, thus <b>integrating the 2030 Agenda into the national strategic framework</b>. There is a strong link and complementarity between the 2030 Agenda, the SDG target values and the EU accession process. <b>Almost two-thirds of the SDG targets</b> (109 out of 169) <b>are covered by the EU accession process</b>. In addition to the SDG indicators, Montenegro’s NSSD 2030 includes selected national indicators and indicators developed by relevant international organisations. The <b>streamlining of EU financial assistance contributes towards the achievement of the SDGs</b>. This has been particularly emphasised during the programming cycle of IPA annual programmes for 2019 and 2020, while <b>IPA III establishes a greater link with SDGs</b> from the beginning of the programming process.</p> <p>The Ministry of Sustainable Development and Tourism oversees the process of monitoring the implementation of NSSD. The <b>monitoring of NSSD is performed annually involving an extensive number of institutions and organisations providers of statistical data</b>. The NSSD monitoring system identified organisations responsible for monitoring the defined sets of indicators and introduced a clear division of competencies, establishing which</p>

<sup>94</sup> <https://www.eea.europa.eu/themes/sustainability-transitions/sustainable-development-goals-and-the/country-profiles/kosovo-country-profile-sdgs-and>

<sup>95</sup> [https://indep.info/wp-content/uploads/2019/07/SDG\\_ENG.pdf](https://indep.info/wp-content/uploads/2019/07/SDG_ENG.pdf)

<sup>96</sup> <https://kryeministri.rks-gov.net/wp-content/uploads/2019/02/Raporti-i-par%C3%AB-p%C3%ABr-zbatimin-dhe-rezultatet-e-Strategjis%C3%AB-Komb%C3%ABtare-p%C3%ABr-Zhivillim-2016%E2%80%932021.pdf>

	<p>institutions can generate statistical and administrative data for the needs of NSSD reporting and what kind of coordination and reporting mechanism needs to be developed.</p> <p>The National Council for Sustainable Development, Climate Changes and Integrated Coastal Zone Management deliberates the reports on the NSSD implementation and provides final recommendations before the reports are sent to the Government for adoption.</p>
North Macedonia	<p><b>A long-term National Strategy for Sustainable Development 2009-2030 is in place</b>; in 2015 North Macedonia affirmed its commitment to the 2030 Agenda. In 2016, a <b>Gap Analysis</b> was carried out to <b>assess the degree to which SDGs are incorporated into national planning documents for sustainable development. SDG implementation was integrated into a four-year Government Programme (2017-2020)</b> and harmonised with the relevant sector strategies, plans and programmes. In line with the Government Programme, the <b>National Council for Sustainable Development identified SDG 1, SDG4, SDG8, SDG 13 and SDG16 as five priority goals for the period 2018-2020.</b> A Rapid Integrated Assessment indicated <b>about 83% of national policy documents were aligned with the SDGs</b> showing that the existing policy framework addresses key aspects of sustainable development. <b>Full compliance was found for SDG4, SDG6, SDG7, SDG9 and SDG16.</b> The least degree of alignment – about 50 percent - was found for SDG10.</p> <p>The first National Voluntary Review for North Macedonia in 2020 was prepared with the joint effort and fruitful collaboration of multiple stakeholders. It established the following priorities:</p> <ul style="list-style-type: none"> <li>• Establishing a multi-stakeholder platform for all activities and statistical data related with Agenda 2030.</li> <li>• Straightening national statistical and institutional capacities in terms of methodology development for additional indicators of the Agenda 2030.</li> <li>• Strengthening the dialogue with the business sector, academia, and youth through a “whole of society” approach for improved implementation of Agenda 2030.</li> <li>• Strengthening the capacities of the Technical Working Group of the National Council for Sustainable Development.</li> <li>• Localizing the Agenda 2030 through the alignment of municipal action plans with the Agenda 2030.</li> <li>• Identifying SDG accelerators for localizing the Agenda 2030.</li> <li>• Improving donor coordination in line with Government priorities and the new UNCSDCF 2021-2025 for improved implementation of the Agenda 2030.</li> <li>• Developing a National Development Plan as the outcome of the OECD Multidimensional Review.</li> </ul>
Serbia	<p><b>The Inter-ministerial working group for the implementation of the United Nations 2030 Agenda for Sustainable Development</b>, established in 2015, composed of high-ranking representatives of 27-line ministries and other institutions <b>is responsible for coordinating activities</b> of all relevant ministries in connection with the <b>2030 Agenda, monitoring its implementation</b>, proposing adoption of the (not yet drafted) National Sustainable Development Strategy with the financial plan to integrate individual strategies and harmonise efforts to achieve SDGs, <b>proposing the basis for statistical monitoring of SDG indicators and sub-indicators</b> and reporting to the UN. A Serbian National Assembly Focus group is responsible for overseeing the implementation of the SDGs. The Standing Conference of Towns and Municipalities coordinates the mainstreaming of SDGs in the local planning system. The Public Policy Secretariat implemented the harmonisation analysis of the umbrella and sector policies with the 2030 Agenda, and with the reforms in scope of the EU integration process; overarching and umbrella national policies, policies developed within the framework of EU integration process and sector strategies are aligned with the SDGs and Agenda 2030 to a great extent<sup>97</sup>.</p> <p><b>Monitoring of SDGs implementation is ensured through the Statistical Office</b> of the Republic of Serbia which has established a web-based platform enabling <b>the tracking of 83 out of 244 indicators monitoring SDG implementation based on the Eurostat methodology</b>, but, due to the lack of country specific targets, assessing progress is not based on quantitative indicators used by the Eurostat for SDGs. No data is available for monitoring Goals 13 and 14.</p>
Turkey	<p>Turkey <b>integrates the SDGs into its National Development Plans (NDPs) and sectoral strategies.</b> The <b>Presidency of Strategy and Budget</b>, which is also <b>in charge of preparing NDPs</b>, is <b>the national focal point for SDGs.</b> The 2nd Voluntary National Review (VNR)</p>

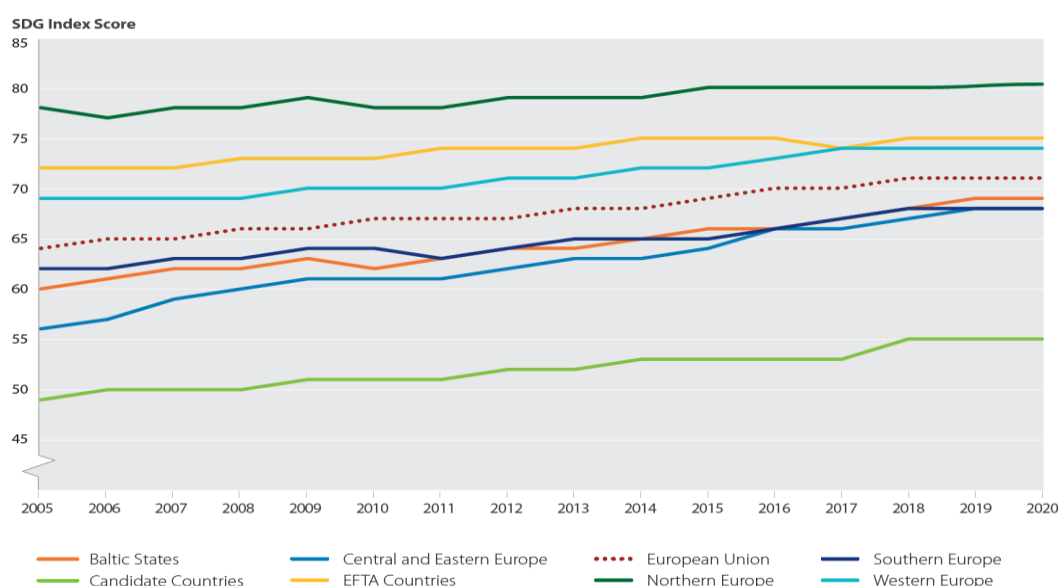
<sup>97</sup> [http://sdg.indikator.rs/media/1546/progress-report-on-the-implementation-of-sustainable-development-goals-by-2030-in-the-republic-of-serbia\\_web.pdf](http://sdg.indikator.rs/media/1546/progress-report-on-the-implementation-of-sustainable-development-goals-by-2030-in-the-republic-of-serbia_web.pdf)

stated that **most targets have directly or indirectly been incorporated in policy documents**. In the overall context of SDGs, Turkey stands at an advanced level particularly in respect of policies, strategies and legislation, while there is room for improvement in practices and projects. Regarding **monitoring, responsibilities were assigned to ministries for 218 SDG indicators** and the **Sustainable Development Indicators Set**, comprising of **83 indicators** was published in 2019. While the ratio of produced indicators is higher for SDG3, SDG7 and SDG9; **further work is needed for SDG1, SDG2, SDG12, SDG13 and SDG14 indicators**.

The VNR process was centred on the principles of participation and leaving no one behind. Accordingly, during the 2019 VNR preparations, under the coordination of the Presidency of Strategy and Budget (PSB), 2.962 representatives were consulted directly from government bodies, 312 NGOs, 2000 companies and 50 municipalities.

The **Europe Sustainable Development Report 2021**<sup>98</sup> for the first time **includes EU candidate countries** (Albania, Montenegro, the Republic of North Macedonia, Serbia, and Turkey) as well as Bosnia and Herzegovina. The Report finds **gaps in SDG performance** across European regions and countries as shown in the figure below. The **overall score for the EU is 71.4** and **Northern European countries perform best**, with an **average SDG Index score of 81%** in 2020. By contrast, **candidate countries perform significantly more poorly**, with an **average score in 2020 of just above 55%**, driven notably by **poorer performance on socio-economic goals (SDG 1 and SDGs 3 to 9) and SDG 16** (Justice, peace and strong institutions). The Figure below compares the SDG Index score by region, including IPA countries where data is available.

**Figure 3. 1 SDG Index Score across European Regions including candidate countries**



Source: Europe Sustainable Development Report 2021

It can be noted that even prior to COVID-19 the progress in candidate countries has somewhat tapered off; although overall there has been some progress towards convergence, **efforts need to be strongly reinforced** if the gap between the candidate countries and Central and Eastern Europe (where the greatest increase in progress has

<sup>98</sup> Lafortune G, Cortés Puch M, Mosnier A, Fuller G, Diaz M, Riccaboni A, Kloke-Lesch A, Zachariadis T, Carli E, Oger A (2021). Europe Sustainable Development Report 2021: Transforming the European Union to achieve the Sustainable Development Goals. SDSN, SDSN Europe and IEEP, France: Paris. <https://www.sustainabledevelopment.report/>



been noted) is to be reduced. **At the present growth rates, candidate countries would not attain the scores currently held by Northern Europe for another 52 years.**

The Report notes four overall challenges for Europe, namely: poor performance on environmental goals; inequalities within countries; negative international spillovers embodied in trade and financial flows; and persisting differences in SDG performance across Europe. In the SDG Index, the overall score for the EU is 71.4, far higher than North Macedonia (59.9), Serbia (59.3) and Turkey (55.7). In the “**Leave no one behind**” index, a similar pattern is observed: **the overall score for the EU is 74.2 while for Serbia it is 63.4, 55 for North Macedonia and 45.6 in Turkey**, the lowest in Europe. Overall, according to the Report, a simple linear extrapolation of the past five years’ growth trends suggests that **it will take around 54 years for candidate countries to achieve the current performance of the best-performing region on this goal: Northern Europe.**

**Key Takeaway n. 3.8:** On the whole, where a national strategic development framework is in place, a certain alignment of national policies with SDGs is in place; however, alignment is weaker in terms of indicators and targets, especially as in some cases there is a lack of national targets and poor statistical data. The need for harmonisation and alignment is even more compelling given the significant gaps between candidate countries and other European regions in terms of the SDG index and leaving no one behind index; reinforced efforts should be focused on convergence of both national policies and donor support towards socio-economic goals (SDG 1 and SDGs 3 to 9) and SDG 16 (Justice, peace and strong institutions) where performance is particularly poor.

### 3.2.3. Policy Consultation mechanisms

The involvement of partners in IPA programming and identified shortcomings have been examined in section 2.3. The purpose of this section is to examine the wider practices of policy consultation in place. A key aspect for the preparation and implementation of Cohesion policy which is highlighted for the 2021-2027 IPA programming period is the shift from solely information provision and public consultation processes to the **active involvement of partners through a place-based, bottom-up and participative approach**. This requires installing and consolidating the participatory approach in all levels of governance and appropriate capacity building for public administrations and partners. The major forms of participation are: **provision of information, consultation, dialogue, and active involvement** (including partnership, co-decision and delegation).

**Table 3. 6 Civil society participation models**

Type of engagement and typical institutional form	Strategy and mechanism
<b>Provision of Information:</b> on-line/off-line platforms, public (town-hall) meetings	<b>Comprehensive information</b> provided by public authorities in <b>clear and easily understandable language</b> and in an appropriate and accessible format, without undue administrative obstacles and, in principle, free of charge, in accordance with open data principles, informing citizens on policy directions and envisioned changes. <b>All appropriate information should be presented at all stages of decision making.</b>  Public authorities should provide the <b>widest possible access</b> , both offline and online, to key documents and information without restrictions on analysis and re-use of such information.
<b>Consultation:</b> committees, meetings, focus groups hearings, surveys, questionnaires and digital tools (online surveys/feedback forms, chat rooms, listservs,	<b>Consultation</b> allows public authorities to collect the views of individuals and civil society on a specific policy or topic <b>as part of an official procedure</b> . Public authorities should provide <b>publicly available feedback and records on the outcome</b> of consultations, <b>giving reasons for any decisions taken.</b>

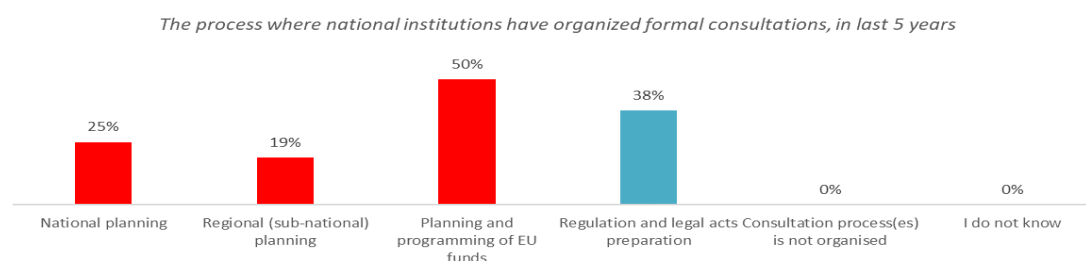


newsgroups and social media).	
<b>Dialogue:</b> councils, committees, advisory bodies	Dialogue is a <b>structured, long-lasting and results-oriented process</b> which is based on mutual interest in the exchange of opinions between public authorities, individuals and civil society at large. It requires <b>commitment to and tangible and recorded instances of taking into account the opinion of consulted stakeholders</b> (social partners, CSOs, local communities, citizens etc) with a regularised venues/schedule of engagement. <b>Different platforms may be established by public administrations or CSOs as a permanent space for dialogue and participation</b> such as advisory councils.
<b>Active involvement/partnership including co-decision responsibilities:</b> task forces; working groups, monitoring committees	The <b>regular and formalised participation in decision-making processes for policy development, agenda setting, monitoring and evaluation of policies of individuals and civil society at large that extend beyond the provision of information, consultation or dialogue.</b> It may include <b>working groups or committees for the co-design and co-development</b> of documents as well as of policies and laws ultimately requiring a decision by the appropriate public authority. Where joint working groups or committees exist, public authorities should adopt <b>transparent criteria and processes for the representation</b> of individuals, CSOs and civil society, based on <b>clear, set responsibilities and representativeness.</b> Various types of partnerships involving public authorities, CSOs and representatives of civil society may be suitable at different stages of the decision-making process.

Source: adapted from the Guidelines for civil participation in political decision making, Council of Ministers, Council of Europe 27 September 2017<sup>99</sup>

All these forms may be established and cultivated in all three major levels of policy making (EU, national, and local). However, in practice, **public administration reform efforts have focused on enhancing public consultation mechanisms; active involvement in design or partnership has been very limited in policy-making**, organised on a rather ad-hoc level in the few occasions where in place, with the **exception of EU-funded multi-annual operational programmes.** The 2021 Sigma Monitoring Reports on The Principles of Public Administration<sup>100</sup> confirm persisting weaknesses in **public consultation** in practice; the regulations in place in many cases are **not consistently followed** and sufficient time is not always allowed for public consultation processes, which has resulted in **little stakeholder engagement and feedback** and consequently a **lack of meaningful input** into final policy design. **Public Consultation Reports are not prepared consistently and do not necessarily provide information regarding the comments and reasons for their rejection.** Respondents to the pan-IPA survey confirmed that the practice of consultations in the WB6 and Turkey is weak and by no means consolidated, although slightly stronger when it comes to the planning and programming of EU funds.

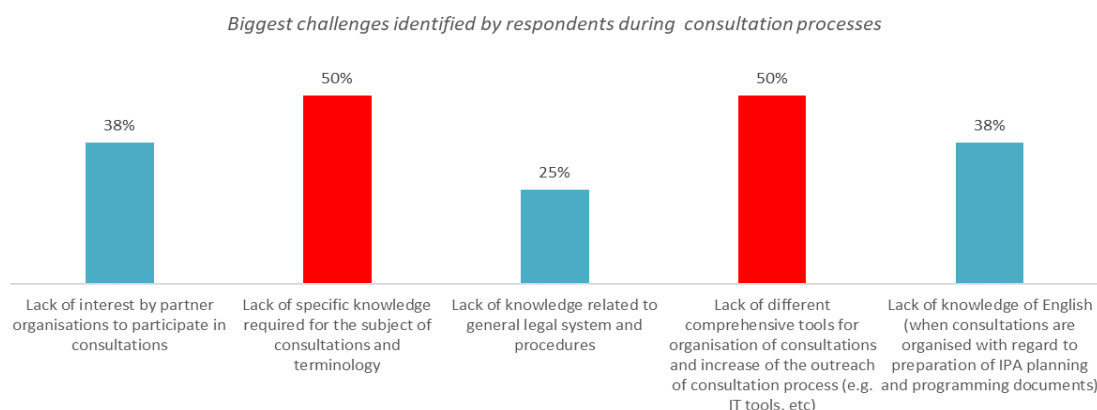
**Figure 3. 2 Organisation of formal consultations**



Half the respondents stated formal consultations were organised for EU funds programming. Only 38% stated the same for legal acts, and even less for national and sub-national planning processes (25% and 19% respectively).

<sup>99</sup> <https://rm.coe.int/guidelines-for-civil-participation-in-political-decision-making-en/16807626cf>

<sup>100</sup> Available for the WB6: <http://www.sigmaxweb.org/publications/monitoring-reports.htm>

**Figure 3. 3 Challenges identified during the consultation process**

Even when consultations are organised formally, several significant challenges have been identified by the respondents, with half confirming the lack of specific knowledge concerning the subject of the consultations and the terminology and a lack of availability and use of comprehensive tools for the organisation of consultations and increase in the outreach of consultation processes, in particular through IT and surveying tools. In the case of consultations on IPA, participation hampered by the fact that the programming documents are drafted and discussed exclusively in English, exception made in the case of IPARD where translation and interpretation is provided to assist the partners with their work.

A brief overview by IPA country is presented in the table below, also taking stock of IPA II support in this area within the Public Administration Reform efforts.

**Table 3. 7 Public consultation frameworks and practice**

IPA Beneficiaries	Public consultation framework at national and local levels, practice and shortcomings
Albania	<p>The <b>Regulatory framework for public consultation is well-developed</b> and public administrations are required to <b>publish all draft and adopted laws and policy documents on the electronic public consultation portal</b>. Although the number of public consultations has been steadily increasing, quality control on public consultation was weak and focused mostly on the process rather than on content. Limiting factors for the reach of public consultations include the lack of different comprehensive tools for the organisation of consultations that could increase outreach and the lack of specific knowledge and understanding of terminology. CSO respondents often feel that their comments/suggestions are rarely taken into consideration. The Prime Minister's Office is responsible for oversight for public consultations. Improvements were supported through IPA assistance, including <b>a new guideline on public consultation introduced in 2021 with rigorous quality checks</b>. The roll-out of the new public consultation process is ongoing, but some consultation reports are already available on the public consultation platform<sup>101</sup>, indicating the start of significant advance in consultation processes using the new methodology.</p> <p>However, <b>established structures for more intensive dialogue</b> with stakeholder groups, such as the National Economic Council, the National Council for Civil Society and the Central and Local Government Consultative Council are <b>only partially functional</b>.</p> <p>Although consultation processes are legally mandated for <b>municipalities</b>, many <b>still lag far behind standards not only in citizen participation in decision-making</b> but in <b>transparency and information sharing</b> to citizens. The <b>municipalities' capacities for public consultations and cooperation with local actors is weak</b>; although structures and procedures are in place for public consultation, they are not fully institutionalised and embedded in their working procedures. A lack of budget, administrative staff and often</p>

<sup>101</sup> As one example, the Business Development and Investment Strategy 2021-2027 published on 25.05.2021 <https://www.konsultimipublik.gov.al/Konsultime/Detaje/351> with a detailed Report available; 89 comments were received of which 9 were not accepted with a detailed justification, 10 were partially accepted and 70 addressed through updates to the Strategy.

	<p>poor description of duties impact capacities to conduct public consultations and follow up. The EC 2021 Country Report notes that local-level implementation of the Law on public consultation remains unsatisfactory although transparency has improved as all 61 municipalities now publish their Council's decisions online.</p> <p>According to the <i>Local Governance Mapping in Albania 2020</i><sup>102</sup>, some municipalities engage youth and vulnerable groups in decision making, where youth forums are in place. The process of establishing Youth Councils is ongoing. The involvement of vulnerable groups is achieved through their associations; this is not the case in all municipalities. Progress has been very positive in terms of women participation, but much remains to be done in small municipalities.</p>
Bosnia and Herzegovina	<p>The <b>legislation on public consultations is uneven</b> across the country as administrative level arranges its own system and <b>meaningful and systematic consultations are not ensured</b>. Public consultation is regulated through several laws and regulations at the State, Federation of BiH (FBiH), Republika Srpska and Brcko District levels. At state level, all ministries must use the central government website for public consultation on policy proposals. <b>The publication of consultation reports is not regulated</b>. In FBiH, the regulatory framework distinguishes between different categories of partners; there is no evidence whether they are included in consultations, or whether any criteria are used for their selection. The regulatory framework for consultations with partners is in place in Republika Srpska; however, there are no specific guidelines or procedures for the selection of different categories of partners at different administrative levels.</p> <p>BiH has a <b>functional e-consultation portal</b> with good search options, yet it has <b>very few users</b>, and <b>most consultations have no participation from third parties</b>. Most institutions use the national e-consultation portal to hold consultations during the process of adopting legislative and policy documents, as required by law, but the vast majority only do so at the final stage; not many include CSOs and stakeholders at earlier stages.</p> <p>In general, <b>formal consultation procedures have been only minimally followed, the quality of consultation process has not been subject to regular monitoring and oversight</b>. Negative impressions and opinions also prevail in CSO's perceptions of how public consultations are conducted in practice. In short, public consultations are not carried out fully in line with the stated requirements (e.g. early consultations, or the provision of feedback on comments in consultation reports).</p>
Kosovo*	<p>Regulations and procedures for conducting public consultations are in place, and the regularity in publishing draft laws for written public consultation has improved. However, <b>rules are not followed consistently in practice</b>. Consultations are still organised very late in the process without key stakeholders being aware that a consultation process is planned. There is still <b>a mutual mistrust between the institutions and the CSOs in entering into partnership</b> with regards to policymaking and there is <b>no standard practice in all institutions regarding the inclusion of CSOs starting from the first steps of policymaking</b>.</p> <p>The <b>public consultation portal</b> managed by the Office of Prime Minister <b>was upgraded</b> to ensure the involvement of CSOs and general public in consultations on laws and strategic documents drafted during 2020, including the introduction of modalities for the inclusion of municipalities in the consultation process. At local level, <b>consultations in municipalities are integrated into the general Online Platform</b> for public consultation, yet <b>implementation is still nascent</b>. Annual reports on the implementation of public consultations are regularly published; however, the latest government annual report on public consultation shows that some ministries are not organising consultations in accordance with the relevant regulation.</p> <p>The <b>response rate from CSOs and public remains relatively low</b> mainly due to <b>lack of awareness</b> for participation in public consultations and policy-making in general and <b>lack of capacities in CSOs</b> as well as no concrete plan for publishing legal acts and policy documents. Awareness initiatives are needed to encourage citizens to participate in consultative processes at all levels.</p>
Montenegro	<p>The requirements for public consultation are in place. The Ministry for Public Administration, Digital Society and Media is functionalising its mandate as the body ensuring compliance with the requirements for public consultation; however, <b>monitoring and reporting on consultations is not consistent</b>. Although guidance is in place on public consultation and the involvement of partners, representativeness of partners and balanced representation are not dealt with and there is <b>little genuine and systematic inclusion of all relevant stakeholders</b>. Mechanisms are in place to support</p>

<sup>102</sup> [https://www.al.undp.org/content/albania/en/home/library/democratic\\_governance/local-governance-mapping-in-albania-2020-.html](https://www.al.undp.org/content/albania/en/home/library/democratic_governance/local-governance-mapping-in-albania-2020-.html)

	<p>consultations with civil society on policy documents and laws but the inclusion of CSOs in Working groups is poor and uneven in practice. In general, the <b>impact of partners' comments and suggestions on public policies</b> during the consultation processes is <b>limited</b> and mainly comes down to technical refinements during public hearings. Representatives of CSOs usually are over-voted in Working groups<sup>103</sup>. In practice <b>public consultations on policy are conducted infrequently</b>, there is a <b>lack of regularity in reporting</b>, and <b>poor quality feedback</b>; in the case of laws, there has been frequent use of fast-track procedures without public consultations.</p> <p>The consultation process at the local level is regulated but the scope and quality of participatory processes organised by Local Self Government Units vary greatly and depend on internal capacities, the political will, commitment and the capacities of the local stakeholders in participating in consultations and their representativeness and the participation of CSOs in consultations, decision-making, planning, design and implementation of strategic documents is low.</p>
North Macedonia	<p>The legislative framework ensures that the process of <b>public consultations</b> is to a great extent <b>open to the public from an early stage</b>. There is a <b>comprehensive online register of regulations</b> (Single National Electronic Register of Regulations [SNERR]), which is utilised to provide key guidance documents and facilitate public consultation. Consultations on draft laws are often organised at the end of the drafting process and there is no consultation on bylaws. The EC 2021 Country Report noted that the electronic system <b>is not used to its full potential</b> and reiterated that <b>quality control and the follow-up to the public consultation process need to improve</b>. The function of oversight over the public consultation process is not institutionalised, and no reporting on public consultation exists.</p> <p><b>Consultation of stakeholders at the national and local level is mandatory</b> during preparation of planning documents for regional development According to the findings of the publication "<i>Co-operation between public authorities and civil society at the local level in Republic of Macedonia</i>"<sup>104</sup>, <b>62% of municipalities have established some kind of separate organisational structure for CSO cooperation</b> and the most common forms of cooperation were through the involvement of CSOs in preparation of strategic and planning documents, preparation of legal procedures and acts or through involvement of CSOs in working groups. Furthermore, <b>87% of municipalities stated they have involved and consulted the CSOs during the policy making process</b>.</p>
Serbia	<p>Public consultation is fully regulated and improved through the adoption of the Law on the Planning System, which <b>embeds transparency and consultation into all stages of public policy development and applies to all levels of public administrations</b>, including obligations to provide reports. The <b>regulations and guidance in place do not specifically elaborate how stakeholder partnership should be implemented in practice</b>. Despite the improved regulatory framework, <b>public engagement is still low</b> and <b>public consultations are often not announced in advance</b>. There is <b>insufficient experience in the involvement of partners and stakeholders in the planning process</b> and a lack of practice in compiling and publishing consultation reports, which when prepared, do not provide information on opinions and reasons for rejecting comments. In short, as noted by the EC 2021 Country Report, <b>the scope of public consultations has improved but there is a lack of consistent implementation</b>.</p> <p>The E-Consultation portal, operational since December 2021, is an integral part of the eGovernment Portal; as it is very recently operational, no assessment can be made as to its use. All public administration bodies are obliged to publish all relevant information regarding consultations and public debates organised for the preparation of policy documents and/or legal acts.</p> <p>At local level, <b>LSG Units have some experience in consultation with external partners and stakeholder groups</b>, but this takes place mainly at the end of the planning process, <b>during public debates</b>, such as for local budgets. <b>Guidance</b> documents have been <b>developed</b> to increase ownership and support local authorities in <b>ensuring that the participative and transparent process of development of local plans and policy documents; however</b>, there is <b>little practice in involving partners</b> such as CSOs and stakeholder representatives <b>in working groups</b>. Existing</p>

<sup>103</sup> <https://europeanwesternbalkans.com/2020/02/21/the-role-of-csos-in-montenegros-eu-integration-substantial-or-make-believe/>

<sup>104</sup> <http://lokalnademokratija.mk/en-us/subgranting/partners-news/artmid/739/articleid/95/document-%E2%80%99Eco-operation-between-public-authorities-and-civil-society-at-local-level-in-republic-of-macedonia%E2%80%99C>

	regulations <b>lack systematic instructions on the process and criteria for their selection in participatory planning processes and do not address the issue of representativeness.</b>
Turkey	<p>Under the existing regulatory framework, <b>public consultations are not regulated nor there is a formal obligation to conduct public consultations</b> in systematised manner; the approach to <b>public consultation is discretionary</b> and there is <b>no transparent and consistent practice for public consultation</b>. There is no evidence of consultation open to the general public in Turkey, such as consultations conducted online or for a wider audience. In other words, <b>the elements of full participatory approach for a functioning democracy are missing</b>. Following the constitutional change, <b>nine Policy Councils</b><sup>105</sup> chaired by the President were established at the end of 2018, consisting mainly of representatives of academia, business associations and research institutions. Their mandate is <b>multi-dimensional</b>, including providing recommendations for decisions taken by the President, carrying out studies, giving opinions to institutions on matters falling within their jurisdiction, monitoring policies, and organising meetings with ministries, civil society and other representatives and therefore <b>represent the only wider engagement of stakeholders into the decision-making process. Independent CSOs are largely excluded from the consultations that are part of policy-making processes and monitoring.</b></p> <p>Regional Development Agencies provide a framework for the involvement of partners in the policy and decision making for regional development however, there is a lack of transparency with regard to their membership.</p> <p><b>By contrast, the preparation of IPA-funded sector operational programmes is organised broadly in line with the ECCP requirements.</b> Sector Lead institutions conduct comprehensive consultations with wide range of different institutions, local administration, CSOs, social partners, etc. and in close cooperation with Sector Monitoring Committees (SMCs). The membership of SMCs is publicly available and include representatives of relevant partners, such as CSOs, economic and social partners, universities, chamber of commerce and industry, local authorities and regional development agencies. Furthermore, <b>a strong participative approach has been adopted for the preparation of the IPARD programmes.</b> The established <b>national rural network</b> includes representatives of relevant public institutions, chambers, universities, municipalities, NGOs, farmers and rural entrepreneurs and <b>fosters the involvement of stakeholders in the implementation of rural development policies.</b> The roll-out of the participatory LEADER approach<sup>106</sup> and implementation of Local Development Strategies by Local Action Groups are supported through IPARD.</p>

In short, **mechanisms for partnership and consultation with civil society at different governance levels are fragile**, marked by a **lack of stable financing and sustainability** for CSOs, **little systematised cooperation** with CSOs and **lack of regulatory frameworks** to establish representatives of CSOs involved in working groups, a lack of cooperation with CSOs more critical to the government, CSOs' **fears that cooperation may undermine their independence**, a **lack of capacities among CSOs**, particularly smaller ones without EU/international affiliations, and a tendency to focus on CSOs present in capitals. In short, **an enabling environment for CSOs is still lacking and their sustainability weak.**

<sup>105</sup> The Council on Local Government Policies, the Social Policies Council, the Healthcare and Food Policies Council, the Council on Culture and Art Policy, the Council on Legal Policy, the Security and Foreign Policy Council, the Council on Economic Policy, the Education Policy Council, and the Council on Science, Technology and Innovation Policy

<sup>106</sup> 50 Local Action Groups (LAGs) are established at local level in 12 IPARD provinces and consultations started to expand LEADER applications in 15 additional provinces. Members of LAGs are Local Public Authorities (Municipalities, Social Assistance and Solidarity Foundation, Chambers); Private Sector (Natural person taxpayers, Farmers, Companies, Cooperatives and Unions) and CSO (associations and foundations) representatives.



In this respect, regional level IPA support for CSOs is the right approach but **consolidated processes must be introduced at national and local government levels for policy development and implementation**. CSOs need to be involved consistently in policy-making as partners in working groups at all governance levels, based on **transparent selection criteria and representativeness** including attention to geographical representation. **Umbrella organisations should be recognised, supported and consistently involved**, with guidance provided on their involvement of member organisation and outreach. **Inputs** to working groups and consultations and position papers prepared **by CSOs should be properly taken into consideration** and responses provided by responsible policy-makers and planners. Equally, **CSOs and umbrella organisation need to have clarity on their role and ensure they have sufficient knowledge and expertise to represent their stakeholder communities**. Furthermore, the **knowledge and capacities of CSOs** need to be **built through sustained and continuous efforts**, supported by the donor community, especially focusing on CSOs outside capital cities and without international affiliations. The **Commission should focus on including CSO representatives from the WB6 and Turkey in relevant networks, working groups and consultative platforms, also to encourage peer-exchange and peer-learning**.

CSOs were invited to provide feedback to the IPA III programming framework through the IPA-funded Technical Assistance to Civil Society Organisations (TACSO 3) in the Western Balkans and Turkey<sup>107</sup>; an interesting suggestion made by the Balkan Civil Society Development Network<sup>108</sup> to address what they noted as ongoing trend of closing space for democracy and shrinking the space for civil society organisations is to introduce an IPA response mechanism through applying the newly introduced principle of performance to support civil society action. In this response mechanism, instead of simply withdrawing allocations from countries that regress in their democratic development, the funds could be re-allocated as civil society support aimed at fighting back democratic backsliding in the same country which would have the benefit of supporting civil society resilience and safeguarding rule of law and good governance.

**Key Takeaway n. 3.9:** Despite significant public administrative reform efforts supported by IPA and other donors, **in practice consultation processes may be formalised but are still not fully mainstreamed into the public administrative culture in terms of implementation**. Furthermore, **partnership and participatory planning**, as opposed to public consultation, is **at a nascent stage**, and requires much more support. The **awareness and capacities of local authorities, partners and stakeholders need to be fostered**. In this respect, where present, **IPA-funded multi-annual operational programmes provide the best examples of practice** which could be **mainstreamed into the wider administrative culture**. Furthermore, an enabling environment for CSOs is still lacking and their financial sustainability weak.

### 3.2.4 Policy Monitoring Systems

In general, **policy monitoring systems are weak** and the **pace of reform** has been **slow**. In several cases, monitoring of public policies is not regulated. Practice in monitoring EU Funds is assessed in chapter 3. The **weakest points** concern the **quality and timeliness of monitoring processes**, a general **focus on the process results of reforms rather than their impact**, the **lack of transparency** as often monitoring reports are published and the **lack of engagement of external stakeholders** in monitoring. What emerges is that **policy monitoring processes remain far below the levels need for effective results-oriented monitoring** and do not indicate readiness for effective monitoring of regional policy. This is confirmed by the pan-IPA survey as only a quarter of respondents noted that

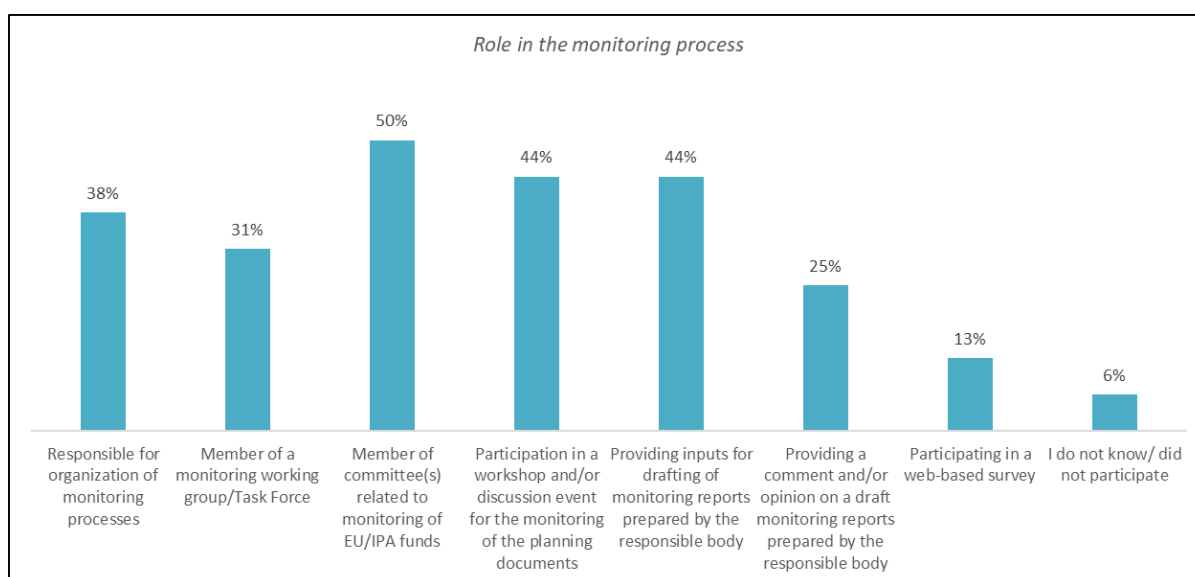
<sup>107</sup> [https://tacso.eu/have-your-say-in-preparing-ipa-deadline-extended-monday-9-march-2020/?fbclid=IwAR2ThpDgPTrtVbMNUari8B7NocEEAyKB-xeTdvdxCmLWXdiwtae\\_N3Qbo2c](https://tacso.eu/have-your-say-in-preparing-ipa-deadline-extended-monday-9-march-2020/?fbclid=IwAR2ThpDgPTrtVbMNUari8B7NocEEAyKB-xeTdvdxCmLWXdiwtae_N3Qbo2c)

<sup>108</sup> <http://tacso.eu/wp-content/uploads/2020/05/46-BCSDN-on-IPA-III-Consultation-reg.pdf>

the monitoring systems in place enable the timely identification of problems and the implementation of corrective measures.

The Figure below shows the role of survey respondents in monitoring processes: aside from their role in participating in monitoring committees for EU/IPA Funds, 44% of respondents reported involvement in workshops or discussions on monitoring of planning documents or in providing inputs for monitoring reports. 38% were responsible for organising monitoring processes which considering that the survey included respondents from national and local public bodies (63%) is not surprising. However, only 31% were members of monitoring working groups, i.e. at a more strategic level.

**Figure 3. 4 Role of survey respondents in monitoring processes**



The table below provides an overview of the policy monitoring and evaluation framework and the outstanding challenges in EU candidate countries and potential candidates.

**Table 3. 8 Policy Monitoring and Evaluation Framework and outstanding challenges**

IPA Beneficiaries	Public monitoring and evaluation practice and challenges
Albania	<p>The legal framework for monitoring and reporting on the central Government planning documents and sector strategies was fragmented, but <b>regular and standardised monitoring and reported processes are now being rolled out</b> through IPSIS. However, <b>further training and improvement of data collection is needed</b> as well as upgrading the monitoring capacities of line ministries and the Prime Minister's Office. According to the latest SIGMA Monitoring Report<sup>109</sup>, the comprehensiveness of the monitoring and reporting framework is weak. Annual monitoring reports for some strategies are not prepared regularly or early enough after the end of the reporting year to ensure effective monitoring and their quality is uneven. On a positive note, monitoring reports on sector strategies are published on Ministry websites.</p> <p>Monitoring of policy is carried out through the Integrated Policy Group Management mechanism. The <b>engagement of external stakeholders</b> in monitoring and consulting through formal co-ordination structures has been <b>limited</b>, reducing openness and accountability. Non-state actors are mainly consulted in writing, as documents and reports are being prepared.</p>
Bosnia and Herzegovina	<p>There is a <b>proliferation of regulatory frameworks</b> concerning monitoring and reporting on sector policies at all administrative levels. According to the latest SIGMA Monitoring Report<sup>110</sup>, there are <b>significant issues with monitoring and reporting practices</b> for key</p>

<sup>109</sup> <http://www.sigmaweb.org/publications/Monitoring-Report-Executive-Summary-2021-Albania.pdf>

<sup>110</sup> <http://www.sigmaweb.org/publications/Monitoring-Report-Executive-Summary-2021-Bosnia-and-Herzegovina.pdf>

	<p>government and policy-planning documents at all levels, especially in terms of the quality and consistency of monitoring and the use of outcome-oriented indicators and in clearly showing progress in achieving the set objectives. <b>Monitoring reports</b> on planning documents <b>are not prepared regularly</b> and are <b>not published</b> online. There are <b>major shortcomings in the quality of monitoring reports</b>, with mostly rudimentary analysis providing very limited information on the impact of policy changes a consequence of under-developed monitoring capacities of institutions. Investment projects are monitored only at the financial and technical level, lacking information for decision making at higher management levels.</p>
Kosovo*	<p>According to the latest SIGMA Monitoring Report<sup>111</sup>, <b>a well-functioning monitoring and reporting framework is only partially in place</b>, as the <b>development and quality</b> of annual monitoring reports is <b>inconsistent and insufficient</b>; monitoring reports are often not prepared in good time for identifying and implementing corrective measures and <b>many reports are not published</b>. While outcome-level information is used for monitoring, detailed descriptions of the performance indicators are lacking. <b>Monitoring activities are implemented without the appropriate involvement of external stakeholders</b>; for example, the structures for PAR strategic documents coordination and monitoring do not foresee any involvement of CSOs.</p>
Montenegro	<p>The framework for policy monitoring is established but the <b>quality of monitoring reports is low</b> as they tend to be output based and lack focus on outcomes and results. Narrative sections usually contain simple descriptions of implemented activities <b>without highlighting any real challenges in implementation or proposing solutions</b>. Furthermore, annual monitoring reports are not always prepared in time to provide timely and meaningful insights for steering future activities. Local authorities are responsible for monitoring local investment programmes/projects and local policy documents; however, where monitoring enables the identification of problems in implementation, <b>recommendations are rarely applied due to lack of political will</b>.</p>
North Macedonia	<p><b>Monitoring and reporting on sectoral strategies is not regulated</b>. The public administration is still not focused on measuring effects and outcomes, so <b>monitoring is often reduced to reporting on implemented activities</b>. In the case of the PAR strategic framework for example, according to the latest SIGMA Monitoring Report<sup>112</sup>, although key processes and structures for effective monitoring and reporting are established and annual progress reports are prepared and published regularly for both planning documents, the <b>process is often delayed</b> and concluded long after the end of the reporting period. This reduces the overall impact and relevance of monitoring and does not help address potential implementation issues on time. <b>Government reports are generally not available to the public</b>; only the annual report on the budget is published.</p>
Serbia	<p>The <b>legal framework for monitoring and reporting does not clearly regulate the monitoring and reporting of the implementation of sector strategies</b>. The Unified Information System allows the monitoring of implementation of national public policy document. However, only a limited number of public policy documents have been entered in the system as many policy documents are still not aligned with the methodology stipulated by the Law on the Planning System. The public administration is still not focused on measuring effects and outcomes, so <b>monitoring is often reduced to reporting on implemented activities</b>. <b>Monitoring Reports on key policy documents are not published</b>. According to the latest SIGMA Monitoring Report<sup>113</sup>, the monitoring and reporting system for the PAR agenda is established for all strategies, but it is not consistently applied or used in practice across all PAR areas. Although the performance indicator framework is complete, it has not been used systematically for reporting purposes. This makes it difficult to learn from past periods and to steer implementation more strategically. Finally, representatives of CSOs are not consistently involved in monitoring PAR reforms.</p> <p>Some <b>capacities for monitoring capital investments</b> at all levels of government exist but <b>are limited</b> and do not ensure the consistent monitoring and reporting of results against the defined set of objectives and outcome indicators.</p>
Turkey	<p>There are <b>no formal provisions for monitoring sector strategies</b> and monitoring relies on the internal monitoring and reporting systems of institutions. Except for the budget report and Annual Accountability Reports, there is <b>no requirement for monitoring reports to be made public</b>. Consequently, <b>monitoring practice in Turkey does not provide a systematic approach towards assessing achievements in terms of outcomes or impacts</b>.</p>

<sup>111</sup> <http://www.sigmaweb.org/publications/Monitoring-Report-Executive-Summary-2021-Kosovo.pdf>

<sup>112</sup> <http://www.sigmaweb.org/publications/Monitoring-Report-Executive-Summary-2021-Republic-of-North-Macedonia.pdf>

<sup>113</sup> <http://www.sigmaweb.org/publications/Monitoring-Report-Executive-Summary-2021-Serbia.pdf>

The EC 2021 Country Report noted that “in the absence of adequate ex-post monitoring and reporting, major public investment programmes lack transparency”.

**Key Takeaway n. 3.10:** Policy monitoring practices are in general inconsistent and weak across the WB6, whereas in Turkey there is no systematic approach to monitoring. The **weakest points** concern the **quality and timeliness of monitoring processes**, the **publication of monitoring reports** and the **engagement of external stakeholders** in monitoring. What emerges is that **policy monitoring processes** remain **far below the levels needed for effective results-oriented monitoring** and **do not indicate readiness for effective monitoring of regional policy**.

### 3.2.5 Pathway for Priority objective 1 - Smarter Europe – assessment of readiness and gaps

The **readiness of the WB6 and Turkey to contribute towards Priority Objective 1 Smarter Europe is highly dependent on the policy framework mechanisms** in place for enterprise development and RD&I and **mature experience in supporting the private sector** as well as **the interest and capacities of the private sector and research ecosystem to unlock the full potential from EU funds** once the candidate countries and potential candidates become Member States.

In the 2014-2020 perspective for ESI Funds, under the two themes most directly relevant for Smarter Europe – TO1 Strengthening research, technological development and innovation (over € 63 billion programmed under ERDF) and TO 3 Enhancing the competitiveness of small and medium-sized enterprises (SMEs) (over € 58 billion programmed under ERDF) were the most programmed thematic objectives for ERDF (approx. 40%), showing their primary centrality in achieving cohesion policy objectives.

However, the focus given to the Competitiveness and Innovation sector under IPA II is far less significant, and the total allocation inadequate to address the gaps in competitiveness and innovation with respect to Member States. For example, Bulgaria, with a GDP and population size similar to Serbia, planned over € 1.1 billion for TO 3 and € 342 million for TO 1, well over six times the IPA funds allocated to Serbia for the sector. Strikingly, the funds allocated to Albania and Montenegro were significantly lower as a percentage of total allocations than the other IPA Beneficiaries.

**Table 3. 9 Allocations 2014-2020 to Competitiveness and Innovation**

IPA Beneficiary	Amount (EUR million)	Percentage of IPA funds <sup>114</sup>
Albania	52.6	8.2%
Bosnia and Herzegovina	56	14.6%
Kosovo*	78.15	14.1%
Montenegro	15.6	7.2%
North Macedonia	78	15.1%
Serbia	217	19.9%
Turkey <sup>115</sup>	260	20.5%

**Key Takeaway n. 3.11:** IPA allocations to the competitiveness and innovation sector are far lower in proportion than those allocated to the same sector under ERDF in

<sup>114</sup> Respective to overall indicative allocations 2014-2020.

<sup>115</sup> References in terms of allocations to Sector Operational Programmes, excluding IPARD.

**Member States** leading to a inevitable worsening of the gap in this sector. Given the low level of funds allocated, especially in Albania and Montenegro, IPA II has not given policy-makers and potential beneficiaries sufficient opportunities to develop capacities for the Smarter Europe policy objective.

A brief overview of support to the SME sector and RD&I as well as progress with smart specialisation is presented below for each country allowing for the identification of elements which need to be strengthened prior to readiness for smart specialisation actions and key areas for IPA III support.

### Support to SMEs

In general, EU funds available through IPA are insufficient for financing all the identified needs related to support for the SME sector, in the context of readiness for EU structural and cohesion funds<sup>116</sup>. **Access to finance remains the constant and most significant obstacle to the investment, innovation and internationalisation of small and medium-sized enterprises (SMEs)** in most economies. Other common challenges facing enterprises are the complexities of starting a business, high costs of electricity, corruption and competition from the informal sector. With the context of the green transition, as stated in the OECD Competitiveness in South East Europe 2021 – A Policy Outlook<sup>117</sup> (henceforth referred to as the OECD 2021 Report), all WB6 economies are in the early development stages of green investment policy and promotion initiatives, with only half of the economies have a clear strategy or programme for attracting and incentivising green investment, or clearly outlining green growth priorities. The situation is somewhat different in **Turkey** where widespread - albeit it not streamlined - support is available for SMEs, apart from the challenges represented by the large informal economy, and measures to address the long-term financing needs of small and medium-sized enterprises and the insufficient legal framework for microfinance, **major challenges concern the compatibility of localisation and public procurement practices with the EU industrial policy principles and the lack of transparency in State aid** for large investments.

Although **Albania** has achieved moderate progress in implementing the Small Business Act (SBA) improving public service delivery and streamlining rules which have aided in lowering the administrative burden on small and medium-sized firms (SMEs) while also boosting the overall business environment, **SME policy areas have noticeably stagnated**. Albania has **few instruments for innovation support or SME development policies** in place, even though these could stimulate private investments, increase competitiveness and help to diversify the economy. There are **no operational science or technology parks** and no funds to support the establishment of new business incubators (SME Policy Index: Western Balkans and Turkey 2019<sup>118</sup> - henceforth SME Policy Index), while **existing initiatives are supported primarily through donor funds**. According to the Commission's Economic Reform Programme 2021 assessment report<sup>119</sup>, **Albania's business environment remains hampered by structural weaknesses**. Private sector development remains below its potential, as action to improve the business environment lacks effective policy instruments and a more strategic approach. The **lack of business know-how, low financial literacy** and the **high degree of informality are obstacles to access to finance** for the private sector, which consists mainly of micro and small businesses and **business support services remain inadequate**. Transparency and participation in the adoption and implementation of legislation is still insufficient, particularly regarding the effective and timely consultation of businesses and social partners on new legislation affecting their operations. The World Bank assessment of the access to finances shows that MSMEs face significant constraints in accessing finance with 16% of small and 34% of medium-sized

<sup>116</sup> Focus group discussion on Smarter Europe, July 2021

<sup>117</sup> OECD (2021), Competitiveness in South East Europe 2021: A Policy Outlook, Competitiveness and Private Sector Development, OECD Publishing, Paris, <https://doi.org/10.1787/dcbc2ea9-en>.

<sup>118</sup> <https://www.oecd-ilibrary.org/docserver/g2g9fa9a-en.pdf?expires=1624791851&id=id&accname=guest&checksum=ACFC75B899295A82F9A1B55510F8C3E1>

<sup>119</sup> [https://ec.europa.eu/info/sites/default/files/economy-finance/ip158\\_en\\_0.pdf](https://ec.europa.eu/info/sites/default/files/economy-finance/ip158_en_0.pdf)



enterprises reporting access to finance as a major constraint in Albania. The overall MSME finance gap in Albania is estimated at 9% of GDP<sup>120</sup>. Furthermore, as reported by the OECD 2021 Report, **alternative financing sources remain very limited and crowdfunding, venture capital and business angel networks are non-existent**. Access to funding beyond traditional factoring and lending schemes and instruments to meet their needs at all stages of their development would help to diversify Albania's currently bank-dominated financial sector.

**Bosnia and Herzegovina** is at an early stage of preparations in the area of enterprise and industrial policy and the **investment environment is unsatisfactory**. The **legislation of the Federation of BiH and the Republika Srpska define small and medium firms differently**, hence there is no uniform definition of SMEs in the country. In addition to the lack of a state-level law on SMEs, there is no centralized database of SMEs. The lack of a unified approach to SME policy development and implementation makes developing coherent policies difficult, thus a more coordinated approach across all levels of government in assisting SMEs needs to be created. **Entrepreneurship is hindered by separate laws and regulations on the business registration process**, putting pressure to register more than once to be allowed to operate throughout the entire territory of BiH. The **difficulties involved in starting a business and obtaining licences and permits reflect the complexities of the market fragmentation** described above. Starting a business in BiH is much more cumbersome and costly than in nearly all economies in the world; according to the latest World Bank Doing Business assessment, BiH is ranked 184 out of 190 economies on the indicator for starting a business. **Access to finance remains a significant obstacle to the investment, innovation and internationalisation of SMEs**; improvements in macroeconomic and financial sector stability have helped credit growth in the private sector; however, although large enterprises and established SMEs are well served by the banking sector and have benefitted from lower interest rates and better lending conditions, most **micro and small enterprises, as well as start-ups, remain underserved**. The financing gap is particularly large for micro-enterprises, that are unable to meet **banks' stringent loan requirements**, including high collateral requirements at over 212% of the loan amount<sup>121</sup>. Meanwhile, alternatives to bank lending are either very limited or non-existent.

**Kosovo\***'s efforts to remove **structural barriers to businesses** have been stagnant as attention was focused on fighting the immediate effects of the pandemic. A **strategy to support Kosovo\*'s business environment and industrial development needs to be adopted and implemented**. Scarcity of funds has led to **donor-driven activities** leading to the over-involvement of various donors which may **shift accountability** for the strategy **away from the government, diluting public priorities**. The Kosovo\* Investment and Enterprise Support Agency needs to be reorganised to improve its support schemes and provision of advisory services to SMEs. **Limited access to finance remains a significant obstacle to the investment, innovation and internationalisation of SMEs** in Kosovo\*. Although credit growth has been strong over the past decade, micro and small enterprises cannot meet banks' stringent loan requirements. With the exception of leasing, financing alternatives to bank lending are very limited or non-existent. SMEs' access to finance should be improved by scaling up the Kosovo\* Credit Guarantee Fund and undertaking legislative reforms to broaden the range of alternative financial instruments. Recent business surveys<sup>122</sup> continue to highlight the fact that the **inadequate electricity supply** is among the top three obstacles **constraining domestic companies and deterring potential investors** from locating their businesses in Kosovo\*, along with **corruption and the informal sector**. Other outstanding challenges that undermine the competitiveness, investment and growth of enterprises are **the time and cost of obtaining permits and**

<sup>120</sup> <https://documents1.worldbank.org/curated/en/907601595607606723/pdf/Albania-Credit-Guarantee-Scheme-Assessment.pdf>

<sup>121</sup> World Bank (2020), Enterprise Surveys: Bosnia and Herzegovina, World Bank, Washington DC, <https://www.enterprisesurveys.org/en/data/exploreeconomies/2019/bosnia-and-herzegovina>

<sup>122</sup> <https://www.enterprisesurveys.org/content/dam/enterprisesurveys/documents/country/Kosovo-2019.pdf>

**licences, weak contract enforcement and the mismatch between skills and labour market needs.**

**Montenegro** opened Chapter 20 which deals with enterprise and industrial policy in December 2013. The latest policy developments cover the adoption of the Strategy for the Development of Micro, Small and Medium-Sized Enterprises in July 2018; however, although the Strategy was prepared through participatory processes, the 2019 SME Policy Index noted that **SMEs input was not taken into account sufficiently when forming strategies and action plans.** According to the 2019 SME Policy Index, the **“enhanced legal and regulatory framework in Montenegro has not yet been accompanied by sufficient targeted measures to support SMEs’ competitiveness.** *There is also room for a more co-ordinated approach to providing support measures, currently spread across different public institutions; SME initiatives would certainly benefit from consolidation to increase their effectiveness”.* The main sources of financing for SMEs are commercial banks and microfinancing institutions, the Investment and Development Fund of Montenegro (IDF), the European Bank for Reconstruction and Development, and other international development assistance programmes. According to the latest “Report on the implementation of the Action Plan for the implementation of the Strategy for the Development of Micro, Small and Medium Enterprises in Montenegro 2018-2022, for 2019”, EU and other international development assistance funds provided a mere 1.7% of the total realised funds in 2019. **Business growth is constrained by access to finance. Strict collateral requirements** represent an important barrier for businesses, with high levels of collateral particularly limiting for micro and small enterprises (MSMEs), which have limited assets. Financing for start-ups and other higher risk ventures remains very limited. Other constraints noted are the **costs of starting a business, corruption and competition from the informal sector.** The SME sector needs further strengthening in institutional support and regulation as well as fostering access and transparency of information on available support to SME. Participants in the Focus Group on Smarter Europe concluded that support to research and development through financial instruments for innovation and R&D for SMEs would be beneficial in Montenegro, including the possibility of blending financial instruments and grants.

**North Macedonia** established a **National Small and Medium Enterprise Strategy (2018-2023)** and an Action Plan in 2018<sup>123</sup> to promote inclusive economic growth and create jobs (2018 to 2020). The general goals are to provide a framework of cooperation between the public, commercial, and civil society to assist MSMEs development and innovation, thereby enhancing competitiveness. SME policy, and other projects that foster entrepreneurship, competitiveness, and innovation are implemented by the Agency for Promotion of Entrepreneurship of the Republic of Macedonia (APERM). The programme for entrepreneurship, competitiveness and innovation implemented by APERM in 2020 was around EUR 0.32 million. According to the 2019 SME Policy Index, North Macedonia still **needs to create a coordination body to ensure the effective SME plan implementation and establish the intended National SME Association to increase private engagement in policy development.** More work is also needed regarding the company registration and license and permit provision by **integrating services into a one-stop shop.** The Commission’s ERP 2021-2023 assessment report<sup>124</sup> concludes that **slow domestic productivity growth limits competitiveness** and that North Macedonia’s enterprises suffer from **outdated technology, low production and innovation capacity, uneven product and service quality, poor managerial skills, and a strong informal sector.** Further impediments to modernisation of technologies and business processes, expansion of production and internationalisation capacity are the lack of management and operational skills in the labour market, as well as a complex application of business rules. According to

<sup>123</sup> <https://economy.gov.mk/Upload/Documents/SME%20Strategy%20EN%20FINAL.pdf>

<sup>124</sup> [https://ec.europa.eu/info/sites/default/files/economy-finance/ip158\\_en\\_0.pdf](https://ec.europa.eu/info/sites/default/files/economy-finance/ip158_en_0.pdf)

the Report commissioned by the ILO on barriers to access to finance for MSMEs in North Macedonia<sup>125</sup> North Macedonia's financial intermediation is well behind that of developed countries, yet comparable to Western Balkan peers. **Banks dominate credit activities.** Exporters, like large enterprises, are more prone to borrow from banks. Non-bank financial entities provide little external finance to businesses. Indirect credit risks due to huge foreign exchange exposures to possibly unhedged borrowers and high share of adjustable and variable rate loans are some of the banking sector's structural vulnerabilities. As reported in the OECD 2021 Report, **North Macedonia's score is below the WB6 average in both access to bank finance and access to alternative financing** while it scores above the WB6 average for the mobilisation of long-term financing. The OECD Report recommends that North Macedonia continues to build a business environment with diverse financing sources. Given the economy's limited success in attracting venture capital, supporting crowdfunding by adopting a dedicated legal framework and targeting the diaspora could be a more successful approach, which could increase the number of potential financing sources, especially for smaller companies, widening the sources of private financing and boosting foreign direct investment.

**Serbia** opened Chapter 20 in 2017 and most of the policy framework in this chapter is in place. The **Strategy of Industrial Policy of the Republic of Serbia for the period 2021 to 2030 aims to improve the competitiveness of Serbian industry and improve its position on the international market**, while creating a focused and better coordinated policy for the development of industry, as well as improving the efficiency of instruments for its implementation. In April 2021, the Action Plan for the implementation of the Industrial Policy Strategy of the Republic of Serbia from 2021 to 2030 was adopted as the public policy document for the operationalisation of general and specific objectives of the Strategy. The Strategy itself is harmonized with the Smart Specialization Strategy in the Republic of Serbia for the period 2020-2027 and other relevant policy documents. However, the **Strategy in support of the development of entrepreneurs and SMEs for the period 2015-2020 has expired** and no new strategy is as yet in place. The mid-term evaluation of the Strategy<sup>126</sup> highlighted among its findings **the lack of comprehensive consultations with SMEs, lack of ownership and weak involvement of competent institutions in developing measures and activities.** Similar conclusions that there is still significant work to be done in this sector can be drawn from the 2019 SME Policy Index. **Evaluation of the interventions needs to be strengthened** to ensure optimal use of scarce public resources in the long term. In addition, the impacts of various policies need to be assessed to see whether SMEs are disproportionately affected or disadvantaged compared to larger companies. In addition, in spite of the improved access to finance, diversification is needed to meet the needs of the micro and small enterprises. The Report notes that local firms must make 33 tax payments per year, twice as many as for regional peers. The **numerous para-fiscal charges remain high and non-transparent**, lacking rationalisation, thus **undermining the predictability and stability of Serbia's tax system and hampering local economic development.** The law on foreign exchange transactions is widely considered by the business community to be too restrictive in its design and unpredictable in application. There is a lack of comprehensive data on funds invested in the SME sector and linked indicators.

<sup>125</sup> Barriers for access to finance for MSMEs in North Macedonia - stock of existing data and knowledge [https://www.ilo.org/empent/units/boosting-employment-through-small-enterprise-development/eese/WCMS\\_804266/lang--en/index.htm](https://www.ilo.org/empent/units/boosting-employment-through-small-enterprise-development/eese/WCMS_804266/lang--en/index.htm)

<sup>126</sup> [https://cep.org.rs/wp-content/uploads/2019/10/Mid-term-evaluation-of-SME-Strategy\\_final\\_srp.pdf](https://cep.org.rs/wp-content/uploads/2019/10/Mid-term-evaluation-of-SME-Strategy_final_srp.pdf)

Although **Turkey** is moderately prepared in the area of enterprise and industrial policy, according to the EC Country Report 2021, there has been **some backsliding** due to the introduction of measures incompatible with EU industrial policy principles. Major challenges concern the **compatibility of localisation and public procurement practices with the EU industrial policy principles**, the **lack of transparency in State aid for large investments**, the **large informal economy**, long-term financing needs of SMEs and the insufficient legal framework for microfinance.

According to the 2019 SME Policy Index, Turkey has made progress in implementing the Small Business Act. The economy's key strength is in providing complete support to SMEs, notably to **increase exports**. Significant fiscal stimulus measures adopted since 2016 have also fueled SMEs' funding and allowed them to grow. Entrepreneurship training is widely available. Following SME Development and Support Organisation procedures with the Turkish Employment Agency, the Ministry of National Education, and other organizations, entrepreneurship courses have expanded in quantity, currently covering all 81 Turkish provinces. This training is required to qualify for the KOSGEB's Entrepreneurship Support Programme, which has increased demand. The Credit Guarantee Fund has greatly increased bank lending to SMEs. **Lending to SMEs has soared, facilitating companies' access to capital**. However, in order to make more significant impact, the 2019 SME Policy Index recommended that Turkish authorities should embark on **a systematic evaluation of the efficiency and efficacy of its various SME support measures** to ensure the optimal use of public resources, as well as to **consolidate and streamline SME support measures** (14 public institutions offered more than 90 support programmes with measures available both at national and local level), avoid overlaps and create further synergies. However, one of the most critical recommendations is **to improve engagement with SMEs in policy making**, as there is no evidence that consultations are open to enterprises in Turkey. In addition, interventions in industrial policy focus on digital transformation, R&D and innovation, key technologies, as well as logistics and energy infrastructure.

**Key Takeaway n. 3.12: A principal concern in the WB6 is the access to finance which remains the constant and most significant obstacle to the investment, innovation and internationalisation of SMEs.** Other common challenges facing enterprises are the complexities of starting a business, high costs of electricity, corruption and competition from the informal sector. Generally, SMEs are not sufficiently engaged in policy-making and evaluation. The example of Turkey combining SME support measures with entrepreneurship training is good practice but support measures should be streamlined and properly evaluated to avoid overlap; Turkey's introduction of measures incompatible with EU industrial policy principles is a worrying trend.

### Smart Specialisation

The first thematic enabling condition important for the Smarter Europe priority is linked to the ERDF Specific Objectives: Developing and enhancing research and innovation capacities and the uptake of advanced technologies and Developing skills for smart specialisation, industrial transition and entrepreneurship, namely **“Good governance of the national or regional smart specialisation strategy”**<sup>127</sup>. Fulfilment criteria for this enabling condition state that the Smart specialisation strategy or strategies shall be supported by:

1. Up-to-date analysis of challenges for innovation diffusion and digitalisation.
2. Existence of competent regional or national institution or body, responsible for the management of the smart specialisation strategy.
3. Monitoring and evaluation tools to measure performance towards the objectives of the strategy.

<sup>127</sup> The enabling condition for Policy Objective 1 - National or regional broadband plan is not assessed here.



4. Functioning of stakeholder co-operation (“entrepreneurial discovery process”).
5. Actions necessary to improve national or regional research and innovation systems, where relevant
6. Where relevant, actions to support industrial transition.
7. Measures for enhancing cooperation with partners outside a given Member State in priority areas supported by the smart specialisation strategy.

The WB6 economies and Turkey are at **different stages in their trajectory towards smart specialisation**. The **transformative element of smart specialisation needs to be further nurtured**, as both the “territorial enabler” of Europe’s twin green and digital transitions, and a substantial element of a territorial response to the COVID-19 crisis – within the concept of a Europe that leaves no one and no place behind.

Key to the S3 design is **the entrepreneurial discovery process (EDP)** which is a **bottom-up process that involves interactions among quadruple helix actors**—private companies, public institutions and innovation enablers, academic and research centres, and civil society—to identify new regional technological domains and market opportunities to pursue, depending on contextual elements such as regional scientific and technological endowments. Through the experience of the EDP, the WB6 and Turkey can also **address one of the noted challenges in strategy and policy-making**, namely the bottom-up and systematic engagement and interaction with the key stakeholders.

Significant challenges in the management of the S3s in the shift from design to implementation and their monitoring and evaluation lie ahead, with the mid-term evaluation a key step to designing the next generation of S3s. Governing Smart Specialisation has proven to be a very challenging task in Member States. **S3 governance requires an in-depth engagement of stakeholders**, as well as significant coordination at the local, national and supra-national levels, but the different actors of the governance systems may lack a shared understanding of S3 and its objectives, hindering the decision-making process. **The engagement of partners in S3 needs to be reflected in the participatory governance and monitoring systems**. The JRC Seville S3 Platform has identified seven principles of good governance<sup>128</sup> and **good practices can be identified from Member States experiences through the Interreg Europe Policy Learning Platform dedicated to Research and Innovation**<sup>129</sup>.

**Montenegro was the first in the WB6** to initiate the Smart Specialisation process in 2017. The Ministry of Science coordinated the process in collaboration with the Ministry of Economy and other institutions from the public, business, academic and non-governmental sector. In June 2019, the Government adopted the 2019-2024 Smart Specialisation Strategy 2019-2024<sup>130</sup>(S3) in line with the EC *Guide to Research and Innovation Strategies for Smart Specialisations*<sup>131</sup> with the aim to strengthen the industrial policy by improving the development of an innovation eco-system through science-based innovation in a territorially balanced way. **The entrepreneurial discovery process** was carried out to define the S3 priority areas and **included a series of workshops with more than 250 participants from various segments**. The proposed priority domains are: 1) Renewable Energy Sources and Energy Efficiency, 2) Sustainable Agriculture and Food Value Chain, 3) Advanced Materials and Sustainable Technologies, 4) Sustainable and Health Tourism, and 5) ICT (as a horizontal dimension which provides business and technological support to other priority areas). However, **the statistical base and indicators for the S3 need to be improved**.

<sup>128</sup> <https://s3platform.jrc.ec.europa.eu/s3-implementation-handbook>

<sup>129</sup> <https://www.interregeurope.eu/policylearning/>

<sup>130</sup> <https://www.s3.me/sites/default/files/2019-09/Smart%20Specialisation%20Strategy%20of%20Montenegro%202019-2024.pdf>

<sup>131</sup> [https://ec.europa.eu/regional\\_policy/sources/docgener/presenta/smart\\_specialisation/smart\\_ris3\\_2012.pdf](https://ec.europa.eu/regional_policy/sources/docgener/presenta/smart_specialisation/smart_ris3_2012.pdf)



**Serbia** is also **progressing well in Smart Specialisation**; the Government adopted the Smart Specialisation Strategy in February 2020, as an instrument to improve the innovation and research ecosystem in the Republic of Serbia, as well as to foster the development of innovation and a knowledge-based economy. At the Government session held on April 15, 2021, the Action Plan for the implementation of the Smart Specialisation Strategy for the period 2021-2022 was approved as an integral part of the Strategy, containing all the necessary measures and activities to achieve the general and specific goals of the Strategy. According to the JRC Seville S3 Platform, Serbia - as a frontrunner in the smart specialisation in the Western Balkans - **needs to maintain a high involvement of stakeholders in the continuous entrepreneurial discovery process and evidence-based approach** throughout the S3 process.

In **Albania** the **S3 process** has been **initiated**, supported by DG NEAR and the Joint Research Centre methodological framework for Smart Specialisation in the EU enlargement and neighbourhood countries (JRC S3 Framework). The **road map** has been **drafted** and **qualitative and quantitative analysis phases completed**; the draft strategy should be finalised by the end of 2022. Similarly, in 2018, **North Macedonia** started the S3 process following the JRC S3 Framework and **plans to adopt the S3 in 2022**. The S3 process in **Bosnia and Herzegovina** is currently starting preparation, following a recent decision by the council of ministers. The co-ordinated preparation of the S3 should provide the opportunity to address existing obstacles to STI development. **Kosovo\*** was registered in the Smart Specialisation Platform in 2018 and the process is in its initial phase. The full development of the smart specialisation strategy is still hampered by the lack of availability of most statistical data.

The process of **smart specialisation in Turkey is initiated by NUTS II regions**<sup>132</sup>. There has been a formal collaboration between the Ministry of Foreign Affairs, Scientific and Technological Research Council of Turkey and the Joint Research Centre (JRC) since 2011. In addition, several organisations undertake joint activities with JRC, namely, the Turkish Atomic Energy Authority, Mediterranean Coastal Foundation, Turkish State Railways, as well as universities and business enterprises. The 26 RDAs are responsible for designing and implementing regional R&I programmes. 12 agencies/regions have developed their regional innovation strategies. **Cooperation with the JRC Seville S3 has been built up and five regions are registered in the Platform**. There is no formal Entrepreneurial Discovery Process; however, STI policy making involves a broad-based participation of high-level institutions, entitled "Supreme Council of Science and Technology" (BTYK). At the regional level, the RDAs are obliged to organise participatory meetings; however, there is no specific content identified for these exercises. Starting from the S3P registered regions, events are organised aiming at the involvement of key actors in the RIS3 design and implementation but a systematic approach for stakeholder involvement is still missing. However, although Turkey has demonstrated its willingness to apply S3 at national and regional levels, there is **a need to enhance stakeholder engagement and carry out the implementation into the coherent and structured methodology**. The first and the most urgent step in relation to smart specialisation is to prepare mapping exercises, impact assessment and evaluation studies for the existing mechanisms.

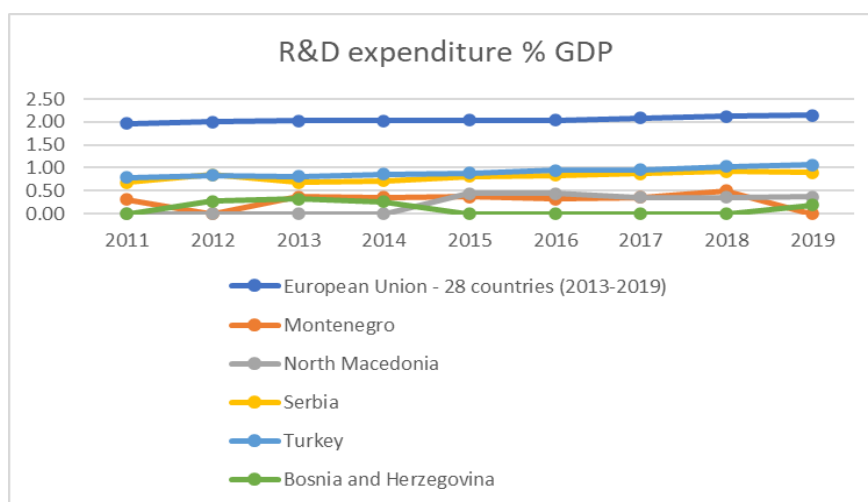
**Key Takeaway n. 3.13:** Montenegro and Serbia are frontrunners for smart specialisation. While Albania and North Macedonia are progressing well towards finalisation of the S3 with indicative adoption by the end of 2022, with the support of the JRC Seville S3 Platform, Bosnia and Kosovo\* face more significant challenges. Turkey needs to roll out the development of the regional S3s in line with a structure methodology and above all launch the Entrepreneurial Discovery Process and ensure proper stakeholder engagement. **Major challenges remain for S3 governance and the WB6 and Turkey could benefit from peer exchange and support from Member States** as well as the JTC Seville S3 Platform.

<sup>132</sup> <https://s3platform.jrc.ec.europa.eu/turkey>

### Research, Development and Innovation

Although for the most part strategic frameworks for science, technology and innovation are in place or under development, **effective implementation is hindered by limited co-ordination, and a lack of policy prioritisation and impact evaluation**. Some economies have or are establishing an innovation fund – a key vehicle for implementing STI policy. However, overall expenditure on research and development remains very low, well below the EU level, and has even declined further due to public budget reallocations for COVID-19 measures. Public research remains systemically underfunded and is generally not performance based nor is allocation of funding always transparent. Human capital for research and innovation is below potential, due to limited development opportunities, lack of funding and few incentives to commercialise research. Some initiatives to support young researchers and promote linkages with the diaspora have been launched to address falling numbers of researchers and brain drain. Connections are present to European and international research networks and international research collaboration is growing, also supported by IPA through entry-ticket contributions to Horizon 2020, but results vary. There are few linkages between academic research and industry, and no strategic policy to promote them and insufficient incentives for business-academia collaboration. Better data collection is needed in general in this area to support policy-making.

**Figure 3. 5 R&D funding as a % share of GDP – EU and available IPA data**



As can be seen from the figure, public investment in R&D lacks significantly behind the EU28 average, even among the best performers (Turkey and Serbia), and in several cases, even more worryingly, the percentage has decreased over the observed period.

Source: Eurostat. Data not available for Albania and Kosovo\*

In **Albania, structural, financial and staffing issues** hamper the achievement of national strategic objectives for Scientific Research, Technology, and Innovation (STI). The **public scientific research** sector remains **systemically underfunded** and the **share of R&D of GDP is significantly lower** than the national strategic **target of 1% by 2022**. Albania suffers from a lack of development in human resource capacity in STI and is increasingly affected by the brain drain. efforts to leverage the Albanian research diaspora are increasing. Further investment in public sector research and business-academia collaboration is needed. A methodology for funding research and science is lacking. Private sector participation in Horizon 2020 remains very low. The **collection of statistics on research and innovation is insufficiently developed to support policy-making** and participate in the European Innovation Scoreboard.

The **policy framework for science, technology and innovation in Bosnia and Herzegovina remains at an early stage** and is **highly fragmented** across the different

entities. The lack of consistent statistical data adds to the complexity in assessing the overall performance of the sector. The **public sector research system** remains **chronically underfunded** and needs to be increased significantly to enable Bosnia and Herzegovina to attract contributions from the research community as well as **increasing the focus on performance-based funding** which may reverse the increasing brain drain. Indeed, funding dedicated to the R&D funding places BiH at the bottom in the region concerning the overall levels of R&D expenditure. There are **few incentives available to foster business-academia collaboration** and the increased participation of the business community in STI policy development would contribute to more targeted policy measures. Bosnia and Herzegovina is listed on the European Innovation Scoreboard as an Emerging innovator but **performance relative to the EU has decreased, in particular in the last two years**. Statistics on STI are insufficient support policy-making.

**Kosovo\***'s research and innovation policy remains nascent and is constrained by a **lack of system-level STI priorities** and **chronic underfunding**, with public research spending amounting to only 0.01% of GDP, despite a 0.7% target mandated by law. The sector suffers as a result of the chronic fragmentation in implementing innovation policy and the lack of overall coordination among line ministries and the SME agency KIESA. The Commission's Assessment of Kosovo\*'s ERP 2021-2023<sup>133</sup> concludes that "Kosovo\*'s performance is still very poor in the research, development and innovation (RDI) sector (governance of RDI policies, public research system, public-private linkages, innovation in firms and human resources for innovation), and the country has the lowest scores in the Western Balkans region." Overall financial support for research and development is also very limited (less than 0.1% of GDP compared to an average of 2.2% in the EU), particularly for business innovation. Kosovo\* does not have reliable statistics in this area for policy-making or integration into the European Research Area and is not listed in the European Innovation Scoreboard.

The **STI policy framework** in **Montenegro** has **advanced significantly**. Action plans are in place to support implementation of the strategic framework, and budget allocations increased following the fall registered in the 2009-2016 period, until 2019. A new Law on Incentive Measures for Research and Innovation Development and a revised Law on Innovation Activity strengthen the legal framework for STI. Montenegro needs to continue to **boost investment in the scientific research system**. With 734 researchers per million inhabitants, **the number of researchers in Montenegro is much lower than the EU average** (4,000 researchers per million inhabitants). More comprehensive measures are needed to build human resource capacity in priority STI areas and increase the attractiveness of research as a profession. Moreover, Montenegro should **continue building a national and regional research infrastructure**. **Integration between academia and the private sector needs to be improved**, through timely completion of the Science and Technology Park in Podgorica and the effective operation of the pilot technology transfer office at the Centre of Excellence at the University of Montenegro. In 2021 Montenegro was listed on the European Innovation Scoreboard as an Emerging Innovator. According to the country profile Montenegro's strengths are in Innovators, Employment impacts and Use of information technologies. The top 3 indicators include Product innovators, Employment in innovative enterprises, and Enterprises providing ICT training. A number of indicators which this Scoreboard tracks are not available for Montenegro.

**Box 3: Serbia: a best practice in the region for investment in STI with planned measures to address outstanding challenges**

In the case of **Serbia**, **key measures have been introduced** for the development of STI, **in line with international best practice and for the most part adequately funded**; in this respect it can be considered **a policy frontrunner in the region**. **The Science Fund**,

<sup>133</sup> Ibid

established in 2018, **is fully operational as a funding mechanism**. The **main priorities of the European Research Area are incorporated in the new strategy on scientific and technological development 2021-2025**, adopted in February 2021. The action plan for the implementation of the strategy for the development of artificial intelligence for the period 2020-2025 was adopted in June 2020. Several challenges remain in building capacity of the public scientific research system and increasing overall investment in research and development, particularly through the private sector: the national level of investment in research remains low at 0.92 % of GDP with only one third of this amount coming from the private sector and Serbia plans to increase investment in research and innovation by 50 % in the next five years. With regard to measures for the Innovation Union, **the Serbian innovation fund and the science and technology parks (STP)** in Belgrade, Niš and Čačak continue to be **active** with increased contributions from the budget and the STP in Novi Sad is in the second phase of construction. The **private sector continues increasing its investment in research**, but research and innovation expenditures of the private business sector remain too low; significant steps are needed on the public side to support cooperation between businesses and academia.

The new **Law on Science and Research** establishes excellence in research as a key objective of Serbia's STI framework, while higher education institutes (HEIs) are governed through the Law on Higher Education. HEIs and research and development institutes (RDIs) across Serbia operate relatively autonomously, in a somewhat scattered institutional structure of the public research system; there is no strategic approach to assessing the performance of public research institutes and it remains unclear whether the results affect public funding availability. Serbia is currently in the process of **defining and establishing a new model of financing of research activities, envisaging a clear shift towards performance-based institutional funding** in combination with highly competitive project-based financing through the Science Fund. **The Science Fund has a transparent methodology** for evaluating projects and follows a two-step review process including the National Council for Science and Technological Development, in line with best practice and is expected to become **a key instrument to implement financial support programmes for research**. It has already launched a number of programmes, including instruments incentivising closer collaboration between academia and industry (the IDEAS Programme and the Programme to Support the Development of Artificial Intelligence). A further objective of Serbia's STI strategy is **to strengthen human resources for research and innovation, amid low capacity of scientific research personnel**; the Science Fund has developed the PROMIS Programme which provides young researchers with financial support to initiate research programmes early in their careers, and the Collaboration Programme with the Serbian Scientific Diaspora, which aims to foster mobility among researchers and provides vouchers to facilitate short-term study visits and collaboration between Serbian research institutes and the diaspora. In addition, ministerial scholarships are available for doctoral research, co-finances researchers to participate in conferences or professional training, and offers incentives to Serbian researchers returning to Serbia to continue their careers.

Serbia scores the **highest in the European Innovation Scoreboard among IPA Beneficiaries** according to the 2021 data, Serbia has shown **significant growth in all areas, especially in the previous three years**. Serbia has now reached **66.2 % of the EU average (compared to 58% in 2018)**, while in certain areas it is far ahead of the EU average. In the field of **creating innovations in SMEs, Serbia is 65.8% above the EU average**, and in the field of **employment in innovative companies, 46% above the EU average**. Additional investments, especially through financial support for the development of start-ups, investments in venture capital funds and the development of education, to foster a larger number of talented staff, will enable further growth.



**Turkey is one of the top funders for R&D among IPA Beneficiaries;** according to the most recently published figures as “Research and Development Activities Survey, 2020”<sup>134</sup> of Turkish Statistical Institute (TURKSTAT) gross domestic expenditure on R&D reached to approximately EU 4,7 billion in 2020 which corresponds to approximately an 0.03% increase compared to the previous year. The share of R&D expenditure in GDP increased to 1.09% in 2020. In 2020, the implementation of Turkey’s action plan to boost the national research and innovation capacity, as well as its alignment with the European Research Area (ERA), contributed positively to Turkey’s performance in Horizon 2020 and the success rates in 2019 and 2020 improved substantially compared to the average of previous years. However, the overall performance throughout Horizon 2020 has been lower than expected, compared to Turkey’s R&I capacity.

Turkey has **focused on creating actors of the STI system and increasing their performance through R&D tax benefits, subsidies and other forms of horizontal support schemes available for technology-based firms.** This included creating Technology Development Centres (TEKMER), Technology Development Zones (TDZ), and Technology Transfer Offices (TTO) while the Scientific and Technological Research Council of Turkey (TÜBİTAK) extended its remit to supporting R&D and innovation processes of universities, individual researchers, firms and entrepreneurs. **The role of business in Turkey as a STI performer and funder has gradually increased** in the last decade at the expense of government and higher education sectors. In terms of its public research system, Turkey still **needs to invest in resources to increase both the quantity and the quality of R&D employees.** One particular issue for Turkey, shared by the WB6, is the brain drain problem. Recent trends observed in Turkish STI policy-making<sup>135</sup> seem to indicate a shift to technology-specific policies, from supporting knowledge creation to commercialisation activities and new policy tools for SMEs, large enterprises and entrepreneurs with a focus on producing high-tech and high-value-added goods and services. The “co-creation” trend is slowly emerging.

In 2021 Turkey was listed on the European Innovation Scoreboard as **an Emerging Innovator, a drop from a ‘moderate innovator’ in 2020.** The country fell from 74 % to 55 % of the EU average. The **decline in innovation performance in 2021** is due to reduced performance on indicators using innovation survey data, Enterprises providing ICT training, Job-to-job mobility of HRST, PCT patent and Design applications, and Environment-related technologies.

**Key Takeaway n. 3.14: Research and development funding in IPA Beneficiaries lags significantly behind the EU average** and in some cases is not seen as a key policy area; data collection needs improvement in this area. With the exception of Serbia and Turkey, systematic measures to promote innovation are weak or inexistent and business-academia collaboration needs to be fostered in general. Generally, the public research system is chronically underfunded. **Overall, public research performance is low and the WB6 and Turkey are suffering from a brain drain.** Where there is consistent investment in STI and a policy framework in place, significant progress can be seen, as in the case of Serbia, in particular thanks to the activities of the Science Fund and Innovation Fund, as well as other innovation support structures and actors in the innovation ecosystem.

<sup>134</sup> <https://data.tuik.gov.tr/Bulten/Index?p=Research-and-Development-Activities-Survey-2020-37439>

<sup>135</sup> Research and Innovation Outlook of Turkey 2020 <https://www.ttgov.org.tr/tur/images/publications/616d3c9738fea.pdf>



### 3.2.6. Pathway for Priority objective 2 – Greener, low carbon Europe – assessment of readiness and gaps

In the 2014-2020 perspective for ESI Funds, under the two themes directly relevant for Greener, low carbon Europe as regards IPA national funding (Environment and Climate Action)<sup>136</sup> – Climate change Adaption and Risk Prevention (over € 52.6 billion programmed in total, over € 9.2 billion of which from ERDF and CF) and Environmental Protection and Resource Efficiency (over € 97 billion programmed in total over € 42.6 billion of which from ERDF and CF): 9.7% of ERDF and 31.3% of CF were programmed for the two themes.

It should be recalled that in this sector, **the starting point of the IPA Beneficiaries** in terms of core environment-related infrastructure in the water and waste sectors **is far lower than in the EU** and consequently the **funding needs are far greater**; these could not be met through national pre-accession assistance and **other funding mechanisms are in place**, including **significant loans from IFIs, bilateral loans** such as from China and Russia and **other foreign initiatives**. Indeed, in this context the focus of national IPA assistance is broadly speaking on technical assistance, pilot and small-scale infrastructure projects<sup>137</sup> and financial contributions to other donor initiatives. The environment and climate sector is **significant for the Western Balkans Investment Framework (WBIF)**, with a primary focus on managing water supply, waste water and waste disposal as well as flood protection; between **2009-2021, 60 projects were financed for a total value of € 3.3 billion**, with **grants under the WBIF totalling € 154.5 million**<sup>138</sup>. The challenges for the IPA Beneficiaries in preparing mature project pipelines for public infrastructure projects and acquiring the capacities to manage them successfully are examined in section 4; the focus in this chapter is primarily on the policy framework and administrative capacities in the sector.

To compare **the cases of Bulgaria and Serbia**, in the former, over € 1.98 billion was planned for **Environmental Protection and Resource Efficiency**, well **over nine times the IPA funds allocated to Serbia** for the whole sector. The **funds allocated** to the sector in **Albania and Montenegro** are **strikingly low** in terms of percentage of the whole allocation.

The table below presents national IPA II funding allocations to the Environment and Climate Action Sector under IPA II.

**Table 3. 10 Allocations 2014-2020 to Environment and Climate Action Sector**

IPA Beneficiary	Amount (million)	Percentage of IPA funds <sup>139</sup>
Albania	28.1	4.4%
Bosnia and Herzegovina	31.5	8.2%
Kosovo*	171.1	30.9%
Montenegro	14.2	6.6%
North Macedonia	90.1	17.4%
Serbia	207.3	19%
Turkey <sup>140</sup>	353.7	27.8%

<sup>136</sup>The theme Low carbon economy is not taken under consideration in this assessment.

<sup>137</sup> For example, as reported in the Commission's Working Programme Statement on Pre-Accession Assistance (IPA III), 75 monitoring stations for water and underground water levels in line with the EU Water Framework Directive in Montenegro in the period 2019-2020.

<sup>138</sup><https://www.wbif.eu/storage/app/media/Library/FactSheets/Sector%20Factsheets%202021/WBIF%20ENV%20Factsheet%20Nov%202021.pdf> These figures include Croatia for the period in which it was eligible.

<sup>139</sup> Respective to overall indicative allocations 2014-2020

<sup>140</sup> References in terms of allocations to Sector Operational Programmes, excluding IPARD

As set out in section 3.2.2, significant increases in allocations to climate objectives are proposed under IPA III; 15.4% of IPA II operational commitments were allocated to actions directly contributing to climate change action, mitigation and/or adaptation, a target doubled to 30% under IPA III.

**The readiness of the WB6 and Turkey to contribute towards Priority Objective 2 Greener, low carbon Europe is highly dependent not only on the policy framework mechanisms in place for the environment and climate change but even more on the proper implementation and enforcement of environmental and climate policy as well as the transparent prioritisation of investment projects, development of accompanying technical documentation in line with EU requirements and proper implementation with clear lines of responsibility for their implementation, monitoring and reporting, to unlock the full potential from EU funds once they become Member States. This latter point is dealt with in more detail in section 4.2.1.**

**Key Takeaway n. 3.15:** Although the scope for funding under national IPA for the environment and climate action sector is limited, **insufficient attention has been paid in IPA II**, especially in Albania and Montenegro, as recognised by the new targets established in IPA III.

**Capacities for proper implementation and enforcement of environmental and climate policy as well as the transparent prioritisation of investment projects, preparation of technical documentation and infrastructure project implementation remain weak.**

A brief overview of support to environment and climate action is presented below for each country allowing for the identification of elements which need to be strengthened prior to readiness for Priority Objective 2 as well as key areas for IPA III support. The focus is on the enabling conditions **updated planning for required investments in water** and wastewater sectors and **updated planning for waste management**<sup>141</sup>.

Fulfilment criteria in the **water and wastewater sectors** are that for each or both sectors, a national investment plan is in place and includes:

1. An assessment of the current state of implementation of Council Directive 91/271/EEC and of Council Directive 98/83/EC.
2. The identification and planning of any public investments, including an indicative financial estimation:
  - (a) required to implement the Directive 91/271/EEC, including a prioritisation with regard to the size of agglomerations and the environmental impact, with investments broken down for each wastewater agglomeration;
  - (b) required to implement Directive 98/83/EC;
  - (c) required to match the needs stemming from Directive (EU) 2020/21843, regarding in particular the revised quality parameters set out in Annex I of that Directive.
3. An estimate of investments needed to renew existing wastewater and water supply infrastructure, including networks, based on their age and depreciation plans.
4. An indication of potential sources of public financing, when needed to complement user charges.

Fulfilment criteria as regards the **waste sector** refer to one or more waste management plans as referred to in Article 28 of Directive 2008/98/EC of the European Parliament and of the Council are in place, covering the entire territory of the Member State, and include:

<sup>141</sup> Brief reference is made to the enabling conditions: Effective disaster risk management framework and Prioritised action framework for the necessary conservation measures involving Union co-financing. The energy sector and related enabling conditions are not assessed in this Study.

1. An analysis of the current waste management situation in the geographical entity concerned, including the type, quantity and source of waste generated and an evaluation of their future development taking into account the expected impacts of measures set out in the waste prevention programmes developed in accordance with Article 29 of Directive 2008/98/EC.
2. An assessment of existing waste collection schemes, including the material and territorial coverage of separate collection and measures to improve its operation, as well as the need for new collection schemes.
3. An investment gap assessment justifying the need for the closure of existing waste installations and additional or upgraded waste infrastructure, with an information of the sources of revenues available to meet operation and maintenance costs.
4. Information on the location criteria for how future site locations identification will be determined and on the capacity of future waste treatment installations.

**Legal and policy frameworks for the environment and climate change are gradually being introduced** although **implementation, monitoring and enforcement remain weak in the WB6. Water supply and sanitation systems are inadequate**; although investments are ongoing mostly financed from national funds, **water service fees are too low to cover or complement the infrastructure investment costs and water supply services.** Moreover, **insufficient institutional capacities and poor co-ordination among the responsible local authorities impede effective implementation of water management measures.** The groundwork for the freshwater management legislative framework has been done in most cases, though little has been done to improve international co-ordination of transboundary river basin and river basin management plans need to be implemented. **Recycling rates of municipal waste remain extremely low** across the WB6 – significantly lower than in the EU. Some actions have been taken on waste management and to develop a **circular economy**, but **specific policy frameworks are largely lacking.** Industrial waste management frameworks have not advanced. **Investment in waste collection and treatment infrastructure** has largely been **donor-supported. Unregulated burning and illegal dumping of waste** is still **prevalent** in the region, posing problems to the environment and public health through groundwater, soil and air pollution. **Turkey faces critical environmental and climate challenges**, both as regards mitigation and adaptation; however, **significant national resources** are made available for investments. **Further alignment with new environment acquis is necessary** and, as in the WB6, **major concerns remain on implementation and enforcement. More ambitious and better coordinated environment and climate policies need to be established and implemented.** Strategic planning, substantial investment and stronger administrative capacity are required as well.

#### Overview at the level of IPA Beneficiaries

In **Albania, progress still needs** to be made on **aligning with EU environmental acquis** and **significant efforts** are still **needed on implementation and enforcement of environmental policy**, especially on **waste management, water and air quality and climate change.** The **Law on Climate Change** adopted in January 2021 establishes the institutional framework and rules for monitoring, reporting and verifying greenhouse gas emissions, in line with EU regulations and acquis. However, its **implementation** will largely **depend on future secondary legislation, regulations, and measures.** A cross-cutting Strategy on Climate Change, and related Action Plans on Mitigation and Adaptation (2019-2030), were adopted in 2019 with policy objectives and concrete actions to: 1) reduce GHG emissions; and 2) make Albania resilient to climate change. In addition to climate change mitigation measures, this strategy aims to reinforce adaptation to climate change (e.g. through measures on landscape restoration and reforestation). The **lack of specific administrative structures** and available **staff for handling climate change issues** remain a matter of serious concern.

As regards water management, the **Integrated Water Resources Management Strategy 2017-2027** adopted in 2018 serves as the **overarching framework document for water management**. It covers five pillars: 1) improving water quality; 2) enhancing water quantity; 3) managing water risks; 4) building an information system on water; and 5) efficient and effective water management. The strategy is however **not aligned with the sectoral strategies**, such as agriculture or irrigation. Implementation began in 2019 through a three-year action plan. However, **many of the activities foreseen in the plan lack financial support and their timelines are unrealistic**. In terms of implementation, **budgetary resources and operational capacity of Albania's Agency for Water Resource Management are lacking**. In line with the Green Agenda for the Western Balkans, Albania should strengthen transboundary basin management with its neighbours, and develop a basin management plan for the Vjosa River, in view of its regional importance, its high ecological value and eco-tourism potential.

The adoption of the new strategy for water supply and sewerage 2021-2030 is pending. **Management of the water supply and sanitation system remains undeveloped**; overall sewerage coverage remained about 51% in 2018, with a significant discrepancy between urban (79.8%) and rural areas (only 15%)<sup>142</sup>. **Wastewater treatment plants cater for only about 15% of the population**, and face key concerns such as **lack of licensing and tariffing for wastewater treatment, insufficient operation and maintenance and negative environment impact due to underdeveloped networks and connections**<sup>143</sup>. Following the Administrative Reform, **responsibilities for water supply and sewerage management lie with municipalities**, which face **financial and administrative constraints** and a **severe lack of capacities**. The current **water service fees are inadequate** to cover or complement infrastructure investments as well as water supply and services, although partly being funded by transfers from the municipalities and taxes. **Priorities** include ensuring the full **alignment with the Urban Wastewater Treatment Directive, extending sewerage networks**, and actions to **license and apply adequate tariffs** for wastewater treatment and **build new wastewater treatment plants**. The **National Agency of Water Supply, Sewerage and Waste Infrastructure** needs to **structure and strengthen its resources and capacities**.

Regarding solid waste, **the Integrated Waste management Strategy 2020-2035** envisages a gradual **transition from a linear to a circular economy** by encouraging waste diversion through waste reuse and recycling; however **specific legislation for the circular economy is still pending**. **Municipal waste management** is generally **underdeveloped** and rarely collected in rural areas; waste is primarily deposited at disposal sites that do not comply with any sanitary standards, sometimes alongside rivers. The government estimates that about 200 large uncontrolled dumpsites and various small sites were in operation in 2020. **Closing of numerous non-compliant landfills and dumpsites remains a challenge**. Even when the waste is disposed of at one of the three existing sanitary landfills, it is rarely treated first. The construction of a new incinerator apart from the two existing ones in Elbasan and Fier poses concerns in terms of compliance with EU waste acquis including the waste hierarchy principle and the recycling targets. The **legal framework for waste management is partially aligned**. Waste separation at source is almost non-existent in Albania despite the legal obligation. Separate collection of waste streams and economic instruments to promote recycling and reuse and to prevent waste generation remain limited. The **National Sectorial Plan for Solid Waste Management is a detailed investment plan** for local and regional solid waste management infrastructure (waste collection and transport, reduction and recycling of waste, treatment and disposal facilities) for the period 2019-2032. **Investment in waste collection and treatment infrastructure** has largely been **donor-supported**. **Waste collection and treatment services** are funded from waste collection **fees** but are **low and insufficient** to cover costs.

<sup>142</sup> UNECE (2018), Environmental Performance Reviews: Albania, Third Review, UN, [https://www.unecce.org/fileadmin/DAM/env/epr/epr\\_studies/ECE.CEP.183\\_Eng.pdf](https://www.unecce.org/fileadmin/DAM/env/epr/epr_studies/ECE.CEP.183_Eng.pdf).

<sup>143</sup> EC 2021 Country Report.



As regards readiness to meet the enabling condition on nature conservation **Prioritised action framework for the necessary conservation measures involving Union co-financing**, as stated in the EC 2021 Country Report, although alignment with the acquis in the field of nature protection, in particular the Habitats and Birds Directives, is advanced, **policy and law enforcement remain generally weak**. The legislation on strategic investment raises **concerns for the protection of biodiversity**, as it may allow large tourism and industrial investments in protected areas. Vjosa River, as one of Europe's last wild rivers, should receive proper protection status. The **National Protected Areas Agency** still has **very limited capacities and financial resources**. Enforcement of laws against environmental crime needs strengthening. **Investments in hydropower should strictly comply with national and international environmental, nature protection and water management obligations**, involve proper **public participation and consultations**, and be subject of **SEA and EIA reports** that include high quality assessments of the cumulative impacts on nature and biodiversity. SEAs should be conducted before any activity license may be granted for single projects. There is lack of inspection and monitoring of the minimum ecological flow from the current hydropower plants.

In terms of the existence of an **Effective disaster risk management framework**, taking due account of the likely impacts of climate change and the existing climate adaptation, **Albania is one of the most at-risk economies in Europe** from multiple hazards and urgently needs adequate capacities to forecast, monitor, warn and inform the population of the risks from multiple hazards and ensure suitable and timely responses to hazardous events. However, the recently established **National Agency for Civil Protection lacks adequate financial resources and professional capacities**. The national strategy and plan are outdated and related prefectural and local emergency plans need review. The **administrative capacity, infrastructure and systems for early warning, prevention, preparedness and response are inadequate**.

As regards **the preparation and prioritisation of environment infrastructure projects in Albania**, the Single Project Pipeline for investment projects is **inconsistent with the fiscal space**; in terms of quality, **project maturity** is generally **low** and **objective criteria for prioritisation not always applied**. **Environmental Impact Assessments and Strategic Environmental Assessments are not properly carried out**. In short, **knowledge, capacities and ownership in the public administration are generally lacking** which give rise to **doubts on the capacities to plan and manage investments on a far larger scale**.

In **Bosnia and Herzegovina**, preparation for this sector is at an early stage and fragmented. A country-wide **Integrated Environmental Approximation Strategy (IEAS)** with EU support<sup>144</sup> as a requirement for participation in IPA II. The IEAS provides a baseline for the different levels of government to determine the order of actions to be taken each year and it gives an indication of the cost for full alignment with the environmental acquis including costs for capacity building, investments and monitoring. In terms of readiness as regards the enabling conditions in the **water and waste sectors, institutional capacities are limited**, and **vertical and horizontal co-ordination for planning and implementation are weak** (caused by a complex administrative structure and top-down approach). Special attention needs to be paid to **strengthening the local level capacities to enforce environmental legislation** since they are often disconnected from changes and progress happening at higher level. **Coordination with local government** is of paramount importance for the effectiveness and efficiency of interventions in communal utility sector.

The national policy framework in the **Water Management Strategy of the Federation of the BiH 2010-2022**<sup>145</sup> and **Strategy of integrated management of water in Republika**

<sup>144</sup> EnvIS (2011-2014)

<sup>145</sup> <https://fmpvs.gov.ba/en/water-strategy/>



**Srpska 2017-2026**<sup>146</sup> give enough space to properly guide the programming process in line with EU priorities, but lessons learned from the usage of IPA assistance showed that **the programming process** suffered from **poor coordination and lack of institutional capacity**. Competences for environment and climate change rest with the two entities and the Brčko District. In the FBiH, competence is shared between the federation and the ten cantons. At the state level, the Ministry of Foreign Trade and Economic Relations is responsible for defining policies and basic principles, co-ordinating activities, and consolidating entity plans with those of international institutions in the area of energy, agriculture, protection of environment and use of natural resources, and tourism. Entity-level institutions are responsible for the strategic framework, policy setting, data exchange and reporting. **Administrative capacities and inter-sectoral co-operation need to be significantly improved to systematically address climate change and go beyond the current project-by-project approach** to ensure further alignment with and effective implementation of the environment and climate acquis. The question of proper implementation of the policy documents remains challenging<sup>147</sup> due to **overlapping and unclear competences between different levels of governance**. Moreover, **understaffed institutions with limited competences on environment** makes transformation of the priorities into new concrete and feasible projects extremely difficult.

A **country-wide strategy for waste management is not developed**, while **Republika Srpska has a Solid Waste Management Strategy 2017-2026** and two other entities have prepared Environmental Protection Strategies<sup>148</sup> with main objectives related to the reduction of waste disposed in landfills and strengthening of the legal, institutional and economic framework. Despite this strategic guidance, **lessons learned** from previously implemented investment projects show various difficulties such as **low waste collection coverage, low waste separation and low level of public awareness** with respect to waste management. A total of 36 municipal landfills have been registered in the RS, 44 in FBiH, and 1 in Brčko District, with few categorised as controlled landfills. Although 10 regional landfills were established and municipalities signed an association agreement to bring their waste to the regional landfill, in practice, this does not always happen due to high transportation costs and consequently the landfills do not receive sufficient revenues needed for repaying loans or operational and maintenance costs of grant funded investments. There is **no enforcement for using the regional landfills**. Households in rural areas with no available waste collection service need to organise their own collection and transport, which means that the **majority of collected waste is disposed in illegal dumpsites** while **unregulated incineration** of waste is also widely present. **Initial steps** have been taken in relation to **developing a circular economy framework and municipal waste management** in Bosnia and Herzegovina, **notably in the RS** where the RS Waste Management Strategy (2017-2026) is in force, and the RS Waste Management Plan (2019-2029) outlines a comprehensive list of short (2019-2024) and long-term objectives (2024-2029).

While in other WB countries with a similar legacy, preparation of the **technical documentation** for infrastructural projects lasts on average 5 years, in the specific constitutional circumstances of Bosnia and Herzegovina, this **process is extremely complex** and lasts even longer. As in the rest of the WB6, **waste collection and treatment infrastructure** in BiH is financed through waste collection fees, budget and donor funds, while **waste collection and treatment services are funded from waste collection fees**. **The sustainability of investments is in question** given that household tariffs are not sufficient to cover the costs of waste and wastewater collection and **non-payment to public utility companies** is significant.

<sup>146</sup> Official Gazette of Republika Srpska, no 67/17

<sup>147</sup> According to Progress Report 2020, significant efforts are needed on implementation and enforcement. In the coming year, Bosnia and Herzegovina should in particular implement the countrywide EAS

<sup>148</sup> Environmental protection Strategy for FBiH until 2027 with Federal Waste Management Plan, Solid Waste Management Strategy 2017 to 2026 (RS) and Environmental Protection Strategy for the period 2016 to 2026 (BD).

As regards readiness to meet the enabling condition on nature conservation **Prioritised action framework for the necessary conservation measures involving Union co-financing**, as stated in the EC 2021 Country Report, alignment with the EU acquis on nature protection remains limited. There is **no progress as regards pending adoption of the list of potential Natura 2000 sites and secondary legislation**. The planning for and investments in renewable energy, including hydropower, wind and solar power plants, requires compliance with the EU's environmental legislation, in particular regarding SEA, EIA, the Birds and Habitats Directives as well as the EU acquis on nature protection and water management. There has been **no progress** in establishing a system in Bosnia and Herzegovina **for systematically monitoring biodiversity**. Bosnia and Herzegovina **needs to designate institutions, ensure the necessary human and financial resources and establish structures** in order to fully implement the Convention on international trade in endangered species of wild fauna and flora.

In terms of the existence of an **Effective disaster risk management framework**, taking due account of the likely impacts of climate change and the existing climate adaptation, the EC 20201 Country Report noted the **need for single country-wide risk assessment, systematic inspections**, the establishment of **civil protection stakeholder associations** and **civil protection education** to increase Bosnia and Herzegovina's resilience as regards disasters. **Operational resources should be allocated at the municipal level**, with **specialised rescue units** complementing these resources **at cantonal and/or entity levels** for disasters of larger scale or complexity.

In Bosnia and Herzegovina, the National Investment Committee adopted a revised single project pipeline for the environment sector in August 2020; however, there is no pipeline in the energy sector; this reflects the challenges in ensuring a consistent and effective sector coordination/ management mechanism between all levels of governance.

Kosovo\* is in an early stage of preparation on environment and climate change. **The Climate Change Strategy (2019-2028) and related action plan** concern both climate change mitigation and adaptation, as well as building the capacity of central and local partners, actors and stakeholders to integrate climate change issues into development processes and documents. However, the strategy **is not aligned with other strategic documents**. As regards the strategic framework for the **environment, insufficient funding and administrative capacity prevented the proper implementation of the expired strategy** and the environment strategy for the post 2021 period is not in place. **Environmental protection is hampered by the lack of alignment with the Environmental Liability Directive. Environmental inspections legislation is not adopted** and the inspectorate lacks the capacity for enforcement. The **preparation and implementation of the environmental impact assessment and strategic impact assessment laws need to be considerably enhanced. Inter-institutional coordination and civil society involvement remains limited**. Awareness raising needs to be improved, as most activities are carried by the international community and civil society organisations.

The **Water Strategy Document 2017-2036** is adopted, but **the level of alignment** with EU legislation remains **very low**, its **implementation limited** and **monitoring insufficient**. As noted in the OECD 2021 Report, **water resources** in Kosovo\* are relatively **scarce and unevenly distributed** (among the five main river basins). Water resources are **highly polluted** and the levels of water storage are among the lowest in the Western Balkans; the gap between growing water demand and available quantities of good quality water has been widening. The **freshwater management framework is only partially developed. Water resource monitoring networks** are still **incomplete**, especially for groundwater and water protection zones are not monitored or properly managed. The management plan for the White Drin basin has been completed and progress is ongoing for the other river basin plans but the river basin district authority is not operational. Some progress was achieved with the planning and construction of **wastewater treatment plants** but **tariff collection needs to**

**be improved and water losses reduced**, especially commercial losses. **Treatment facilities are not properly functional** and untreated sewage and discharge remain the main sources of water pollution. The construction of numerous small hydroelectric power plants should be done in full respect of the environmental legislation and go through proper environmental assessments, due to their harmful environmental cumulative effects. Preliminary flood risk assessments have been completed for all basins but flood risk and hazard maps need to be developed. Kosovo\* should identify agglomerations and sensitive areas, in line with the Urban Waste Water Treatment Directive<sup>149</sup>.

The **Integrated Waste Management Strategy (2021-2030) and Action Plan** set out three main objectives: 1) raising awareness of the importance and benefits of managing and recycling waste; 2) encouraging innovation to prevent waste generation; and 3) creating re-use and recycle systems based on extended producer responsibility schemes. However, the question of proper **implementation** of the policy documents remains **challenging**, and modern integrated municipal waste management plans have not been endorsed by all municipalities. **Municipal waste management** is generally **weak**, with significant discrepancies noted between urban and rural areas. Furthermore, **most landfill sites do not comply with sanitary standards**, and waste is largely disposed of untreated. The **illegal dumping** of waste is a **normal practice** in Kosovo\*, especially construction and demolition waste, mostly due to the lack of dedicated landfill sites for this kind of waste. In short, the **solid waste management system is unsustainable** as landfilling remains the only method in use for waste disposal; most waste ends up in landfills that are not properly managed, or are categorised as illegal dumpsites. The **legal framework is partially aligned with the EU acquis** but still needs to be extended as regards producer responsibility and the polluter pays principle. The Law on waste needs to be further aligned with the Waste Framework Directive. Proper implementation would require an increase in capacity at all levels and establishment of targets and a timeframe for the main stages in the integrated waste management and circular economy in Kosovo\*. As in the rest of the WB6, **waste collection and treatment infrastructure** in Kosovo\* is **financed through the budget and donor funds**, while **waste collection and treatment services are funded from waste collection fees**. Most municipalities in Kosovo\* have undergone the process of cost recalculation, client profiling and tariff setting for waste management services, as required in the Law on Waste, to introduce new waste collection tariffs.

As regards readiness to meet the enabling condition on nature conservation **Prioritised action framework for the necessary conservation measures involving Union co-financing**, the Law on the proclamation of protected and strictly protected wild species of plants and animals is approved and provides alignment with the Habitats Directive. **Kosovo\* hosts rich biodiversity**, especially its flora, which is largely endemic and the 2016-2020 action plan for biodiversity is partially implemented. However, its **ecosystems** are **poorly maintained and threatened by illegal construction, illegal tree logging, hunting, the mushrooming of hydropower plants in protected areas and forest fires**. Effective measures remain necessary to ensure protection of critically endangered species. Kosovo\* has taken steps to start inventories of natural habitats and species, but **designation of potential NATURA 2000 sites** is still at a **very early stage**. Some progress on forestry was made on planning and management, with the adoption of relevant secondary acts as well as steps towards afforestation but the Forest Strategy and the Forestry Law are yet to be adopted.

In terms of the existence of an **Effective disaster risk management framework**, taking due account of the likely impacts of climate change and the existing climate adaptation, **Kosovo\* is not part of the Union Civil Protection Mechanism** but benefits from regional civil protection programmes under IPA and can benefit from certain tools under the Union Civil Protection Mechanism such as trainings, exercises, prevention and preparedness projects and exchange of experts. It has **not yet established an operational centre and**

<sup>149</sup> EC 2021 Country Report.

**emergency communication system.** As the EC 2021 Country Report noted, the COVID-19 pandemic highlighted the **need to strengthen the legal framework and institutional capacities** as well as **human and financial resources** of civil protection authorities also with regard to health emergencies. Some progress has been made regarding the risk assessment development and the preparation of disaster response plans.

In **Kosovo\***, the Single Project Pipeline is in place but is merely a simple collection of SSPPs with no cross-sector prioritisation in place; a medium-term planning tool integrating the SPP and budget is still missing. **Maturity assessment is weak** leading to delays in project implementation. Following the process of decentralisation, **municipal administrations** and their public utility companies now play a central role in the preparation and implementation of concrete infrastructural projects; however, their **capacities for project preparation and management** are extremely **weak**.

In **Montenegro**, the **expired national strategy for the transposition, implementation and enforcement of the acquis in the area of environment and climate change 2016-2020** provided a baseline for the Government to determine the order of actions to be taken each year giving an indication of the cost for full alignment with the environmental acquis including costs for capacity building, investments and monitoring. However, the final report on its implementation showed **only 229 out of 348 activities were completed** over the period 2016-2020. Important **achievements** remain **pending in the waste and water sectors** and on **nature protection**. In February 2021, the government adopted the action plan for the fulfilment of the closing benchmarks in Chapter 27, comprising 251 activities. Two out of eight closing benchmarks for Chapter 27 define elements of water and waste subsectors as a priority to be fulfilled in order to achieve internal readiness for closing of the chapter:

- Water management - Montenegro is to develop river basin management plans for each river basin district.
- Waste management – Montenegro is to decide on its waste management system and dedicate appropriate funding to infrastructure investments, to establish waste prevention programmes and prepare waste management plans, and to adopt measures for the separate collection of waste for paper, metal, plastic and glass.

The priority for waste management is directly relevant for the enabling condition **Updated planning for waste management**.

The **lack of sufficient administrative capacities at central and local level and inspection bodies, insufficient inter-institutional coordination and lack of a sustainable financial framework** remain challenges to be urgently addressed. Regarding climate change mitigation and adaptation, the new Law on Protection against Adverse Impacts of Climate Change was adopted in 2019, in accordance with which the government adopted the Decree requiring industries emitting GHGs to obtain a permit. The Law obliges Montenegro to develop a Low- Carbon Development Strategy and an action plan which is a priority, but delays have occurred due to changes in government. **Alignment on climate change remains limited**. Montenegro has a climate change strategy in place, but has to intensify its work to ensure consistency with the EU 2030 climate and energy policy framework and ensure that the strategy is integrated into all relevant sectoral policies and strategies.

Despite the apparent abundance of water, around 35% of Montenegro's territory suffers from a chronic lack of water, while around 10% of the territory has a problem with seasonal surplus water. As a consequence of climatic conditions, **the uncontrolled use of water, huge losses in the water supply system and inadequate infrastructure**, water consumption per capita is double that of Western Europe. Furthermore, during the tourist



season, there is an insufficient supply of drinking water in the coastal region. Another major issue for **freshwater** is **pollution**, stemming from insufficiently treated industrial and municipal wastewater. In terms of water management, **alignment on water quality remains limited**. The legislative and policy framework for **freshwater management** is in place but **implementation** has been **limited**; an IPA project on Support to the implementation and monitoring of water management in Montenegro was initiated in December 2019. **Monitoring and evaluation mechanisms are also lacking**. Water management plans for the Danube and Adriatic basins are not yet finalised. Implementation of the law on marine environment protection has started and preparation of the relevant implementing legislation has advanced. Montenegro started to review the concessions granted for the construction of small hydropower plants and revoked some of them. Investments in hydropower need to comply with national and international nature protection and water management obligations, ensure public participation and consultation, and guarantee high quality environmental impact assessment reports that include cumulative impacts on nature and biodiversity<sup>150</sup>. The **legislative framework for wastewater management is almost fully aligned** with the EU acquis and a new Municipal Wastewater Management Plan (2020-2035) is under preparation. Responsibilities for wastewater management are shared with national bodies and local companies established by municipalities but **financial and human resources are insufficient**, and no systematic capacity-building is in place. The **lack of mechanisms for horizontal or vertical co-ordination** impedes their effective implementation of the measures envisaged. **Water supply and sanitation infrastructure** projects are still largely **dependent on donor funding** and there is no particular methodology for calculating the service fees required. Current **water service fees are too low to cover** or even complement the **infrastructural investments** required, as well as the **water supply and services** (the latter being complemented by subsidies from the municipalities).

As regards **waste management**, Montenegro remains **partially aligned** with the EU acquis. The Law on waste management is being drafted. Considerable efforts on strategic planning and investments are needed to implement the national strategy for waste management until 2030. A new national waste management plan is expected to be adopted in 2022 following the expired National Waste Management Plan 2015-2020. **Implementation of investments in waste management has been limited**, since the rehabilitation of the four large unregulated landfills completed in 2017. Although monitoring mechanisms were envisaged in the form of annual reports on the implementation of the National Waste Management Plan, they are mostly missing. The details of the country's waste management model and the modalities of its implementation remain to be clarified. Awareness campaigns were conducted to promote waste separation and appropriate disposal. There remains an **urgent need to remedy illegal waste disposal** and the **use of temporary waste disposal** in all municipalities. Aside from the measures relating to a circular economy in the National Strategy for Sustainable Development until 2030, a circular economy framework has not been developed. **Recycling rates are very low** (around 5% of municipal waste in 2018 compared to the EU-28 average of 47%) which means that 95% of municipal waste is landfilled. **Infrastructure for separate waste collection and recycling needs to be established** across the country. Some municipalities have introduced waste separation at source (Podgorica, Herceg Novi, Bijelo Polje, Pljevlja and Bar). **Unregulated incineration and illegal dumping of waste** continue to pose problems; although sanctions are envisaged by the law, enforcement has been weak due to lack of capacity among the local municipalities responsible. **Waste collection and treatment infrastructure is financed mainly through the state budget**, while **waste collection and treatment services are funded from the local municipalities' budgets**.

As regards readiness to meet the enabling condition on nature conservation **Prioritised action framework for the necessary conservation measures involving Union co-financing**, Montenegro is **partially aligned** with the EU acquis. Montenegro hosts **rich**

<sup>150</sup> EC 2021 Country Report



**biological diversity.** However, **human pressures represent major risks** when it comes to protecting biodiversity and maintaining forestry resources, requiring strong policy frameworks to conserve ecosystems. The process of **identification of potential Natura 2000 sites is ongoing** financed by the national budget. **Biodiversity** is monitored annually but, according to the government, the extent of the **monitoring** programme **is not sufficient** for an overall assessment of the conservation status of threatened species and habitats. The first marine protected areas has been designated and field research completed for others; a comprehensive system of strict species protection needs to be applied. The **Nature and Environmental Protection Agency lacks human and financial resources** (mostly government-funded) for carrying out its main responsibilities.

In terms of the existence of an **Effective disaster risk management framework**, taking due account of the likely impacts of climate change and the existing climate adaptation, Montenegro is a member of the Union Civil Protection Mechanism. Montenegro has developed **national rescue and protection plans against various types of hazards, and conducts staff and field** exercises and collaboration with EU, NATO and other international partners. As a precondition for the establishment of the connection between Montenegro and the Common Emergency Communication and Information System (CECIS), the Secure Trans European Service for Telematics (sTESTA) has been installed.

In Montenegro, although the Single Project Pipeline mechanism is in place in line with the methodology for selection and prioritisation of infrastructural projects but **proper assessment of project maturity is lacking.** The **SPP is primarily used for EU and IFI loans and state financed projects are outside the mechanism. Synchronisation of selection and prioritisation is needed to unify the procedures** for national and international financial sources. The **quality of technical documentation is weak** and made more **complex by different legal requirements** deriving from the Law on spatial planning and construction of structures of Montenegro and EU requirements, which are not aligned, causing significant delays. **Capacities for the management of capital/infrastructure investments are weak at central and local levels** and cooperation between central and local level functions on an ad-hoc project basis. In short, the current set-up and level of capacities are insufficient for infrastructure planning for the Green Agenda and potential investments on a far larger scale.

In **North Macedonia** there is some level of preparation in the environment sector but **significant efforts are still needed on implementation in all sectors**, including **inter-sectoral coordination**, air quality, regional waste and climate change. The **alignment of the legal framework with the climate change acquis remains low** and the law on Climate Action has yet to be adopted although a long-term strategy on Climate Action, with a dedicated action plan was adopted; **human and financial resources are very limited** in this area. North Macedonia adopted the National Environmental Approximation Strategy (NEAS) as the baseline for the Government to determine the order of actions to be taken each year giving an indication of the cost for full alignment with the environmental acquis including costs for capacity building, investments and monitoring. This is the only strategic document that can guide the programming process in line with EU priorities, as the **National policy framework for water and waste management is outdated** and adoption of the new strategies pending. The challenges of overlapping competencies, weak administrative capacities and insufficient financial resources are the most urgent to be addressed.

In terms of **water management**, a **system for monitoring** quality and quantity of **surface and groundwater is needed. Administrative capacity and inter-institutional coordination need to be strengthened.** Regarding **wastewater**, as recommended in the OECD 2021 Report, the **number of wastewater treatment plants needs to be increased** as most wastewater in North Macedonia ends up **untreated in rivers**, resulting in high pollution levels. New investment in WWTPs is needed, which should be financed mainly from the domestic budget and water tariffs. The **water-user and polluter-pays principles**

**need to be applied** for all water users and dischargers, paying attention to the vulnerable social groups in North Macedonia, and ensuring regular maintenance of the existing water supply and sanitation network.

Regarding **waste management, weak administrative capacities, low enforcement and limited inter-sectoral cooperation** remain the main obstacles for progress. Recycling rates are extremely low and almost 99% of solid waste goes to landfill. The set of laws on waste management and special waste streams incorporating the circular economy principles are adopted; however, as noted in the OECD 2021 Report, effective implementation will require a whole-of-government approach with collaboration among the relevant ministries and bodies to steer the country's transition to a circular economy and coordination mechanisms are largely lacking. **Lack of staff and financial resources** among these bodies **impede the implementation of measures**. The National Plan for waste management (2021-2031) and the first National waste prevention plan (2021-2027) are awaiting adoption. The **establishment of the regional waste management system** continues to **face delays** due to **insufficient administrative and financial resources**, and it suffers from lack of ownership. **Non-compliant landfills and illegal dumping** continue to represent an important environmental issue; although sanctions are in place for unregulated burning and illegal dumping, enforcement is limited. Separate collection of waste streams and economic instruments to promote recycling, reuse and waste prevention remain limited. **Waste collection and treatment infrastructure** is heavily **dependent on donor funds**, which impedes regular maintenance while waste collection and treatment services are funded from the waste collection fees.

As regards readiness to meet the enabling condition on nature conservation **Prioritised action framework for the necessary conservation measures involving Union co-financing, the biodiversity strategic framework is in place** in North Macedonia with the adoption of the National Strategy for Nature Protection and Action Plan (2017-27) and the National Biodiversity Strategy and Action Plan (2018-23). The **Law on nature protection, to align with the Birds and Habitat directives, awaits adoption**. Guidelines were developed for monitoring the conservation status of habitats and species. **Identification of potential NATURA 2000 sites has continued. Sustainable financing for the management of protected areas** remains a **significant challenge**, as the national budget allocation is largely insufficient, and **nature conservation relies mostly on donor assistance**. The implementation of UNESCO recommendations for the Natural and Cultural Heritage of the Ohrid Region is severely delayed and requires serious attention by the authorities.

In terms of the existence of an **Effective disaster risk management framework**, taking due account of the likely impacts of climate change and the existing climate adaptation, the EC 2021 Country Report highlighted **the need to strengthen the legal framework and institutional capacities of civil protection authorities**, notably with regard to health emergencies. Cooperation and coordination between the Protection and Rescue Directorate and the Crisis Management Centre needs to improve.

In **North Macedonia**, the **Single Project Pipeline** list of infrastructure projects is in place and serves as a programming basis for all available financing sources; however, **the scoring of the prioritisation process is not consistent** within and across sectors<sup>151</sup>. The level of **preparation of technical documentation is low. Poor inter-institutional and internal coordination and insufficient capacities** for the preparation and management of infrastructure investments **at central and local levels** are key critical issues to be addressed to advance with the Green Agenda and be ready for the far greater investment possibilities under Cohesion policy.

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<sup>151</sup> <https://www.wbif.eu/storage/app/media/Library/7.%20NIC%20Framework/2.%20FICO-NIC-Update-Report-2018-Oct18.pdf>

**Serbia has prepared its Negotiating position for Chapter 27** - environment and climate change - and was invited to present it without opening benchmarks; in December 2021, **Cluster 4 in the negotiations was opened** covering the Green Agenda and sustainable connectivity, including Chapter 27. Since 2011, when National Environmental Approximation Strategy (NEAS) was developed as a roll-on document, **Serbia has prepared Directive Specific Implementation Plans for Heavy Investment Directive** as accompanying documents to the NEAS which provide a baseline for the Government to determine the order of actions to be taken each year and give an indication of the cost for full alignment with the environmental acquis including costs for capacity building, investments and monitoring. **A relatively high level of alignment on horizontal legislation has been achieved but administrative capacities at central and local levels are insufficient.** Legislation on **environmental impact assessment needs to be further aligned** and compliance with other laws ensured, especially with the law on planning and construction, and its **implementation strengthened.** **Significant challenges** still remain with an urgent need to intensify **implementation and enforcement work**, such as ensuring strict adherence to rules on environmental impact assessment; Serbia needs to ensure **transparency about investments and their environmental effects** and **respect for freedom of expression and assembly** in the environmental sector.

As regards **water management**, the **national policy framework is in place** and the Water Management Strategy until 2034 gives enough space to properly guide the programming process in line with EU priorities, while the Law on water has undergone several amendments in order to harmonize with EU directives since 2010, when it was adopted. The level of **alignment with the EU acquis on water quality is moderate.** **Untreated sewage and wastewaters** are still the main source of **water pollution** and there is concern on the non-compliance with water quality standards in some areas. **Administrative capacity needs strengthening**, in particular for **monitoring, enforcement and inter-institutional coordination.** **Improving local governance**, in particular for operating and maintaining water and wastewater facilities, **is a priority.** Work on adequate water fees and tariffs is at an early stage. Limited progress has been achieved as regards the development of flood risk management plans. Transboundary cooperation needs to be intensified and river basin management advance.

The **Waste management Strategy expired** in 2019; the new Strategy until 2025 is still not adopted; the new strategy will mark a shift from the model of regional sanitary landfills to regional waste management centres which will include waste sorting, separation and recycling, as well as non-recyclable waste treatment. The Strategy on sustainable urban development of the Republic of Serbia until 2030 establishes the circular economy as one of the main priorities. **Serbia was the first WB6 economy to put a circular economy framework in place**, establishing a Special Working Group for the Circular Economy, which works on the transition process and acts as the main co-ordinator of circular economy stakeholders and in 2020, Serbia prepared its Roadmap for Circular Economy, an important document that sets the guidelines for the transition towards a circular economy. However, implementation is at an early stage. The **proportion of recycled waste** in overall waste management is still **low** and further efforts are needed to **close non-compliant landfills** and **invest in waste reduction, separation and recycling.** **Waste is primarily deposited untreated** at disposal sites that do not comply with any sanitary standards. Stakeholders report the existence of many illegal landfills and the **lack of systematic approach in prevention and sanction of illegal dumping and incineration.**

Proper **implementation** in these sectors remains **challenging** due to **overlapping competences at different levels of governance, understaffing** and **lack of capacities.** In terms of the **sustainability of investments**, the crucial issue is to **implement tariff reform measures** and enhance the willingness of local self- government units to abide by the requirements and raise tariffs despite negative reactions from consumers. As in the rest of the WB6, waste collection and treatment infrastructure in Serbia is financed through

waste collection fees, budgets and donor funds, while services are funded from waste collection fees.

As regards readiness to meet the enabling condition on nature conservation **Prioritised action framework for the necessary conservation measures involving Union cofinancing, alignment with the EU acquis in the field of nature protection**, in particular with the habitats and birds Directive, has **increased** through amendments to the law on nature protection although **gaps in legislation on hunting** need to be addressed. Authorities need to address illegal hunting and illegal logging more effectively. Work on **establishing Natura 2000 sites** has accelerated including through further alignment and **needs to intensify further**. However, **institutional and human resource capacities at national and local level remain weak**, in particular as regards **enforcement**, and wildlife trade. Any further development of hydropower should be in line with EU environmental legislation.

In terms of the existence of an **Effective disaster risk management framework**, taking due account of the likely impacts of climate change and the existing climate adaptation, Serbia is moderately prepared. As reported in the EC 2021 Country Report, the legal and policy framework for disaster risk management is based on the law on disaster risk reduction and emergency management and the national disaster risk management programme but **no progress has been made in developing a strategy for disaster risk reduction. Work on local risk assessments and protection and rescue plans is slowly progressing**. More focus on multi-hazard risk assessments is needed. The COVID-19 pandemic highlighted the **need to strengthen the inter-institutional collaboration framework with regard to health emergencies**. Very limited progress has been made towards connecting to the common emergency communication and information system (CECIS) - the main tool for crisis communication among members of the European Union civil protection mechanism.

In **Serbia**, the **pipeline of infrastructural projects for the environment sector** is established based on the Methodology for selection and prioritization of infrastructural projects developed through an EU funded project. This Methodology has evolved over time, and in the form of **the Regulation on capital projects management** now **represents state policy** under the mandate of the Ministry of Finance. A **unified database of priority infrastructure projects** for the environment, transport, energy, business related infrastructure and social sector is in place for project proposals from all levels of government. A **greater focus on maturity issues and the objective application of criteria during prioritisation** are needed as well as the introduction of additional project indicators such as the availability of funding and target implementation dates. In general, the **preparation of the technical documentation and implementation of the projects remain weak, capacities are lacking at central and local levels** and the **lessons learned from different bottlenecks in project implementation have not been resolved systematically**. The Law on Planning and Construction and EU requirements are not aligned so two parallel sets of project documentation are required delaying the process and adding significantly to costs and the administrative burden. In the coming period, Serbia has to overcome these obstacles to be able to properly prepare for and deliver on the Green Agenda.

**Turkey** has some level of preparation as regards Chapter 27 - environment and climate change. The EU Integrated Environmental Approximation Strategy until 2023 gives the information pertaining to the technical and institutional infrastructure and the environmental improvements that are required as well as the mandatory arrangements needed to establish complete harmonisation with EU environmental acquis and the effective implementation of the legislation. However, Turkey faces **critical environmental and climate challenges**, as regards **mitigation and adaptation**. Significantly, Turkey has **ratified the Paris Agreement** and announced a **2053 net zero goal** but needs to follow up with an **enhanced nationally determined contribution** under the Paris Agreement, **long-term strategic**



**decarbonisation and adaptation plans** and **appropriate legislation** reflecting them domestically. **Capacities are increasing in waste management and wastewater treatment**, but **enforcement and implementation remain weak**. More **ambitious and better coordinated environment and climate policies** need to be **established and implemented**, backed up by **strategic planning, substantial investment and stronger administrative capacity**. Finally, Turkey needs to ensure **complete alignment with the directives on waste, water and industrial pollution**, and that the Environmental Impact Assessment Directive is correctly implemented.

The adopted National Water Plan of Turkey 2019-2023 is a national policy with a multi-sectoral approach. In addition, 5 out of 25 river basin management plans have been adopted. In the area of **water quality**, the **legislative alignment is advanced**, but **implementation and enforcement need to be improved**. Turkey still needs to align with the EU Marine Strategy. Transboundary consultations on water issues are still at an early stage. In 2021 severe drought conditions and diminished groundwater levels — caused by climate change and poor water management policies — taxed water supplies dramatically as power plant reservoirs, freshwater sources, and potable water supplies dwindled to all-time lows, threatening the drinking water supplies of major cities. Turkey **has not yet aligned with the revised EU Directive on Drinking Water**. **Wastewater treatment capacity has increased** as a result of **continuous investments** and with the establishment of 1,134 wastewater treatment plants in the country, reached a coverage of 87 % of the municipal population. Turkey aims to reach 100% by 2023. However, municipalities with a population under 150,000 cannot meet the standards in wastewater treatment since they cannot obtain sufficient fees.

The **legal framework on waste management is partially aligned** with the new EU acquis. Turkey has adopted a strategy promoting a **zero-waste management approach**, the efficient use of natural resources, landfilling reduction and increased recycling and reuse. In December 2020, Turkey introduced a ban on import of mixed plastics as of 2021. A by-law on zero waste in July 2019 included a roadmap for municipalities, buildings and settlements to be completed by 2023; however, **random storage of waste** on a suitable area is still **prevalent**. Alignment and capacity for sorting, recycling and medical waste treatment have continued but significant **efforts are necessary to implement waste management plans at local and regional level**. Land filling, composting and recycling are not widespread, however, economic instruments to promote recycling and the prevention of waste generation are in place. The 'Environmental Cleaning Tax' is the only financial resource for municipal solid waste management services. Site selection for landfill areas is a critical problem.

Regarding the implementation of concrete projects, the roles and responsibilities of different parties for the waste management system needs to be clearly defined in order monitor and control the process. **The institutional capacities of the Ministry** responsible for the environment and **the municipalities must be strengthened**. It is estimated that approximately 3,000 additional staff are going to be necessary for the harmonization with Acquis Communautaire in the waste sector. Staff costs are estimated as 340 million EUR for the first twenty years to be met by Ministry responsible for the environment and the municipalities.

Under IPA II, a **multi-annual Action Programme for Turkey on Environment and Climate Action was financed, with majority of funds dedicated to the water sector**. Eligible operations in the water sector included investments to support the construction, rehabilitation or modernisation of the existing drinking water distribution system as well as establishing adequate water treatment plants and the rehabilitation, upgrading and construction of urban wastewater treatment facilities, rehabilitation and extension of the sewerage systems as well as storm water facilities. In the waste sector, investments focused on regional landfills and optimisation of the collection of waste. The selection



criteria for projects supported by EU funds prioritise municipalities with a higher population and those with poor financial conditions. Selected projects must contribute to public health and protect natural and cultural resources.

As regards readiness to meet the enabling condition on nature conservation **Prioritised action framework for the necessary conservation measures involving Union co-financing**, Turkey has some level of preparation on nature protection. The EC 2021 Country report noted that **no progress was made on adopting the framework legislation**, the national biodiversity strategy and action plan. **Planning and construction in wetlands, forests and natural sites** are still **not in line** with the EU **acquis**. Furthermore, the **institutional framework for managing future Natura 2000 sites** needs to be **streamlined and adequately resourced**.

In terms of the existence of an **Effective disaster risk management framework**, taking due account of the likely impacts of climate change and the existing climate adaptation, **Turkey's collaboration under the EU Civil Protection Mechanism increased in 2020**, both in registering capacities to the European Civil Protection Pool and offering assistance during emergencies. Turkey submitted **the country's national risk assessment report** but still has to submit the summary of the assessment of risk management capability and information on priority prevention and preparedness measures for certain types of disaster risks, as required by the revised EU civil protection legislation.

**Key Takeaway n. 3.16:** The WB6 and Turkey face **critical environmental and climate challenges**; although policy frameworks for the environment and climate change are gradually being introduced, **implementation, monitoring and enforcement remain weak**. **Water supply and sanitation systems** are generally **inadequate**; although investments are ongoing mostly financed from national funds, water service fees are too low to cover or complement the infrastructure investment costs and water supply services. Moreover, **insufficient institutional capacities** and **poor vertical and horizontal coordination impede effective** implementation of **water management** measures. More needs to be done to improve **international co-ordination of transboundary river basins** and river basin management plans need to be implemented.

**Recycling rates of municipal waste remain low in general**. Serbia has put a circular economy framework in place but implementation is at an early stage; the other WB economies need to develop circular economy frameworks. Except in Turkey, investment in waste collection and treatment infrastructure has largely been donor-supported. **Unregulated burning and illegal dumping of waste** is still **prevalent**, posing problems to the environment and public health through groundwater, soil and air pollution.

Poor implementation of Environment Impact Assessments and Strategic Environment Assessments is prevalent across the WB6 and Turkey.

From the perspective of **capacities for infrastructural investment and management**, these are **very weak and prioritisation mechanisms need strengthening**; administrative and technical capacities for project planning and management need enhancing at both national and local levels to provide a solid basis for achieving the ambitions of the Green Agenda.

### 3.2.7. Pathway for Priority objective 4 – More Social Europe – assessment of readiness and gaps

In the 2014-2020 perspective for **ESI Funds**, **three themes are most directly relevant for More Social Europe** – TO 8 Sustainable and Quality Employment (over € 40.2 billion programmed under ESF, over € 10. 5 billion programmed under the Youth Employment Initiative and over €4.2 billion under ERDF); TO 9 Social Inclusion (over € 34.2 billion

programmed under ESF and over € 17.7 billion programmed under ERDF) and TO 10 Educational and Vocational Training (over € 36.8 billion programmed under ESF and nearly € 8.9 billion programmed under ERDF), with **cumulative planned funding representing over 29% of total Cohesion Policy funds**.

However, **significantly less focus is given to the Education, Employment and Social Policies under IPA II**, except for Montenegro and Turkey where multi-annual operational programmes were funded in this sector, and strikingly low in North Macedonia and Serbia.

**Table 3. 11 Allocations 2014-2020 to Education, Employment and Social Policies**

IPA Beneficiary	Amount (EUR million)	Percentage of IPA funds <sup>152</sup>
Albania	100.7	15.7%
Bosnia and Herzegovina	46.5	12.1%
Kosovo*	73.56	13.3%
Montenegro	64.7	30%
North Macedonia	46.7	9%
Serbia	91.99	8.4%
Turkey <sup>153</sup>	291.6	23%

In general, **readiness as regards preparations for the European Social Fund is very low**, given the limited focus of IPA investments in this area, with some exception made for Montenegro and Turkey. Furthermore, **the scope of investments is much narrower than that envisaged in the European Social Fund+**, with **very limited attention to social inclusion** (exception made for some actions for minorities) and **very few IPA investments so far in infrastructure in the social sector or in health**. The **social sector has also been financed by the WBIF** which represents 15% of the WBIF pipeline; with 26 projects financed<sup>154</sup>.

The general challenges identified for infrastructure investments identified in section 3.2.6. apply, with the added factor that **significant investments are the full responsibility of local administrations, some of which have no experience or capacities at all**.

The **financial and human capacities of local administrations that have significant responsibilities in this area are clearly insufficient to meet their legal obligations**; in this perspective, **significant efforts are needed to raise capacities** so they will be ready to implement the objectives of More Social Europe at the most appropriate level in order to address territorial disparities. This should be **prioritised under IPA III** within the planned multi-annual operational programmes under Window 4 through **grant schemes for local authorities including small-scale infrastructure** (funding constraints will probably limit the scope of hard capital investments). For example, under ESIF funds 2014-2020, in terms of Schools renovated (capacity), investments have been funded targeted to benefit over 25 million persons; over 88 million persons impacted by improved health service provision,

**Key Takeaway n. 3.17:** IPA assistance in the education, employment and social affairs sector has been limited except in the two countries with multi-annual operational programmes, and insufficient to address the gaps between IPA Beneficiaries and the EU in key indicators. Very limited attention has been paid to social inclusion and apart from a

<sup>152</sup> Respective to overall indicative allocations 2014-2020

<sup>153</sup> References in terms of allocations to Sector Operational Programmes, excluding IPARD

<sup>154</sup> Excluding Croatia. These also include projects in higher education and research sector which are not directly linked to this objective.

limited number of WBIF projects in the social sector, social infrastructure has not been financed. The **capacities of local administrations are very weak in the social sector**, especially as regards infrastructure; **significant capacity-building, mentoring and learning-by-doing opportunities should be the focus of IPA III investments for all levels of government and employment and social policy stakeholders.**

The analysis of selected enabling conditions under the More Social Europe objective will focus on the “Strategic policy framework for active labour market policies” and “National strategic framework for gender equality”.

### Employment

**Some progress has been made on employment regulatory frameworks and policies**, to improve the functioning and flexibility of their labour markets, but **implementation of the regulatory framework remains challenging. Rates of temporary employment and informal employment are in general high, and unemployment rates are very high, well above the EU and OECD averages.** Strategies are being set up to address the identified skills and some improvements have been made to help young people gain work experience; however, **the education system is largely failing to produce the skills employers need.** Moreover, **mechanisms for transition to work are not very effective** and the take up of lifelong learning initiatives is limited; constant emigration trends exacerbate skills shortages and skills gaps. Efforts to increase **female employment rates** are ongoing; however, they continue to **remain significantly below OECD and EU averages.** The WB6 have **improved the capacities of their public employment services (PESs) and active labour market programmes have become better targeted**, but **vulnerable groups and minority groups are less addressed.** The PESs have introduced or are in the process of developing profiling tools to categorise jobseekers into three main groups: 1) autonomous and easy-to-place jobseekers; 2) jobseekers with a medium level of employment barriers; and 3) hard-to-place jobseekers (such as those with low skills and/or long-term unemployed).

Due to the **impact of the ongoing epidemiological crisis**, the share of young people not in employment, education or training (**the NEET rate**) has **risen.** Action is needed to **prevent short-term exit turning into long-term exclusion for a generation of young people**, who now face greater challenges in getting (back) into the labour market, with the attendant risks to achieving a substantial reduction in NEET rates (SDG target 8.6) by 2030. Given the fragility and uncertainty of recovery, to avoid long-term scarring effects **recovery strategies need to make youth employment a key objective**, taking into account intersectionality with gender and other relevant dimensions<sup>155</sup>.

Under ESIF Funds 2014-2020, the Youth Employment Initiative was allocated a total budget of over € 10.45 billion (equivalent to about 82% of the whole IPA envelope for the same period). By the end of 2020, 627,276 NEETs and 793,800 long-term unemployed had been supported.

The following is a brief overview by country of the **strategic policy framework in place for active labour market policies** and the identified needs and challenges. The fulfilment criteria for this enabling condition are:

1. Arrangements for conducting jobseekers’ profiling and assessment of their needs.
2. Information on job vacancies and employment opportunities, taking into account the needs of the labour market.
3. Arrangements for ensuring that its design, implementation, monitoring and review is conducted in close cooperation with relevant stakeholders.
4. Arrangements for monitoring, evaluation and review of active labour market policies.

<sup>155</sup> [https://www.ilo.org/wcmsp5/groups/public/---ed\\_emp/documents/briefingnote/wcms\\_795479.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/briefingnote/wcms_795479.pdf)

5. For youth employment interventions, evidence-based and targeted pathways towards young people not in employment, education or training including outreach measures and based on quality requirements, taking into account criteria for quality apprenticeships and traineeships, including in the context of Youth Guarantee schemes implementation.

In **Albania**, the policy framework on employment is in place which includes the needs and inclusion opportunities of NEETS: the **National Employment and Skills Strategy 2014-2020 (NESS)**, updated for 2019-2022, represented a **milestone in the design of employment and skills development policies** in Albania. The NESS **prioritizes youth employment through active labour policies and a youth guarantee**, and the Albania Government has reaffirmed its full commitment to implementing the EIP Flagship Programme on the Western Balkans Youth Guarantee in Albania.

Although the **employment rate in Albania is the highest in the region, under-employment and informality remain significant** and concerted efforts are needed to **align education and training to the needs of the labour market and reduce the skills mismatch**. The unemployment rate (15-64) decreased continuously from 2015 to 2019, falling to 12%. Although female employment has increased at a swifter pace than male employment in recent years, the gender employment gap in 2020 is 15.2 percentage points. The gender pay gap decreased by 3.5 percentage points, from 10.1% in 2019, down to 6.6% in 2020. The number of **VET students is lower than other WB6 economies** and challenges and weaknesses of the VET system include skills mismatches, poor-quality or irrelevant training, unequal access, and weak linkages to the private sector (OECD 2021 Report). **Targeted support is needed for low skilled people and people more at risk of exclusion**, especially after the prolonged epidemiological crisis that has exacerbated vulnerabilities. In 2020, the government **increased its support for active labour market policies (ALMPs)** to tackle the crisis with a new Employment Promotion Programmes (EPPs) portfolio and provisioning. Implementation challenges for EPPs have persisted, leading to an unprecedented low level of fund utilization, only in part due to the COVID-19 pandemic; as identified in the EC 2021 Country Report, other critical issues are the **still limited capacity of the newly established National Agency for Employment and Skills** as well as resistance to the revised EPPs from employment offices and employers alike.

The **modernisation of the public employment services (PES)** and a reorganisation of services provided at local and regional level is underway, as set out in the NESS 2019-2022. A new information system for job matching is under construction and work is on-going on the **development of a statistical profiling tool of the unemployed**. The individualised counselling and follow-up of the unemployed – who often face severe and multiple employment barriers – requires sufficient staff capacities, as do services provided to employers; the caseload of nearly 300 registered unemployed people per counsellor is quite high. **Staff capacities need to be increased** at local level, and staff trained in providing comprehensive guidance and follow-up for jobseekers with employment barriers, conducting skills assessment and providing employer related services.

Within the 25-29 age group, the share of NEETs was highest among upper secondary education graduates (28.9%), followed by university graduates (26.5%), while young people with no more than lower secondary education fared the best (24.4%), indicating a **challenging labour market transition for young people and problems with the quality of education**. **Less than 10% of NEET youth** – out of a total of over 190,000 - **are registered with the Public Employment Service** and outreach needs to extend significantly. Technical assistance for the development of the Youth Guarantee including a small pilot for 200 young people planned in 2022 has been financed under IPA II but the capacities of the National Employment and Skills Agency need to be strengthened to start the implementation of the youth guarantee scheme.



**Bosnia and Herzegovina has no country-wide employment policy** in place, also bearing in mind that competency over employment according to the Constitution fall under the remit of the two entities and the Brčko District. **Entity strategies have expired, while new entity-level employment strategies for 2021-2027 are being prepared.** However, compared to others in the region, the **regulatory and policy framework and the institutional capacity to address employment-related issues remain weak.**

According to ILO data<sup>156</sup>, employment rates remain low (46% for age 15-64, 2019). Unemployment is high despite a downward trend in recent years (16% in 2020), especially among youth (34 % in 2019). The country has **one of the lowest female employment rates in the Balkans** at 10.2 percentage points below the WB6 average and 27.7 percentage points below the EU average. In terms of policies to promote female employment, the third Gender Action Plan 2018-2022 was adopted in 2018 and contains a wide range of highly relevant measures. The **share of informal employment** in total employment **is high** (30%). The impact of the COVID-19 pandemic on the labour market has been sizeable; according to ILO estimates constituting an employment risk for 88% of informal workers. Measures were put in place by both entities to mitigate the impact of the crisis on workers. **The Commission's ERP Assessment Report for 2021**<sup>157</sup> notes that a **large portion of the population aged 20-64 years is inactive**, pointing to an acute need to develop policies fostering transition into the labour market and employment. Those particularly affected are the low-skilled and workers older than 40. Depending on the source, **between 33.8% and 40% of persons aged 15-24 are unemployed** after school graduation. As a result, **unemployed youth face social marginalization, impoverishment, stigmatisation, and even long-term social isolation.** NEETs make up 20.7 percent of male youth and 21.6 percent of female youth. **Mismatches between schooling and labour market needs**, as well as a bad business climate, explain this situation. RS has made moderate progress in tackling skills mismatches, while the FBiH has not made any significant progress in this area. RS has also made significant progress in the area of women's employment and moderate progress has been made in strengthening the capacity of its public employment service (PES).

Data on the impact and effectiveness of the **active labour market policies (ALMPs) in BiH are very scarce.** The "*Social Inclusion in Bosnia and Herzegovina 2020 National Human Development Report*"<sup>158</sup> prepared by the UNDP summarises the overall situation "despite substantial structural unemployment, Bosnia and Herzegovina's public expenditure on active labour market policy (ALMP) is less than half the EU average. ALMP is funded at 0.21 percent of GDP in Bosnia and Herzegovina, compared to 0.40 percent in the EU28. Moreover, most ALMP funds go to wage subsidies and administrative expenses. **Only 2.45% of jobless people are in active employment programmes, and less than one-fifth are in programmes that provide ongoing education and training**".

**Public employment services are organised at entity and Brcko District levels**, and further decentralised at the cantonal level in the FBiH (coordinated by the Employment Institute of FBiH) **The number of actors in the field of employment policy in FBiH**, and the variety of adopted policies, **reduces the overall efficiency** of the labour and employment sector and makes the whole system **expensive and dysfunctional.** **A profiling system was developed** that enables distinguishing three groups of jobseekers according to their employability and distance from the labour market, in line with OECD good practice and an individual action plan is established for those who are unemployed. In the RS, the **main focus of the Employment Strategy 2016-2020** was related to **public employment services** and **active labour market programmes** for the unemployed; an inter-departmental working group was formed actively including representatives of social partners. It defined the basic activities and active policy measures of the Employment

<sup>156</sup> [https://www.ilo.org/budapest/countries-covered/bosnia-herzegovina/WCMS\\_471903/lang--en/index.htm](https://www.ilo.org/budapest/countries-covered/bosnia-herzegovina/WCMS_471903/lang--en/index.htm)

<sup>157</sup> [https://ec.europa.eu/info/publications/2021-economic-reform-programmes-albania-montenegro-north-macedonia-serbia-turkey-bosnia-and-herzegovina-and-kosovo-commissions-overview-and-country-assessments\\_en](https://ec.europa.eu/info/publications/2021-economic-reform-programmes-albania-montenegro-north-macedonia-serbia-turkey-bosnia-and-herzegovina-and-kosovo-commissions-overview-and-country-assessments_en)

<sup>158</sup> [https://www.ba.undp.org/content/dam/bosnia\\_and\\_herzegovina/Publications/NHDR2021/NHDR\\_2020\\_ENG.pdf](https://www.ba.undp.org/content/dam/bosnia_and_herzegovina/Publications/NHDR2021/NHDR_2020_ENG.pdf)



Institute of Republika Srpska (EIRS), which has 7 regional offices and 59 local branch offices. The **caseload** of the EIRS is **extremely high**, with more than 1,000 registered unemployed person per PES counsellor in 2019, approximately ten times higher than EU good practice when dealing with vulnerable groups. **A profiling tool was developed** to allow the segmentation of the unemployed into three groups depending on their assessed level of employability, and the definition of an individual action plan is developed. An IT system in RS helps follow-up on the progress of unemployed people and a customer relation management application aims to register unemployed people and employers' needs. Job-search clubs have also been carried out, in line with international good practice. In general, there are **weaknesses regarding vacancy collection**. Moreover, **information on vacancies and jobseekers is not shared across the entities**, which reduces the potential for effective matching and constrains labour market analysis. Although **PESs** are implementing various labour market programmes, now with special focus on mitigation of impact of the COVID-19 pandemic, their **reach is limited** and **their capacities remain weak**.

In **Kosovo\***, the employment policy framework in Kosovo\* is quite comprehensive; however, the level of implementation of the **Sector Strategy of the Ministry of Labour and Social Welfare 2018–2022** is extremely low, due to the insufficient budget, lack of proper planning and lack of human resources to carry out the activities and achieve the set objectives<sup>159</sup>. Kosovo\* continues to face **structural labour market challenges** stemming from the mismatch between the rapid growth of the working-age population and job creation, the persistently low participation of women and generally precarious employment opportunities (fewer than half of employees have permanent work contracts). Education attainment is a key predictor of employment. In 2020, the employment rate (15-64) was 59.9% among people with tertiary education but only 11.3% for those with primary education. Although **women** tend to attain higher education levels (e.g. over 40% active women hold tertiary qualifications against 20% of active men), they remain **under-represented in employment**. Unemployment is even higher (over 90%) in the Roma and Ashkali communities. Members of these communities usually work in the informal sector, holding insecure, low-skilled and low-status jobs and few of them are registered as unemployed. **Young people** (15-24 years-old) remain **most affected by unemployment and inactivity**; 33.6% were NEETS in 2020. **Youth unemployment remains extremely high** (49.1%), particularly among women indicating major problems in the school-to-work transition and the poor quality of education at all levels. Despite the high unemployment rate, skills shortages hinder the growth of companies. Kosovo\* has **committed to implement the Youth Guarantee Scheme** to address the high unemployment rates among its youth. However, **concrete preparations are yet to start**.

The **Public employment service** - the Employment Agency of Kosovo\* – was set up in 2017; the Employment Policy 2019-2021 defines its activities and includes small measures to bring vulnerable groups into employment (in particular Roma, Ashkali and Egyptian communities, and women from rural areas). Little has been done to **strengthen its capacities**, including on monitoring, evaluation and employment counselling and **enhance the level and scope of targeted ALMPs** to have sizeable impact on reducing unemployment and bringing vulnerable groups into work.

In **Montenegro**, Chapter 19: Social policy and employment was opened on 13 December 2016 at the Intergovernmental Conference in Brussels. Montenegro has **3 closing benchmarks which all address the administrative capacities in the different areas covered by the chapter, including labour, social policies, and gender equality**. The employment policy framework in Montenegro is comprehensive. The policy framework for employment is defined in the now expired **National Strategy for Employment and Human Resources Development for the period 2016-2020**<sup>160</sup> which was implemented through

<sup>159</sup> <http://kosovoprojects.eu/wp-content/uploads/2020/02/Implementation-of-MLSW-Sectorial-Strategy-in-2018-and-2019.pdf>

<sup>160</sup> <https://wapi.gov.me/download/ce8a7e18-4960-44cb-96bb-ee6680770fad?version=1.0>

annual action plans. However, **monitoring of implementation** of the strategy was **hampered by a lack of systematically collected data**. The preparation of the National Employment Strategy with the Proposal of the Employment Action Plan for 2021 is ongoing.

The **effectiveness and coverage of active labour market policies remains insufficient**. The ILO<sup>161</sup> found that investments in active labour market programmes are limited (0.1 per cent of GDP) in 2019 targeted only 6.4 per cent of registered unemployed and that the existing “*programming cycle of ALMPs is onerous and leads to poor matching*”. Montenegro Between 2015 and 2019 the employment rate of people aged 15-64 rose to 56.0% although it declined in 2020 due to the epidemiological situation and the unemployment rate (15-64) increased to 18.3% during 2020. **Regional disparities persist** with unemployment higher in the north at 42.2% and significantly lower 4.6% at the coast at the end of 2020 according to national statistics. **Long-term unemployment remains the major structural challenge**, with 76.3% of unemployed being out of work for more than two years. The most **vulnerable groups** on the labour market remain **women, youth, Roma and low skilled workers**. The share of NEET young people (15-29) has increased between 2019 and 2020 from 21.3% to 26.6%. Sustained efforts remain crucial to **tackle the informal economy**, along with reinforcement of labour inspections. In addition, enhanced coordination between the Employment Agency and social welfare centres is still required. Building **stronger links between employment and social services remains crucial** to remove potential disincentives to employment. Despite a well-developed framework for skills needs and skills mismatch analysis, and good horizontal and vertical co-ordination, **skills mismatches remain an issue**. The Strategy for the Development of Vocational Education in Montenegro (2020-2024), along with its action plans for 2020/21, outline measures for overcoming workforce skills shortages and to improve the efficiency and the effectiveness of the VET system and lifelong learning.

Although some improvements have been made in the territorial coverage of public employment service offices and tools for PES counsellors (profiling, setting up of individual action plans), no sizeable improvements have been made to the number of counsellors or budgets. The **vast majority of unemployed are registered** at the PES. New rulebooks have improved the implementation of activation policies, including rules on active job search, profiling, counselling and establishing an individual employment plan. Statistical profiling, assisted by ILO expert, is planned. However, **targeting of the most vulnerable unemployed and inactive groups is still weak**, although some relevant programmes have been set in place, albeit with low budgets.

According to the data of the Montenegro Office of Statistics **Labour Force Survey 2019**<sup>162</sup> the youth employment rate in 2019 was 27.3% (23.2% in 2018), while the overall employment rate is 56.0%. A recent **Study on Youth Employment in Montenegro**, published by the Regional Cooperation Council concluded that the most significant challenges concerning youth employment in Montenegro are “*high level of inactivity, lack of suitable jobs in the private sector, obstacles to the development of youth entrepreneurship, the lack of appropriate skills held by young people, a preference for secure public sector jobs, and perceptions of unfair recruitment practices*”.<sup>163</sup> This study prepared the **roadmap to implement a Youth Guarantee in Montenegro**.

In **North Macedonia** the **Revised Employment and Social Reform Programme 2022-ESRP(r)** is the main policy framework **covering three major policy reform areas**: 1. Labour market and employment; 2. Human Capital and skills, and 3. Social inclusion and social protection. The implementation of the employment strategy is regularly monitored but reports are not publicly available although shared with relevant stakeholders including social

<sup>161</sup>[https://www.ilo.org/wcmsp5/groups/public/---europe/---ro-geneva/---sro-budapest/documents/genericdocument/wcms\\_790646.pdf](https://www.ilo.org/wcmsp5/groups/public/---europe/---ro-geneva/---sro-budapest/documents/genericdocument/wcms_790646.pdf)

<sup>162</sup>[https://www.monstat.org/userfiles/file/ars/2019/ARS%20saopstenje\\_2019\\_en.pdf](https://www.monstat.org/userfiles/file/ars/2019/ARS%20saopstenje_2019_en.pdf)

<sup>163</sup><https://www.esap.online/download/docs/Study-on-Youth-Employment-in-Montenegro.pdf/d602c90cc6ee44a859bfcc567cfa5a35.pdf>

partners and NGOs. The strategic framework of the sector is complemented by other relevant strategies, such as the National Employment Strategy 2016 – 2020; the National Strategy for the Alleviation of Poverty and Social Exclusion 2010-2020; the Education Strategy for 2018 – 2025 a, the Strategy for Formalization of the Informal Economy 2018-22, and the Action Plan for Youth Employment 2016-20. The **poverty rate is worryingly high** and the **provision of assistance to all vulnerable groups** and support for, and reform of, the social protection system should be **combined with stronger links to both employment activation measures and social inclusion**. On a more positive note, the **Youth Guarantee Scheme was successfully implemented** on the territory of the whole country, including underdeveloped regions.

Overall, labour market trends in North Macedonia have been positive over the last decade. The economy added about 40,000 jobs in 2019, bringing the overall employment rate for working-age people (15–64 years old) to 54.7 percent. Despite this, employment and **labour force participation rates (66.3%) are still lower than in the EU27 (68.4 per cent and 73.4 per cent, 2019)**. Low participation rates are mostly attributable to **women's low activity rates (54.8 percent vs. 77.3 percent for men)**, young people in the 15–24 age group (32.2 percent) due to school attendance, and the over 50 age group (35.8 per cent compared with 38.6 per cent in the EU27). The labour market position of **young people (15–29) reveals low rates of involvement in the labour force, particularly among young women (41.7 per cent for young women in 2019 compared with 56.7 per cent for young men, although this gap has been decreasing over time)**.<sup>164</sup>

Since 2007, the yearly national-level **Operational Plan for active employment programmes and measures**<sup>165</sup> has set out the actions to reduce the unemployment rate and increase disadvantaged groups' labour market participation. In recent years, **special focus** has been paid to initiatives to assist the **most disadvantaged populations**, such as social assistance recipients, in improving their skills, employability, and inclusion in the labour market. In September 2020 the operational plan was revised to include people who had lost their job due to the COVID-19 crisis. However, the Commission's ERP assessment report 2021 concludes that the **active labour market policies in place are still insufficient** to help job seekers obtain long-term work. Despite the Youth Guarantee's nationwide implementation, there has been no comprehensive monitoring or impact evaluation of active labour market policy since 2015. **Employment policy (ALMPs) mainly focuses on the long-term unemployed and youth**. While ALMPs exist for specific vulnerable target groups, take up seems to be low; in 2019, around 22% of the participants in ALMPs were long-term unemployed, 3% were Roma and 3% were people with disabilities (OECD 2021 Report). **No progress** has been made in **reducing informal employment** so far despite the measures in the Strategy for the Formalisation of the Informal Economy 2018-22. Informal workers are mainly self-employed and unpaid family members and carry out mainly elementary occupations<sup>166</sup>.

**Young people** have faced **difficulties in entering the labour market**. 45% of young people stay unemployed for 4 years or longer after finishing school, while only 7.3% are unemployed for less than 1 year (Labour Force Survey, 2019). The countrywide implementation of the **Youth Guarantee** in all 30 employment centres in 2019 led to a reduction in youth unemployment (those aged 15-24) from 45.4% in 2018 to 35.6% in 2019, but **youth unemployment still remains high**.<sup>167</sup> The share of 20- 24 year-olds NEETs, however, is high and stood at 25.8% in 2019, well above the EU average of 14.5% and the WB6 average of 22.1%.

<sup>164</sup> [https://www.ilo.org/wcmsp5/groups/public/---europe/---ro-geneva/---sro-budapest/documents/publication/wcms\\_746124.pdf](https://www.ilo.org/wcmsp5/groups/public/---europe/---ro-geneva/---sro-budapest/documents/publication/wcms_746124.pdf)

<sup>165</sup> <https://av.gov.mk/operativen-plan.nspix>

<sup>166</sup> OECD (2021), Competitiveness in South East Europe 2021: A Policy Outlook, Competitiveness and Private Sector Development, OECD Publishing, Paris, <https://doi.org/10.1787/dcbc2ea9-en>.

<sup>167</sup> [https://ec.europa.eu/info/sites/default/files/economy-finance/ip158\\_en\\_0.pdf](https://ec.europa.eu/info/sites/default/files/economy-finance/ip158_en_0.pdf)

A skills mismatch analysis framework is in place but **problems with school-to-work transitions persist**. Several improvements have been made to the education system in recent years to improve skills matching including a web-based Occupational Outlook and a dual vocational education project was launched on 27 September 2017 to improve the quality of VET and increase employability among young people, based on the German dual VET system. In the 2018/19 school year, pilot activities began for the introduction of dual vocational education into high schools.

The **institutional capacities of the public employment service have improved** and a profiling tool which divides the unemployed into three groups, according to their level of employability is in place. Counsellors use a standardised questionnaire to categorise jobseekers into these groups and set up individual plans with them. They may then refer those jobseekers who need them most to ALMPs. However, **staff levels are insufficient** considering the high share of vulnerable groups: according to LFS data for 2018, 74.7% of all unemployed people were long-term unemployed. Since 2019, the Centre for Social Work and the Employment Centre have co-operated to put together individual employment plans to map out beneficiaries' participation in active employment measures and job seeking. The PES's capacity has been improved by training and also experience in implementing the Labour Market Skills Survey for the period 2018-19 and the Youth Guarantee Project but **ongoing training needs to be reinforced**. The PES has limited capacity to provide employer services and gather vacancies.

In **Serbia**, the **Employment Strategy in the Republic of Serbia for the period from 2021 to 2026** defines the reform steps to establish an efficient labour market in line with the accelerated technological development. Special measures are envisaged for the improvement of the position of women, the young, disabled persons, and beneficiaries of financial social aid, as well as the Roma population. The strategy was on the basis of an ex-ante evaluation, an ex-post evaluation of the previous plan, a feasibility study on the youth guarantee, and the barriers facing hard-to-employ groups in accessing jobs and active labour market programmes (ALMPs). However, these reports are not publicly available, which is against good practice for transparent policy making. The 2021-2023 Action Plan determines the specific activities and identifies target result indicators. **Active labour market measures (ALMMs) are implemented by the National Employment Service**. Furthermore, **the financing of active labour market measures envisaged by local employment action plans** prepared by the local-self-governments, is supported.

The activity rate of the population aged 15-64 increased by 4.4% from 2015 to 2019 reaching 68.1%, above the WB6 average, but still well below the EU average and also below the five EU countries that may serve as peer countries (Bulgaria, Croatia, Hungary, Romania and Slovenia), which average 71.2%. **A favourable economic climate has led to employment growth over this whole period**. The number of people in employment increased by 10.6% between 2015 and 2019. The employment rate among 15–64-year-olds increased by 8.6% over the same period, reaching 60.7% in 2019, compared to the EU average of 69.3%. The unemployment rate for the same age group decreased steadily from 2015 to 2019 reaching 10.9%, which is one of the lowest rates in the region, but markedly above the EU unemployment rate and the average of the five peer countries mentioned above (4.1%) (OECD 2021 Report). However, **women in Serbia have a significantly lower employment rate than men**. The gender employment gap is wider than the EU-27 average (13.9 pps. vs 11.7 pps. in 2019) with a slight improvement seen between 2018 and 2019. The lower statutory retirement age for women and low level of part-time work for women (10.1%) combined with care responsibilities are some of the root factors. Despite some improvements in key labour market indicators, the main labour market challenges are the low employment rates of older people and youth unemployment, long-term unemployment, the high inactivity rates, labour market integration of vulnerable groups, and wide regional disparities. **Youth unemployment** (15–24-year-olds) decreased from 27.5% in 2019 to 26.6% in 2020 but **remains high**, while the share of young NEETs (15–29-year-olds) increased from 19% to 20% in 2020. Serbia has initiated preparations to pilot the



Youth Guarantee, by setting up in May 2021 an inter-ministerial task force and requested assistance to develop a Youth Guarantee implementation plan in line with the EU model. Skills mismatches continue to be a major challenge. The “My First Salary” programme introduced in 2020 aims at activating young people without prior work experience prioritises private sector employers, especially those from disadvantaged municipalities and provides cash and contribution benefits; Its implementation and outcomes should be closely monitored, including the types of private companies taking part and the employment outcomes for the participants after 12 months. In 2020, some 8,000 young individuals participated in this programme.

According to **the International Labour Organisation (ILO) assessment**<sup>168</sup>, the labour market in Serbia suffers from **structural deficiencies** characterized “with relatively low labour force participation, high inactivity, a large portion of youth neither in employment nor in education, and a high number of workers in state owned enterprises supported with high subsidies”. **Informality continues to be high**; the quality of jobs requires substantive improvement and there is a need for further reform of the occupational safety system. The **Commission’s ERP 2021 Assessment**<sup>169</sup> identifies significant deficiencies in employment policy implementation as active labour market policies address only a fraction the unemployed and fail to reach out to the majority of unemployed and inactive or vulnerably employed. Until now, their impact on labour force activation remains limited. Established measures such as job-searching, training and job fairs reached only 27.6% of registered unemployed in 2019. Although advances have been made in improving the capacity of the public employment service, caseloads remain too high and budgets for active labour market policies far too low.

The number of **public employment agencies** (the NES) was expanded in 2019 but the **number of staff is still too low to effectively implement activation policies**. Although most staff are certified employment advisors, the average caseload was 827, well above OECD good practice guidelines and high for the WB6 region. Following individual interviews with registered job seekers, an employability assessment is conducted and employability plans established; however, **the system is burdened by the very high caseload** and the **high incidence of long-term unemployment** among registered jobseekers. Progress has been made in strengthening the analytical and planning capacities of the NES, particularly for planning training measures. The NES is responsible for the skills needs survey and communicates with local governments, using their investment plans to determine which future skills will be needed. The NES also analyses unfilled vacancies and the education profiles included in the individual employment plans of the unemployed. Cross-referencing all this information helps to define a catalogue of training for the unemployed to meet labour market needs.

In **Turkey**, the employment policy framework consists of **the National Employment Strategy (2014-2023), Ministry of Labour and Social Security Strategic Plan 2019-2023, the Strategic Plan of the Turkish Employment Agency 2019-2023 (İŞKUR) and the 2023 Industry and Technology Strategy**. The National Employment Strategy aims at creating strong relations between education and labour market, ensuring flexibility (with a balance between flexibility and security in labour market), increasing employment of the vulnerable groups and strengthening employment-social protection relations. The İŞKUR strategic plan, which covers seventeen objectives under five main objectives, includes the higher policy documents and the obligations given to İŞKUR by the relevant legislation in a comprehensive manner, and also reflects the demands of internal and external stakeholders.

The most needed occupations in each province are determined using the **Labour Market Needs Analysis** conducted by 81 Provincial Directorates of Labour and Employment

<sup>168</sup> [https://www.ilo.org/budapest/countries-covered/serbia/WCMS\\_468114/lang--en/index.htm](https://www.ilo.org/budapest/countries-covered/serbia/WCMS_468114/lang--en/index.htm)

<sup>169</sup> [https://ec.europa.eu/info/sites/default/files/economy-finance/ip158\\_en\\_0.pdf](https://ec.europa.eu/info/sites/default/files/economy-finance/ip158_en_0.pdf)



Institutions throughout Turkey, and courses/programmes in these occupations are organised in accordance with the Provincial Directorates of Labour and the Employment Agency's Annual Labour Training Plans. The registered unemployed receive counselling from the job and vocational counsellors assigned to the Provincial Directorates of Labour and Employment Agency/Service Centres. Key activities of İŞKUR within the scope of active labour programmes are: Vocational Training Courses, On-the-Job Training Programmes and Community Benefit Programmes. Additionally, İŞKUR provides assistance in the following areas: professional development of employees; the social work programme; specific policies and practices; the protected workplaces project; assistance to disabled and ex-convict entrepreneurs; projects associated with support technologies which provide jobs for the disabled; and projects associated with employment of the disabled ensuring their adaptation to work and the workplace

**The Commission's 2021 ERP Assessment report**<sup>170</sup> concluded that the Active labour market measures in place and reskilling and upskilling offers are in general limited in number and scope; ALMPs encouraging female labour market participation and youth employment have continued but are also limited. Evidence-based active labour market policies need to be stepped up and the fight against informal employment continued.

A significant challenge in Turkey is the young population's untapped potential. According to Eurostat, the proportion of **young people (15-34) NEETs rose to 33.6%** in 2020, more than double the EU-27 average (15%) and 2.7 percentage points more than the 2019; for the 15-24 age group, the rate was 28.6%, nearly triple the EU-27 (11.1%). Women account for the largest share of this group (47.1% in the 15-34 age group), as they do not participate in the labour force. Until recently, growth rates helped to alleviate the issue, but the fact that the labour force participation rate in the age range 15-24 fell by 5.3 percentage points year on year in the third quarter of 2020, to 42.1 percent, implies that an increasing number of young people may have given up looking for work in the current environment. One of the most pressing issues for Turkish employment policy is to provide **legitimate chances for young people, particularly the low-skilled**. The rate of young people in informal employment, which is 47.7 percent, demonstrates the gravity of the problem. To reverse the trend, Turkey has implemented employment incentives for young people (18-29), for whom social security contributions are paid at the minimum wage. The **National Youth Employment Strategy and Action Plan 2021-2023**<sup>171</sup> has established the following targets for 2023: the youth unemployment rate reduced to 17.8%; the youth labour force participation rate increased to 46% and the NEET rate reduced to 20%.

#### **Box 4: EIP Flagship 10: Youth Guarantee schemes in the Western Balkans: building on pilot practice in North Macedonia**

The main principle of the Youth Guarantee is that every young person who leaves education or training, or becomes unemployed, receives a good quality offer for a job, an apprenticeship, a traineeship or continued education within 4 months after becoming unemployed or leaving formal education. **An IPA-II financed pilot Youth Guarantee Scheme in North Macedonia** was launched in 2018 with the involvement of a wide range of stakeholders and a focus on three employment centres (Skopje, Strumica and Gostivar). Over **9,000 young people were supported** in these three regions suffering with the highest unemployment rates and over 8.8% reduction in the share of long-term youth unemployment between 2017 and 2019.

The focus on youth has been reaffirmed for the 2021-2027 period, supported by the Youth Guarantee flagship under the Economic and Investment Plan for the Western Balkans which should be implemented by Western Balkan governments in line with the EU Youth

<sup>170</sup> [https://ec.europa.eu/info/sites/default/files/economy-finance/ip158\\_en\\_0.pdf](https://ec.europa.eu/info/sites/default/files/economy-finance/ip158_en_0.pdf)

<sup>171</sup> <https://www.csqb.gov.tr/media/86876/ulusal-genc-istihdam-stratejisi-ve-eylem-plani-2021-2023.pdf>

Guarantee<sup>172</sup>. The **Youth Guarantee Implementation Plan for the Western Balkans** under Flagship 10 is structured in 4 stages, all of which **may be supported with IPA assistance**. Its objective is to identify ongoing/ planned reforms and initiatives to establish, implement and enhance the Youth Guarantee.

Phase 1 – Implementation plan: identification of planned measures and their timelines, budget, necessary changes to legal framework, definition of a central coordinating body and the roles of relevant public authorities (line ministries and their agencies, including employment services and centres for social work, education and training institutions including VET schools, etc.) and stakeholders (employers and trade unions, chambers of commerce, youth organisations, NGOs, etc.)

Phase 2 – Preparatory work: building commitment at political level; building the commitment and capacity of public authorities and stakeholders, staffing and infrastructure development; changes to legal framework, preparation of monitoring and evaluation frameworks

Phase 3 – Pilot phase: implementation in a limited number of localities/regions, monitoring and evaluation

Phase 4 – Progressive/General deployment: implementation in more regions/countrywide, monitoring and evaluation

The **effective planning and delivery of the YGs will require strong coordination and partnership between different levels of government and different policy fields** (employment, education, youth, gender equality, housing, health, and social affairs) as well as **widespread and consolidated mechanisms for the involvement of all stakeholders in partnership for their design and implementation**; key to success will be the inclusion of youth stakeholders from the very inception in designing and setting up the YGs and planning pilot schemes, marking a new approach to policy design and implementation. A new EC/ILO Technical Assistance Facility has been set up in 2021 to support the institutions responsible for youth employment policy in the Western Balkans in introducing the youth guarantee.

Although some preparations have begun for the YG in most of the WB6, specific attention needs to be paid to **attested weak areas** such as **inter-institutional coordination, involvement of all stakeholders and partnerships, quality and design of ALMPs and training/retraining programmes, capacities of PESs and monitoring mechanisms**<sup>173</sup>.

Initiatives such as the envisaged Danube Youth Council<sup>174</sup> within the context of the European Year of Youth 2022 show an increasing emphasis on the inclusion of youth in the implementation of strategies; however, this has yet to trickle down to localised levels, particularly in rural areas throughout the Western Balkans. The **inclusion of youth representative groups as partners in YGs** from the earliest stages of design and ensuring their participation in implementation and monitoring of pilots would provide an example of how **in practice the principles of the ECCP can be integrated into the planning, implementation and monitoring of specific cohesion policy measures**. The **similar approach in the planning of territorial instruments** should be adopted, with emphasis on including **youth as a driving force** in planning for rural areas, such as **smart village strategies**<sup>175</sup> designed to support the **twin transitions** in rural areas and provide for sustainable economic opportunities that will help to counter growing youth migration from rural areas. Other areas that could be supported are youth-led or participated social enterprises and the voluntary sector.

<sup>172</sup> European Council's Recommendation of 30 October 2020 on A Bridge to Jobs – Reinforcing the Youth Guarantee [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.C\\_2020.372.01.0001.01.ENG&toc=OJ%3AC%3A2020%3A372%3ATOC](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.C_2020.372.01.0001.01.ENG&toc=OJ%3AC%3A2020%3A372%3ATOC)

<sup>173</sup> <https://www.rcc.int/docs/575/leaflet-youth-guarantee-in-western-balkans>

<sup>174</sup> <https://danube-region.eu/danube-youth-council-to-be-established-in-the-european-year-of-youth/>

<sup>175</sup> [https://enrd.ec.europa.eu/sites/default/files/enrd\\_publications/smart-villages\\_orientations\\_sv-strategies.pdf](https://enrd.ec.europa.eu/sites/default/files/enrd_publications/smart-villages_orientations_sv-strategies.pdf)

**Key Takeaway n. 3.18:** Although in general employment policies are in place, **implementation of the regulatory framework remains challenging**. Coordination and monitoring mechanisms are weak. **Rates of temporary employment and informal employment are in general high, and unemployment rates are very high**, well above the EU and OECD averages. The **education system is largely failing to produce the skills employers need**, mechanisms for transition to work are not very effective and the take up of lifelong learning initiatives is limited. Efforts to increase **female employment rates** are ongoing; however, they continue to remain **significantly below OECD and EU averages**. Even if the capacities of their **public employment services (PESs)** have improved, **caseloads are very high**. **Active labour market programmes still need to target better vulnerable and minority groups**.

**Urgent action is needed as regards NEETs to avoid long-term exclusion** for a generation of young people due to the impact of the ongoing epidemiological crisis, who now face greater challenges in getting (back) into the labour market; recovery strategies need to make **youth employment a key objective**, taking into account **intersectionality with gender** and other relevant dimensions.

**Youth representative groups should be fully involved in the design, implementation and monitoring of Youth Guarantee schemes and in other territorial instruments, especially in rural areas, such as smart village strategies, to address youth migration.**

## Gender Equality

In terms of data and information on gender equality, **the Gender Equality Index is an important policy-making tool that measures how far (or close) the EU and its Member States are from achieving gender equality**. The Gender Equality Index provides results for each of the six core domains: money, knowledge, time, power and health as well as two additional domains: intersecting inequalities and violence. The development of **Gender Equality Indices started in the Western Balkans and Turkey in 2015**, in line with the European Institute for Gender Equality (EIGE)<sup>176</sup> methodology, which allow for regional comparison among Member States and EU candidate countries and potential candidates. So far, **four EU candidate countries** (Serbia, North Macedonia, Albania and Montenegro) **have calculated their Gender Equality Index. Their scores in 2020 were slightly lower than the EU-27 average, which currently has an overall score of 67.4 (2020)**. Statistics for IPA Beneficiaries are also available for some indicators in the EIGE Gender Statistics Database, although not consistently.

As regards the enabling condition **National strategic framework for gender equality**, the fulfilment criteria are:

1. Evidence-based identification of challenges to gender equality.
2. Measures to address gender gaps in employment, pay, pensions, and to promote work-life balance for women and men, including through improving access to early childhood education and care, with targets, while respecting the role and autonomy of the social partners.
3. Arrangements for monitoring, evaluation and review of the strategic policy framework and data collection methods based on sex-disaggregated data.
4. Arrangements for ensuring that its design, implementation, monitoring and review is conducted in close cooperation with relevant stakeholders, including equality bodies, social partners and civil society organisations.

<sup>176</sup> <https://eige.europa.eu/gender-equality-indices-western-balkans-and-turkey>

An overview at country level is presented in the table below, including key critical areas to be addressed.

**Table 3. 12 Progress with achieving a national strategic framework for gender equality**

IPA Beneficiary	Gender Equality framework and challenges
Albania	<p>The <b>institutional framework and policies to ensure gender equality are in place</b>. However, <b>the implementation of the national strategy and action plan 2016-2020 on gender equality was severely hampered by a persistent funding gap</b>. The <b>new strategy on gender equality 2021-2030</b> was adopted in June 2021 and <b>significant efforts are needed to ensure adequate state funding to implement it at central and local levels</b>. Furthermore, <b>efforts are also required</b> to ensure that all <b>national strategies</b> at central and local level are <b>gender mainstreamed</b> and <b>apply gender responsive budgeting</b>.</p> <p>The main national authority in charge of gender equality is the Ministry of Health and Social Protection, also heading the National Council of Gender Equality, the highest advisory body. Each line ministry has a gender focal point. At local government level, there are gender employees in each municipality who in many municipalities also play the role of the local coordinators against domestic violence. The parliament also includes structures supporting gender equality. The Sub-Commission on Gender Equality and Prevention of Violence against Women is responsible for overseeing the implementation of the National Strategy on Gender Equality and reporting on domestic violence and discrimination against women.</p> <p>The <b>overall Gender Equality Index 2020 reached 60.4</b>, indicating a gender gap of 7.4 points below the EU-28 average (67.4). The largest gaps to the EU-28 are in the domains of knowledge, money and time, while scores are similar in the domains of work and health. Gender gaps in school enrolment between pre-primary and secondary have virtually disappeared, while tertiary enrolment is over 26% higher for females. Moreover, the legal framework recognizes gender parity in all aspects of social and economic life and bars discriminatory practices, such as dismissing female workers who become pregnant or give birth. Despite the <b>significant progress in recent years</b> promoting gender equality, certain <b>challenges remain</b>, especially in women's lack of essential productive resources and access to justice, including property rights, while gender stereotyping remains deeply-rooted. Current <b>gaps in administrative sex-disaggregated statistics and gender data</b> are likely to reinforce existing inequalities and the vicious cycle between lack of data and no remedial action. Albania is estimated to lose 20% of per capita GDP every year due to women's low labour-force participation rate, overrepresentation in unpaid and poorly paid sectors, and lower average wages than men in similar positions. <b>Addressing the socio-economic constraints that limit women's access to income-generating opportunities will be critical to unleash Albania's inclusive growth potential</b>. However, the <b>funds earmarked for gender equality are insufficient</b> to overcome the identified shortcomings.</p>
Bosnia and Herzegovina	<p><b>Gender is one of the few policy areas which are harmonised</b> across the country but <b>legislation on gender equality remains to be harmonised across the country and effectively enforced</b>. The Gender Action Plan of Bosnia and Herzegovina 2018-2022 is a comprehensive medium-term strategy for gender equality and women's empowerment prepared on the basis of the national legal foundation for gender equality and on the binding international documents. The main state level authority in charge of gender equality is the Gender Equality Agency of Bosnia and Herzegovina, in accordance with the mentioned law. The Agency for Gender Equality of Bosnia and Herzegovina, the Ministry of Human Rights and Refugees of BiH in cooperation with the Gender Centre of the Federation of Bosnia and Herzegovina and the Gender Centre of Republika Srpska developed the Financial Instrument for the Implementation of the Gender Action Plan of Bosnia and Herzegovina to provide funds for its implementation. Furthermore, in compliance with the Law on Gender Equality, many local self-government units are developing local gender action plans to operationalise the GAP's high-level priorities.</p> <p>Despite the significant progress in recent years promoting gender equality, <b>certain challenges remain</b><sup>177</sup>. These include: <b>traditional gender cultural beliefs in relation to political participation and decision-making</b> and <b>gender-based discrimination in employment and the labour market</b>, as well as <b>sexual harassment and mobbing</b> at</p>

<sup>177</sup> <https://eca.unwomen.org/en/digital-library/publications/2021/7/country-gender-equality-profile-bih>



	<p>work. <b>Gender stereotypes</b> contribute to the enhanced stereotyping of gender roles in all aspects of society, <b>normalising gender-based violence</b>, and further <b>perpetuating gender inequity</b>. The <b>challenges of achieving gender equality in social protection and healthcare</b> include underfunded specialised services for victims of gender-based violence and domestic violence, particularly shelters for women victims of domestic violence, and the lack of rape crisis centres.</p> <p><b>Gender data gaps are another critical issue</b>. As BiH is not included in the European Gender Equality Index, the EIGE is training members of the Gender Equality Agency, the Agency for Statistics of Bosnia and Herzegovina and other partners on how to calculate their own index.</p>
Kosovo*	<p>The regulatory framework is defined through the <b>Law on Gender Equality</b> Law no. 05 / L-020 that <b>provides for gender mainstreaming</b> in all policies, documents and legislation and aims for economic strengthening and steps to improve women's or men's positions in the field of employment, education, health, culture and allocation and re-allocation of resources. In 2015, the Assembly of Kosovo* adopted new legislation on gender equality and the prohibition of discrimination and a new Law on the Ombudsperson Institution. The Agency for Gender Equality, located in the Prime Minister's Office, has a mandate to design, implement, propose, coordinate and monitor local and international public policies on gender equality. The Ombudsperson is responsible for dealing with complaints related to gender-based discrimination.</p> <p>The Government adopted a <b>Gender Equality Programme for the period 2020-2024</b> in June 2020 as a platform to advance gender equality in Kosovo. According to the background data from the Kosovo* Gender Equality Programme, <b>women in Kosovo* suffer from multiple types of discrimination</b>, including in the labour market, education, occupational gender segregation and entrepreneurship. Other issues identified are equal access to property and social resources and problems of personal security and cultural equality due to deeply ingrained cultural traditions<sup>178</sup>. <b>Political underrepresentation</b> is illustrated by the fact that Kosovo* does not have a single woman mayor in any of its 38 municipalities.</p>
Montenegro	<p>The <b>regulatory framework for gender equality is defined through the Law on Gender Equality</b>, while the main institutional framework is composed of the Committee for Gender Equality in the Montenegrin Parliament, National Council for Gender Equality, and the Gender Equality Department within the Ministry for Human and Minority Rights. At local level, <b>the majority of LSG Units have some mechanisms for gender equality</b> in place. Cooperation with CSOs is ensured within working groups for drafting laws and strategies concerning gender equality as well as through committees for monitoring the Convention and the Law on Gender Equality, national and local plans for gender equality, the Committee for monitoring of the implementation of the Action Plan on Gender Equality, and the National Council for Gender Equality.</p> <p>The <b>Action plan for achievement of gender equality in Montenegro (2017-2021) is the main strategic framework for the implementation of gender equality policy</b> in Montenegro. <b>In 2020 the Gender Equality Index was published for the first time</b>, for the year 2019. Montenegro scored 55 points, indicating a <b>significant gender gap</b> of 12.4 points below the EU-28 average (67.4). The highest score was in domain of health, followed by the domain of money, even though this domain has the biggest gap with the EU. The <b>lowest scores are in the domains of power (35.1) and time (52.7)</b>. The calculation of the Index for 2021 should allow the possibility to evaluate the effectiveness of the policy actions taken between the two periods. According to the report, the next Index should be improved in terms of data coverage and more specific segregation of data to provide better targeted policy recommendations.</p> <p>The Action plan allows for sufficient monitoring of implementation, of gender policy and it could be assessed as addressing the enabling condition related to setting up of the arrangements for monitoring, evaluation and review of the strategic policy framework and data collection methods. However, according to the Report on the Post-legislative oversight of the Law on the Amendments on the Gender Equality Law<sup>179</sup>, "stable partnerships that would contribute to greater effectiveness and impact of the implementation of the Law and the implementation of the Action Plan have not been established". In addition, the Report concludes that the <b>lack of inter-institutional cooperation</b> and prolongation of some initiated processes impact implementation which did not have a consistent and effective coordination/management mechanism, including <b>a lack of clear lines of responsibility for implementation, monitoring and reporting</b>. Although the Action Plan identifies the monitoring system, the mechanism for monitoring was not effectively established.</p>

<sup>178</sup> <https://borgenproject.org/womens-rights-in-kosovo/>

<sup>179</sup> <https://api.skupstina.me/media/files/1606741582-hugen-izvjestaj.pdf>



North Macedonia	<p>The <b>expired Strategy for Gender Equality 2013-20 and National Action Plan for Gender Equality 2018-2020 prioritised a range of measures</b>, including efforts to strengthen institutions in support of victims of gender-based violence, harmonization of EU legislation with international standards, gender-responsive budgeting and awareness raising concerning gender-based violence.</p> <p>The Revised Employment and Social Reform Programme 2022-ESRP(r) envisaged the preparation of the new Strategy for Gender Equality 2021-2026, as well as the adoption of a new Law on Gender Equality in order to establish an efficient system of gender equality. The Ministry in charge for gender equality is the Ministry of Labour and Social Policy, responsible for ensuring that the gender perspective is embedded in the strategic planning policies. The Regulation on the manner of acting of the ministries and other state administration bodies in the process of preparing the strategic plan (Official Gazette 131/18) introduced the principle of equal opportunities for all ministries that are obliged to introduce the principle in their strategic plans and goals for the future three-year period.</p> <p>There is still <b>significant gender inequality</b> and North Macedonia and the country lags behind the EU average in achieving gender equality, in almost all domains covered by the Gender Equality Index for 2019 scoring 62 points. The highest score was achieved in the domain of power. More work needs to be done in domains of time 55.8 and money 62.1. North Macedonia has made <b>progress in developing policies to reduce gender inequality</b>. Gender mechanisms are also included at the local level within institutions. Commissions for equal opportunities for women and men have been established within the local self-government councils and there are coordinators for equal opportunities for women and men within the public sector. However, the Country still copes with <b>deep-rooted, patriarchal stereotypes</b> regarding the role and responsibilities of women and men in the family and in society at large; <b>women are underrepresented</b> in central and local government, and in general at decision making level, face <b>numerous challenges in employment</b>, while <b>gender-based violence</b> remains a concern. <b>Gaps in policy development and slow implementation</b> of the adopted legislation constitute important <b>structural obstacles</b> to achieving gender equality. Improvements are needed in <b>strengthening institutional capacities and enhancing cooperation between the gender mechanisms, the key ministries and civil society organizations to increase gender mainstreaming</b> in all aspect of government work - primarily policy development and budgeting - as the means for achieving gender equality.</p>
Serbia	<p>In April <b>2021</b>, the Serbian government adopted the <b>Law on Gender Equality</b>, which improves the institutional framework and creates conditions for the implementation of a policy of equal opportunities for women and men, in particular the issue of the <b>coordination of the policies</b>. The Strategy for gender equality 2021-2030 was adopted in October 2021. However, <b>an efficient institutional set-up with adequate resources needs to be ensured at national and local levels</b>. The main institutional framework for gender equality is composed of the Coordination Body for Gender Equality of the Republic of Serbia and the Ministry of Human and Minority Rights and Social Dialogue, while the Republican Secretariat for Public Policies is in charge of the preparation of the Gender Equality Index. <b>Serbia was the first country outside the EU to calculate the Gender Equality Index in 2016</b>. Serbia scored 52.4 points in 2016, 55.8 in 2018 and 58.0 in 2021, indicating <b>continuous, albeit slow progress</b>. According to the 2021 Index edition, the biggest improvement lies in the domain of power which has increased by 18.5 points since 2016. The progress in other domains was far slower, with the domain of work increasing by 2.1 points, the domain of money by 0.6 points, and the domain of health by 0.7 points; furthermore, somewhat worryingly, the score in the domain of knowledge has decreased by 0.9 points since 2016. The 2021 report also includes a thematic focus on digitalisation and analyses the situation of violence against women.</p> <p>One of the major areas of progress in Serbia has been <b>the roll-out of gender-responsive budgeting (GRB)</b>. With support of UN Women and in cooperation with the Ministry of Finance, the Coordination Body for Gender Equality, and the Vojvodina Provincial Secretariat of Finance, <b>66 of the 79 national and provincial administrations included gender-responsiveness in their 2020 budgets</b>. Training has been conducted for more than 1,300 civil servants on GRB since 2015 and GRB is included in the government's budget software at the provincial and national levels.</p>
Turkey	<p>The <b>policy framework for gender equality</b> is defined by the <b>Turkey's 11th National Development Plan 2019-2023</b>, which includes goals and actions to empower women, prohibit discrimination against them, and ensure that women have equal access to the</p>

same rights, opportunities, and facilities as men and the **National Strategy and Action Plan on Women's Empowerment (2018-2023)**<sup>180</sup>.

However, severe gender disparities persist in a variety of domains, **Turkey ranks 133rd out of 156 countries in terms of gender equality**, 101st in terms of educational attainment for women, 114th in terms of political empowerment, 140th in terms of economic participation and opportunity, and 105th in terms of health and survival, according to the **World Economic Forum's Global Gender Gap Report 2021**.

**The EU 2021 Country Report** underlines the importance of the improvements in the area of gender equality stating that **representation of women in Parliament remained low (17.32 %)**, despite the Committee on Equality of Opportunity for Women and Men and some individual deputies' efforts, the Parliament did not prioritise advancing gender equality across the country.

The Report also underlines **significant backsliding on women's rights**. "*Turkey's withdrawal from the Council of Europe Convention on preventing and combatting violence against women and domestic violence (the Istanbul Convention), followed by the adoption of a presidential decision in March 2021, represents a clear regression on the rights of women and girls. This decision compromises the women and girls' rights and combatting gender-based violence in Turkey and sets a dangerous precedent.*"

UN Women has recently launched a three-year project "**Implementing Gender-Responsive Planning and Budgeting in Turkey**" i funded by the EU; the main beneficiary of which is the Ministry of Family and Social Services - **General Directorate on the Status of Women** and the co-beneficiary is Presidency of Turkey-Presidency of Strategy and Budget. The project's main objective is to empower women and further strengthen gender equality in Turkey through systematic and sustainable integration of gender perspectives at all stages of national and local policy-making and budgeting processes, providing tailored technical assistance and guidance, and building institutional capacity and knowledge. It is designed to support selected line Ministries as well as four selected pilot municipalities.

The continuing epidemiological crisis is also impacting significantly on gender equality; the COVID-19 pandemic underscores society's reliance on women both on the front line and at home, while simultaneously exposing structural inequalities across every sphere, from health to the economy, security to social protection. When resources are strained and institutional capacity is limited, women and girls face disproportionate impacts with far reaching consequences that are only further amplified in contexts of fragility, conflict, and emergencies, as confirmed by UN Women's Rapid Assessments in the region.

**Key Takeaway n. 3.19:** While policy frameworks are generally in place, **interinstitutional coordination and implementation need improvement**. **Gender mainstreaming and gender responsive budgeting** need to be **rolled out**, following the best practice in Serbia, in particular to avoid gender blindness. In several cases, **effective policy-making** for gender equality is hampered by **data gaps**. **The WB6 and Turkey lag significantly behind the EU overall** and in most domains **in terms of gender equality**, often due to deeply-entrenched cultural beliefs and traditions. **Gender Equality Action Plans** need **sufficient financing and improved monitoring** in order to address the identified challenges, especially in recovery initiatives due to the epidemiological crisis.

3.2.8. Pathways to enhancing the territorial dimension – integrated territorial instruments, sustainable urban development, urban-rural linkages, macro-regional dimension, European Territorial Cooperation

### Integrated Territorial Instruments

EU Cohesion Policy encourages a **more integrated and place-based approach** to regional, urban and local development. EU Member States are enabled to use Cohesion Policy resources for the implementation of integrated territorial development and apply tools, such as **Integrated Territorial Investments (ITIs) and Community-Led Local**

<sup>180</sup>[http://www.sp.gov.tr/upload/xSPTemelBelge/files/RySPo+KADININ\\_GUCLENMESI\\_STRATEJI\\_BELGESI\\_VE\\_EYLEM\\_PLANI\\_2018-2023\\_.pdf](http://www.sp.gov.tr/upload/xSPTemelBelge/files/RySPo+KADININ_GUCLENMESI_STRATEJI_BELGESI_VE_EYLEM_PLANI_2018-2023_.pdf)

**Development (CLLD)** (introduced for the 2014-2020 perspective) or other territorial tools supporting initiatives designed by the Member States, created with the aim **to contribute to the territorial cohesion objective** in the financial perspective 2021-2027. Furthermore, at least 8 % of the ERDF resources at national level under the Investment for jobs and growth goal, other than for technical assistance, shall be allocated to sustainable urban development.

Territorial strategies should be developed and endorsed under the responsibility of relevant authorities or bodies and, to ensure their involvement in implementing territorial strategies, those authorities or bodies should be responsible for the selection of operations to be supported or be involved in that selection. However, **IPA III, like IPA II, does not foresee such tools, except in the case of sectoral programmes for Rural Development** where LEADER<sup>181</sup>-like initiatives may be financed. However, in the WB6, support to LEADER-like activities has been limited<sup>182</sup> to pilot initiatives, from different donor organisations and sporadic national funding; the established LAG-like partnerships are new and fragile and suffer from a financial and technical support gap.

The 2019 European Parliament Briefing Note on Integrated Territorial Investments as an effective tool of the Cohesion Policy<sup>183</sup> sums up some of the substantial **challenges** involved in designing and implementing ITIs and Integrated Sustainable Urban Development, namely: **defining and designing territorial strategies; mobilising potential beneficiaries; developing strategic, integrated project proposals; regulatory issues and complex implementation; monitoring and evaluation; and communication and visibility.**

The introduction of ITIs and CLLD in the WB6 and Turkey will require **significant efforts for an appropriate institutional set-up**, supported by policy and regulatory developments, on the one hand and even more critically, **substantial empowerment and capacity-building of local stakeholders** on the other. The **shortcomings in the planning and development capacities of regional and local administrations** presented in section 2.1.3 illustrate that this should be a **key area of attention for capacity-building under IPA III.**

### Macro-regional Strategies

**Four countries in the WB6** (Albania, Bosnia and Herzegovina, Serbia and since April 2020 North Macedonia<sup>184</sup>) are **involved in the implementation of the EU Strategy for the Adriatic and Ionian Region** (EUSAIR) which aims to promote economic and social prosperity and growth in the region by improving its attractiveness, competitiveness and connectivity as well as contribute to the further integration of the Western Balkans. The Region is a functional area primarily defined by the Adriatic and Ionian Seas basin. Covering also an important terrestrial surface area, it treats the marine, coastal and terrestrial areas as interconnected systems. With intensified movements of goods, services and peoples owing to Croatia's accession to the EU and with the prospect of EU accession for other countries in the Region, port hinterlands play a prominent role. Attention to land-sea linkages also highlights impacts of unsustainable land-based activities on coastal areas and marine ecosystems. As indicated in the Final Report of the EU Strategy for the Adriatic and Ionian Region (EUSAIR) facilitating the enlargement process of Western Balkans<sup>185</sup>, the **EUSAIR may contribute to the EU integration process**, bringing the following assets: **a horizontal dimension, a regional dimension** connecting the Western Balkans with the

<sup>181</sup> The term 'LEADER' originally came from the French acronym for "Liaison Entre Actions de Développement de l'Économie Rurale", meaning 'Links between the rural economy and development actions'.

<sup>182</sup> [https://enrd.ec.europa.eu/sites/default/files/enrd\\_publications/leader-western-balkans.pdf](https://enrd.ec.europa.eu/sites/default/files/enrd_publications/leader-western-balkans.pdf)

<sup>183</sup> [https://www.europarl.europa.eu/cmsdata/162823/25032019\\_CONT\\_Briefing\\_ITI\\_Final.pdf](https://www.europarl.europa.eu/cmsdata/162823/25032019_CONT_Briefing_ITI_Final.pdf)

<sup>184</sup> [https://ec.europa.eu/regional\\_policy/sources/cooperate/adriat\\_ionian/pdf/com\\_2020\\_132\\_addendum\\_north\\_macedonia\\_en.pdf](https://ec.europa.eu/regional_policy/sources/cooperate/adriat_ionian/pdf/com_2020_132_addendum_north_macedonia_en.pdf)

<sup>185</sup> [https://ec.europa.eu/regional\\_policy/sources/cooperate/adriat\\_ionian/pdf/eusair\\_enlarg\\_west\\_balkans.pdf](https://ec.europa.eu/regional_policy/sources/cooperate/adriat_ionian/pdf/eusair_enlarg_west_balkans.pdf)

EU, **the convergence of interests** between MS and IPA II beneficiaries **on enlargement, capacity building** contribution and an **inclusive approach**. The Strategy, adopted in 2014, is focused on 4 pillars: Blue Growth, Connecting the Region, Environmental Quality and Sustainable Tourism. The governance architecture of the EUSAIR consists of Ministers for EU Funds and/ or Ministers of Foreign Affairs of the nine participating countries at political level, a coordination level represented by a Governing Board and an implementation level represented by Thematic Steering Groups. **The TSGs are chaired by a tandem of countries, consisting of both EU member states and IPA countries** namely: Greece and Montenegro for Pillar 1, Italy, Serbia and North Macedonia for Pillar 2, Slovenia and Bosnia-Herzegovina for Pillar 3, and Croatia and Albania for Pillar 4. **Local actors from the non-EU countries are not involved in the governance and management architecture of the EUSAIR at macro-regional or national levels.** Besides embedding MRS in the EU programmes and strategic documents related to IPA beneficiaries and inviting countries to allocate national funds to the MRS implementation, it seems that so far **Interreg programmes rather than IPA funds are used to finance actions under the EUSAIR**, through projects. In addition, **IFIs**, in particular the EIB, **support the implementation of the EUSAIR**. The INTERREG ADRION programme supports the governance of the EUSAIR, channelled through the EUSAIR Facility Point (Slovenia). 15 EUSAIR Flagships for the period 2021 – 2027 were adopted in June 2020.

The **EU Strategy for the Danube Region (EUSDR)**, adopted by the Commission in 2010 and endorsed by the Council the following year, gathers **9 EU Member States** (Austria, Romania, Germany, Croatia, Czech Republic, Slovakia, Hungary, Slovenia, Bulgaria) and **5 non-EU countries (Serbia, Bosnia and Herzegovina, Ukraine, Moldova and Montenegro)** with the aim to improve intra and inter-regional connectivity through coordination and cooperation in the area of transport and energy and, promotion of culture and tourism. It is based on four pillars (Connecting the Region, Protecting the Environment, Building Prosperity and Strengthening the Region) and 12 priority areas. The updated EUSDR Action Plan outlines operational objectives, projects and actions for each priority area.

The governance architecture of the EUSDR includes the political level, co-ordination level and operational level. The Presidency via rotation principle follows the alphabetical order of the participating states and it is held for 1 year by one of the EUSDR countries. The appointed National Coordinators are responsible for the overall coordination of the EUSDR implementation in each participating country. While Serbia and Montenegro have appointed EUSDR National Coordinators, in Bosnia and Herzegovina there is no information on a nationally-nominated coordinator. Each priority area is managed by two Priority Area Coordinators (PACs) appointed by different Danube region states. Slovenia and Serbia coordinate EUSDR priority area 1B: Rail, road and air links, while Slovakia and Serbia are coordinators of priority area 7: To develop the knowledge society (research, education and ICT) and representatives of Belgrade University are part of the PAC's support teams for PA 7. Bulgaria, Romania and Montenegro are coordinates of priority area 2: To promote culture and tourism, people to people contacts. **Bosnia and Herzegovina is not involved in any of the management structures of the EUSDR priority areas.** Steering groups have the role to advise and assist the work of the PACs. Serbia is actively involved in the work of the Steering Groups and in Montenegro, the European integration office is involved in the work of the SG for PA 10. Among the IPA participants, **only Serbia has set up a national EUSDR coordination mechanism**, establishing a National Working Group in 2009 which included ten line-ministries, the Government of the Autonomous Province of Vojvodina and the Serbian European Integration Office. **Local actors and non-governmental organisations in IPA countries are not involved in the governance and management architecture of the EUSDR at macro-regional and national level.**

Under the EUSDR a non-exhaustive list of strategic projects has been identified and updated by the PACs and SG. Interreg programmes are typically used to finance actions in the framework of the EUSDR through projects. The Danube Transnational programme



provides support to PACs as well as funding for various actions within the programmes' priorities; however, while **Serbia is a beneficiary of the Technical Assistance** provided under the Danube TN programme; **Montenegro and Bosnia and Herzegovina are not**. According to the Montenegrin authorities, this is one of the factors that has contributed to limiting the involvement of other relevant institutions in the process of coordination and implementation of the EUSDR in the country.

The non-EU countries **need to implement their development policies through deeper integration provided by cooperation mechanisms within the MRS**. However, they have to **demonstrate a greater degree of engagement and internal commitment**, as well as adequate level of **administrative potential** in order to **participate in the MRS on an equal footing with the Member States**. The EC could also explore possibilities to provide **targeted TA to IPA Beneficiaries that are common to more than one MRS**, such as Serbia and Montenegro. More **streamlined procedures for embedding MRS in IPA programming and donor coordination would be also beneficial**. Furthermore, there are **no proper mechanisms in place to link and prioritise initiatives contributing to the MRS under the Single Project Pipelines**, given the potential role of the WBIF, the IFIs and, in particular, the European Investment Bank, this is seen as a critical weakness.

### Territorial Cooperation

As regards the management of territorial cooperation programmes financed by EU Funds, this is examined in section 3.1.2 of this Report. The focus in this section is on the contribution of territorial cooperation programmes to convergence objectives and territorial cohesion.

**Table 3. 13 IPA Beneficiaries' participation in Transnational Cooperation Programmes**

Programme	Participating countries	2014-2020 allocations	
		ERDF	IPA
TN INTERREG MED	<u>2014-2020</u> : Croatia, Cyprus, France, Greece, Italy, Malta, Portugal, Slovenia, Spain, United Kingdom <sup>186</sup> , <i>Albania, Bosnia and Herzegovina, Montenegro</i> <u>2021-2027</u> : additionally, Bulgaria, North Macedonia without the United Kingdom	224.3 million EUR	9.3 million EUR
TN ADRION	Croatia, Greece, Italy, Slovenia, <i>Albania, Bosnia and Herzegovina, Montenegro, Serbia</i> ; additionally for 2021-2027 <i>North Macedonia</i>	83.5 million EUR	15.7 million EUR
TN DANUBE	Austria, Bulgaria, Croatia, Czech Republic, Germany - Baden-Württemberg and Bavaria-, Hungary, Romania, Slovakia, Slovenia, <i>Bosnia and Herzegovina</i> , the Republic of Moldova, <i>Montenegro, Serbia, Ukraine</i>	202 million EUR	19.8 million EUR
TN BALKANS MED <sup>187</sup>	Bulgaria, Cyprus, Greece, <i>Albania, North Macedonia</i>	28.3 million EUR	5.1 million EUR

The figures above clearly show **the limited IPA funds available**; since there is no common pot in transnational cooperation programmes, this **inevitably curtailed the extent of cooperation with IPA partners** in terms of participation in cooperation projects and IPA partners cannot participate on an equal footing simply due to budget restrictions. Further **limits to cooperation** are the programme rules that **IPA partners cannot be Lead**

<sup>186</sup> Gibraltar.

<sup>187</sup> Discontinued for 2021-2027



**partners** and that **economic operators from IPA countries are not eligible**. However, participation in these programmes opens up experience to **national authorities in IPA countries to participate in programme development and governance on a equal basis with Member States**. The same approach to programming is adopted throughout the programme area, and **participating IPA countries are members of the monitoring committees with identical responsibilities**, including for the **selection of operations**.

**Cooperation with Member States in cross-border programmes (IPA CBC)** provides the **most extensive platform for territorial cooperation** given the volume of funds available. Although **the volume of funds available is still insufficient to address the significant disparities and challenges in these border areas**, from the perspective of IPA beneficiaries, and given the shift away from multi-annual sectoral programmes and very limited number of grant schemes funded under IPA, they **provide in practice the only opportunity for territorial and local actors in the WB6 to prepare and manage EU-funded projects for convergence objectives**.

**Table 3. 14 Programme priorities and allocations for shared management programmes with Member States (ENI CBC/IPA CBC)**

Programme and	Territorial characteristics and programme priorities	2014-2020 allocation (EU contribution)
IPA CBC Programme Italy – Albania - Montenegro 2014-2020	<ol style="list-style-type: none"> <li>1) Strengthening cross-border cooperation and the competitiveness of SMEs</li> <li>2) Smart management of natural and cultural heritage for the exploitation of cross-border sustainable tourism and territorial attractiveness</li> <li>3) Introducing sustainable transport services and improving public infrastructures</li> <li>4) Environmental protection, risk management and the shift towards the low carbon strategy</li> </ol>	78.8 million EUR
IPA CBC programme Greece-Albania 2014-2020	<ol style="list-style-type: none"> <li>1) Promotion of the environment, sustainable transport</li> <li>2) Public infrastructure and boosting the local economy.</li> </ol>	46 million EUR
IPA CBC Croatia - Bosnia and Herzegovina – Montenegro	<ol style="list-style-type: none"> <li>1) Improving the quality of the services in public health and social care sector</li> <li>2) Protecting the environment and nature, improving risk prevention and promoting sustainable energy and energy efficiency</li> <li>3) Contributing to the development of tourism and preserving cultural and natural heritage</li> <li>4) Enhancing competitiveness and developing business environment in the programme area</li> </ol>	57.15 million EUR
IPA CBC Programme Hungary-Serbia	<ol style="list-style-type: none"> <li>1) Protecting the environment and promoting climate change adaptation and mitigation, risk prevention and management</li> <li>2) Promoting sustainable transport and improving public infrastructures</li> <li>3) Encouraging tourism and cultural and natural heritage</li> <li>4) Enhancing competitiveness, the business environment and the</li> </ol>	65.1 million EUR
IPA CBC Programme Romania-Serbia	<ol style="list-style-type: none"> <li>1) Employment promotion and basic services strengthening for an inclusive growth</li> <li>2) Environmental protection and risk management</li> <li>3) Sustainable mobility and accessibility</li> <li>4) Attractiveness for sustainable tourism</li> </ol>	74.9 million EUR
IPA CBC Programme Bulgaria-Serbia	<ol style="list-style-type: none"> <li>1) Encouraging tourism and cultural and natural heritage</li> <li>2) Investing in youth, education and skills</li> <li>3) Protecting the environment and promoting climate change adaptation and mitigation, risk prevention and management</li> </ol>	28.99 million EUR
IPA CBC Programme Croatia-Serbia	<ol style="list-style-type: none"> <li>1) Improving the quality of public social and health services in the programme area</li> </ol>	34.29 million EUR

	2) Protecting the environment and biodiversity, improving risk prevention and promoting sustainable energy and energy efficiency 3) Contributing to the development of tourism and preserving cultural and natural heritage 4) Enhancing competitiveness and developing business environment in the programme area.	
IPA CBC Bulgaria – North Macedonia	1) Environment 2) Tourism 3) Competitiveness	16.54 million EUR
IPA CBC Greece – North Macedonia	1) Development and Support of Local Economy 2) Protection of Environment - Transportation	38.64 million EUR
IPA CBC Bulgaria - Turkey	1) Sustainable tourism 2) Youth 3) Environment	29.6 million EUR
ENI CBC Black Sea Basin <sup>188</sup>	1) Promote business and entrepreneurship 2) Environmental Protection and reduction of marine litter	49 million EUR

It is worth noting that **all the programmes have a priority axis on the environment**; additionally, a **priority axis on tourism and competitiveness are common to most programmes**. Interestingly, several programmes focus on health, social services and youth, providing some preparation towards operations that can contribute to a more social Europe.

As regards **cooperation programmes between IPA beneficiaries**, these are border regions in general **characterised by very severe disparities and challenges**, and **where local and territorial actors tend to have less experience and capacities**. The areas are often **fragile**, with **notable environmental challenges**, a **lack of environment and transport infrastructure**, **significant natural resources** that need protecting and valorising and subject to **long-standing negative migration trends** due to **low economic development and employment opportunities**. However, as can be seen from the table below, the **allocated budgets are extremely modest to address the identified challenges**.

**Table 3. 15 Overview of Cooperation Programmes between IPA Beneficiaries**

Programme	Territorial characteristics and programme priorities	IPA allocation
IPA CBC programme Albania-Kosovo* 2014-2020	The programme area shows high disparities in terms of economic and social development, facing various challenges. The selected priorities are: 1) Protecting the environment, promoting climate change adaptation and mitigation, risk prevention and management; 2) Encouraging tourism and promoting cultural and natural heritage; 3) Investing in youth, education and skills	8.4 million EUR
IPA CBC programme North Macedonia-Albania 2014-2020	The programme area is impoverished with among the least favourable socio-economic development opportunities and conditions in the region due to its rural, mountainous and remote character, characterised by underdeveloped infrastructure and low labour market skills. The selected priorities are: 1) Encouraging tourism, culture and natural heritage; 2) Enhancing competitiveness, business, trade and investment 3) Protecting environment, promoting climate change adaptation and mitigation, risk prevention and management	11.9 million EUR
IPA CBC programme Montenegro-Albania 2014-2020	The programme area shows regional disparities in terms of socio-economic development and the structure of economy is different on both sides of the border. The selected priorities are:	11.9 million EUR

<sup>188</sup> Participating countries: Armenia, Bulgaria, Greece, Georgia, Moldova, Romania, Turkey; Ukraine.

	<p>1) Encouraging tourism and cultural and natural heritage;                  2) Protecting the environment, promoting climate change adaptation and mitigation, risk prevention and management; 3) Promoting employment, labour mobility and social and cultural inclusion across the border</p>	
IPA CBC Bosnia and Herzegovina – Montenegro	<p>The programme area is marked by a high level of disparities, dominated by mountains and scarcely inhabited rural areas with an aging population and suffers from poor infrastructure and low economic development. The selected priorities are:                  1) Promoting employment, labour mobility, social and cultural inclusion across the border                  2) Protecting the environment, promoting climate change adaptation and mitigation, risk prevention and management                  3) Encouraging tourism, cultural and natural heritage</p>	7.56 million EUR
IPA CBC Programme Montenegro – Kosovo*	<p>The programme is marked by regional disparities between the territories and within their internal regions. The area abounds in environmental resources and biodiversity which are under significant pressure. The selected priorities are:                  1) Promoting employment, labour mobility and social and cultural inclusion across the border                  2) Protecting the environment, promoting climate change adaptation and mitigation, risk prevention and management                  3) Encouraging tourism and cultural and natural heritage</p>	8.4 million EUR
IPA CBC Programme Serbia-Bosnia and Herzegovina	<p>The programme area is characterised by significant disparities with high unemployment levels and poor social inclusion of vulnerable groups as well as limited environmental infrastructure. The selected priorities are:                  1) Promoting employment, labour mobility and social and cultural inclusion across the border                  2) Protecting the environment, promoting climate change adaptation and mitigation, risk prevention and management                  3) Encouraging tourism and cultural and natural heritage</p>	14 million EUR
IPA CBC Programme Serbia-Montenegro	<p>The programme territory is diverse, ranging from extremely sparsely populated areas to a few urban centres with above average population density and better access to different services, resulting in rural depopulation. Disparities are marked including high poverty levels, poor connectivity and limited environment infrastructure. The selected priorities are:                  1) Promoting employment, labour mobility and social and cultural inclusion across the border                  2) Protecting the environment, promoting climate change adaptation and mitigation, risk prevention and management                  3) Encouraging tourism and cultural and natural heritage</p>	8.4 million EUR
IPA CBC Programme Serbia-North Macedonia	<p>The programme area shows high regional disparities across the border and between the regions involved in each of the participating countries., and in general characterised by rather low level of economic activity and high unemployment rates. The selected priorities are:                  1) Promoting employment, labour mobility and social and cultural inclusion across the border                  2) Encouraging tourism and cultural and natural heritage</p>	3.5 million EUR
IPA CBC Programme Kosovo*-North Macedonia	<p>The main challenges of the predominately rural area are depopulation and migration. The economy is hampered by low labour productivity, lack of labour market skills to cope with new technologies and lack of innovation capacities. The selected priorities are:                  1)Enhancing competitiveness, business and SME development, trade and investment                  2)Encouraging tourism and cultural and natural heritage                  3)Protecting the environment, promoting climate change adaptation and mitigation, risk prevention and management</p>	7.5 million EUR

What becomes immediately clear from a comparison between cross-border cooperation programmes with Member States and programmes between IPA Beneficiaries is the **significantly smaller budgets** available, **despite the territorial disparities** and identified severe challenges in the area. This means that cooperation projects between IPA beneficiaries are necessarily of small-scale and provide limited opportunities for sustainable cooperation. Additionally, it has been noted that in some cases, such as Serbia, the areas bordering Member States are more developed than those bordering other IPA Beneficiaries; consequently, this imbalance in financial allocations does not help to alleviate internal disparities but may heighten them. Secondly, the scope of interventions as defined in the priority axes is much more limited in programmes between IPA Beneficiaries – and practically identical between programmes. **Given the scale of problems identified in the programme documents, it is evident that the volume of funds is inadequate, the projects are small-scale** (in both budget and ambition) and **the administrative burden for beneficiaries and partners high**. According to the main findings of the mid-term evaluation of cross border cooperation programmes between IPA II beneficiaries (August 2021), the cross-border cooperation is mainly *achieved through engagement in management of operations rather than in specific interventions that have a cross border nature, partnerships do sustain but they are often dependent on subsequent funding for this to happen*<sup>189</sup>.

**Key Takeaway n. 3.20: Territorial cooperation provides the best opportunity for IPA territorial and local actors to prepare and implement projects addressed towards convergence objectives**, even though budgets are not sufficient to significantly impact on the severe regional disparities that many of these regions face, particularly in the environmental field. Moreover, the limited funds available for transnational cooperation limit the potential benefits for cooperation and integration into larger areas that share the same challenges.

**Cooperation between IPA Beneficiaries is held back by very modest budgets that cannot significantly address the challenges identified**, especially as these are often regions marked by the greatest disparities.

Other **initiatives for cross-border and transnational cooperation** outside INTERREG can also be noted, in particular on **shared challenges and approaches to the management of common issues**, which **could be supported further by the donor community**, particularly in the environmental sector. For example, the results of the study<sup>190</sup> Pan Adriatic Scope, Adriatic-Ionian cooperation towards Maritime Spatial Planning show that some areas of the Adriatic and Ionian Region require cross-border and transnational cooperation on coastal and marine planning and management. Its future development should be based on green infrastructure and services and supported through improved networking of coastal and marine protected areas in the macro-region. The Global Environment Facility Adriatic project<sup>191</sup> focused on the integration of an ecosystem approach in regional Marine Spatial Planning (MSP) in Albania and Montenegro so mitigation measures or development activities can be carried out with a coherent strategy, helping planners to achieve a sustainable blue economy and, at the same time, achieve Good Environmental Status.

<sup>189</sup><https://ec.europa.eu/neighbourhood-enlargement/system/files/2021-09/IPA%20CBC%20mid-term%20evaluation%20final%20version%20-%20Annexes.pdf>

<sup>190</sup><https://iczmplatform.org/storage/documents/ZBieUL4gZMxuuDKLBOyQOzyOnlc7euFEvrimqAkL.pdf>

<sup>191</sup><https://www.adriatic.eco/>

### 3.3. The way forward for regional policy in the green and digital transitions: addressing persisting challenges

This section presents a brief insight into **some of cross-cutting challenges that the WB6 and Turkey are facing for regional policy** from the more horizontal perspective of the green and digital transitions, **to provide further indications on aspects that could be supported through IPA III and other initiatives fostered by the Commission, the donor community and IFIs.** It also briefly assesses the extent to which the **Economic and Investment Plan for the Western Balkans**<sup>192</sup> is likely to contribute towards the achievement of the twin transitions, reducing the development gap and the readiness of WB economies to implement regional policy.

#### 3.3.1 Multilevel governance in policy design and implementation

One of most evident cross-cutting issues is the **lack of multilevel governance in the WB6 and Turkey**, as evidenced throughout this chapter, illustrating the **persistence of centralised and top-down approaches.** As one example, for the most part, the opportunities offered through the macroregional strategies have not been exploited and there has been **little implementation of stakeholder platforms or initiatives to promote stronger involvement of local communities and better coordination with other donors and relevant stakeholders.** Although **representative associations of local authorities** exist, they **are not organically and systematically involved in policy design, decision-making, implementation, monitoring and evaluation**, even where they are consolidated bodies, with significant resources and capacities, as in the case of the Standing Conference of Towns and Municipalities in Serbia. In this respect, the **Commission should make further efforts to include multi-governance aspects in IPA design and management**, in preparation for Cohesion Policy as further set out in section 1.4, as well as capacity building for multilevel governance and its roll-out in practice for all policy design and implementation, under IPA III Window II. This should include, for example, a **more consistent representation in cross-border territorial cooperation monitoring committees** on both sides of the border or in **consultation mechanisms** as well as **assuring a consistent presence in working groups and monitoring committees for IPA III.** Furthermore, **the Commission should make a sustained effort to introduce a multi-level governance approach in the implementation of the Economic and investment Plan for the Western Balkans** beyond mere lip service (see section 3.3.4) which will be **key to ensuring ownership and sustainability.**

**Key Takeaway n. 3.21: The lack of multilevel governance illustrates the persistence of centralised and top-down approaches.** There is little implementation of stakeholder platforms or initiatives to promote the stronger involvement of local communities and better coordination with other donors and relevant stakeholders. **Representative associations of local authorities are not organically and systematically involved in policy design, decision-making, implementation, monitoring and evaluation.** Consistent representation is needed in IPA monitoring committees and sectoral working groups.

A sustained effort is needed to introduce **a multi-level governance approach in the implementation of the Economic and investment Plan for the Western Balkans which will be key to ensuring ownership and sustainability.**

<sup>192</sup>[https://ec.europa.eu/neighbourhood-enlargement/system/files/2020-10/communication\\_on\\_wb\\_economic\\_and\\_investment\\_plan\\_october\\_2020\\_en.pdf](https://ec.europa.eu/neighbourhood-enlargement/system/files/2020-10/communication_on_wb_economic_and_investment_plan_october_2020_en.pdf)



### 3.3.2 Financing sustainable growth –do no harm and the EU Taxonomy

The Commission's Action Plan on Financing Sustainable Growth<sup>193</sup> sets out an **EU Strategy for sustainable finance**; its first aim is **to reorient capital flows towards sustainable investment in order to achieve sustainable and inclusive growth**. The EU taxonomy is a classification system, establishing a list of environmentally sustainable economic activities to inform investors on activities qualifying as contributing to climate change mitigation and adaptation, environmental and social objectives. The Taxonomy Regulation<sup>194</sup> was published in the Official Journal of the European Union on 22 June 2020 and entered into force on 12 July 2020. It establishes the basis for the EU taxonomy by setting out 4 overarching conditions that an economic activity has to meet in order to qualify as environmentally sustainable and establishes six environmental objectives:

- (a) Climate change mitigation
- (b) Climate change adaptation
- (c) The sustainable use and protection of water and marine resources
- (d) The transition to a circular economy
- (e) Pollution prevention and control
- (f) The protection and restoration of biodiversity and ecosystems

The four conditions that must be met for an economic activity to be recognised as Taxonomy-aligned are:

- making a substantial contribution to at least one environmental objective;
- doing no significant harm to any other environmental objective;
- complying with minimum social safeguards;
- complying with the technical screening criteria.

This technical screening criteria are developed in delegated acts. For each economic activity considered, the technical screening criteria specify environmental performance requirements that ensure the activity makes a substantial contribution to the environmental objective in question and does no significant harm to the other environmental objectives. The Common Provisions Regulation 2021-2027 in Recital 10 makes explicit reference to the “do no harm” principle in the Taxonomy Regulation: *“the Funds should support activities that would respect the climate and environmental standards and priorities of the Union and would do no significant harm to environmental objectives within the meaning of Article 17 of Regulation (EU) 2020/852 of the European Parliament and of the Council (7). Adequate mechanisms to ensure the climate proofing of supported investment in infrastructure should be an integral part of programming and implementation of the Funds”*. However, there is no requirement to use the delegated acts and related technical screening criteria.

The Commission Guidelines for the Implementation of the Green Agenda for the Western Balkans<sup>195</sup> make specific reference to the EU taxonomy: *“Given the all-encompassing nature of the Green Agenda, the focus in the years to come will have to extend to the wider sustainable economic development issues, to further mainstream green issues in financial assistance and support all relevant institutions. In that perspective, the green oath to “do no harm” and the EU taxonomy should be respected to the extent possible.”*

Consequently, **the do no harm principle and the EU Taxonomy should be integrated into investment planning and the prioritisation mechanism for investment. Specific**

<sup>193</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018DC0097&from=EN>

<sup>194</sup> [https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852\\_en](https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852_en)

<sup>195</sup> [https://ec.europa.eu/neighbourhood-enlargement/system/files/2020-10/green\\_agenda\\_for\\_the\\_western\\_balkans\\_en.pdf](https://ec.europa.eu/neighbourhood-enlargement/system/files/2020-10/green_agenda_for_the_western_balkans_en.pdf)

**support is needed as regards sustainable financing at local level**, where, as illustrated elsewhere in this Report, capacities are particularly low, in light of the Green Agenda.

**Key Takeaway n. 3.22: The do no harm principle and the EU Taxonomy should be integrated into investment planning and the prioritisation mechanism for investment.** Specific support is needed as regards sustainable financing at local level, in light of the Green Agenda.

### 3.3.3. Social investment and social innovation

Access to finance has already been addressed in section 2.2.5; further, **the lack of access to finance of microenterprises, social enterprises and social economy is one of the main obstacles to business creation**, especially among people furthest from the labour market. The lack of progress of candidate countries in preparations for the ESF has been noted in successive EC Reports, also in the light of the challenges set out in section 2.2.7.

**EU candidate countries and potential candidates are eligible to participate under the Employment and Social Innovation strand of the ESF+**, subject to specific agreements with the Union. The EaSI strand will support the eco-system for microfinance and micro-enterprises in particular those that are created by or employ people in vulnerable situations; support networking and capacity building of involved stakeholders, including the public employment services, public social security and health insurance institutions, civil society, microfinance institutions and institutions providing finance to social enterprises and the social economy; support social enterprises and the social investment market facilitating public and private interactions and the participation of foundations and philanthropic actors in that market; and provide guidance for the development of social infrastructure. Financial instruments and budgetary guarantees will be available under the social investment and skills policy window of the InvestEU Fund. **Candidate countries and potential candidates should be actively encouraged to participate in the EaSI strand**, in all potential initiatives, and **DG EMPL take an active role in involving them in the networking and capacity building activities.**

**Key Takeaway n. 3.23: The lack of access to finance of microenterprises, social enterprises and social economy is one of the main obstacles to business creation.** EU candidate countries and potential candidates should be actively encouraged to participate under the Employment and Social Innovation strand of the ESF+ and involving them in the networking and capacity building activities.

### 3.3.4. The Economic Investment Plan for the Western Balkans

The **Economic and Investment Plan (EIP)** adopted on 6 October 2020 recognises the **massive disrupting effects of COVID-19 on the economies of the Western Balkans, which were already lagging behind in terms of economic convergence with the EU** and aims to spur the long-term recovery in the Western Balkans - backed by a green and digital transition - leading to sustained economic growth, implementation of reforms required to move forward on the EU path, and bringing the Western Balkans closer to the EU Single Market, stepping up convergence efforts. In this respect, the EIP is intended to support economic convergence with the EU primarily through investments and support to competitiveness and inclusive growth, sustainable connectivity, and the twin green and digital transition through mobilising up to EUR 9 billion of IPA III funding for the period 2021-2027. To contextualise the amount of funding available for the Western Balkans, the EU Recovery and Resilience Facility will provide EUR 312.5 billion in grants and EUR 360 billion in loans to support investments and reforms to help Europe to emerge stronger from the pandemic and secure the green and digital transitions; Bulgaria alone has requested a total

of EUR 6.6 billion in grants (additional to cohesion funding) under the Recovery and Resilience Facility<sup>196</sup>. **Given the volume of funds and the fact that the allocation to the EIP is envisaged out of the IPA III envelope and does not represent additional funding, it appears unlikely the implementation of the EIP will have significant contribution to the preparation of Chapter 22, including programming, institutional setup, partnership principle. However, it represents high development potential for the Western Balkan region, aiming at reducing the development gap between Member States and the Western Balkans region and accelerating convergence with the EU.**

The first set of projects articulated around ten investment flagships are set out in annex to the EIP are stated to be based on the results of preliminary consultations with the governments of the region and their political and economic reform priorities. Significantly there is **no evidence of any wider or more transparent consultation processes or inclusion of other key stakeholders** for partnership in the convergence actions envisaged. In terms of the approach to the investments to be financed under the EIP, it is unclear what – if any – consultation mechanisms are envisaged. A general lack of information on the EIP, the selection of projects and the mechanisms for its implementation in detail hampers more detailed assessment on this aspect but also illustrates a certain lack of transparency.

There are some **concerns over the feasibility of the ambitions set out by the EIP**, particularly those stated for the shorter term. As stated in the EIP “A first step in implementing this Economic and Investment Plan could be a package of infrastructure projects frontloaded for funding in 2021-22 with the expectation that these would unlock significant investments. This would allow mature project proposals particularly in the areas of digital, transport, energy transition and environment, after appropriate assessment, to be completed or substantially advanced by 2024.” The timeline indicated is unfeasible given the fact that the allocation of IPA III 2021-2023 funding for the EIP through the WBIF was only approved on 16 December 2021<sup>197</sup> and the time needed for infrastructure investments, even in the case of mature project proposals.

The Action Document for “EU Contribution to the Western Balkans Investment Framework (WBIF) 2021-2023” stresses that it is **crucial that project proposals are of sufficient quality and are mature enough to be implemented and local counterparts and beneficiaries need to be the owners of projects** prepared by the eligible implementing partners. However, in practice, this has been an issue: the 2019 Evaluation of Western Balkans Investment Framework Technical Assistance Instrument: Infrastructure Project Facility<sup>198</sup> found issues that the **unclear supervisory structure of IPFs leads to a lack of beneficiary ownership**.

In terms of contributing towards readiness for the implementation of cohesion policy, the **EIP envisages that the Western Balkans Investment Framework (WBIF)**, including its private sector platform the Western Balkans Enterprise Development and Innovation Facility (WB EDIF) and the Western Balkans Guarantee Facility, **will be the main vehicle for its implementation**. This means that effectively **national structures will gain no experience in managing significant economic convergence investments**, unable to benefit from learning opportunities in terms of Cohesion Fund management. This will have serious implications for absorption capacities after accession. Furthermore, as the EIP also envisages support to the green and digital twin transitions and to increase competitiveness of the private sector, boost innovation and the development of essential social sectors,

<sup>196</sup> [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_21\\_5264](https://ec.europa.eu/commission/presscorner/detail/en/IP_21_5264)

<sup>197</sup> [https://ec.europa.eu/neighborhood-enlargement/cid-16122021-financing-multi-country-multiannual-action-plan-support-western-balkans-investment\\_en](https://ec.europa.eu/neighborhood-enlargement/cid-16122021-financing-multi-country-multiannual-action-plan-support-western-balkans-investment_en)

<sup>198</sup> <https://www.wbif.eu/storage/app/media/Library/12.Meetings/2.%20Project%20Financiers%20Group/27th%20PFG/IPF-Evaluation.pdf>

through grant schemes, if these are implemented through the WB EDIF, further learning opportunities will be lost. **As IPA III allocations for the EIP are attributed to Windows III and IV, the availability of funds for national action programmes and, in particular, multi-annual programmes under indirect management will be severely curtailed;** there is a **real risk that the amount of funds available under multi-annual operational programmes is very low and therefore can represent a high administrative burden and potentially restricted learning opportunities.** Indeed, the impact of financing the EIP can be seen from the approved allocations for National Action Programmes for IPA 2021; **out of the overall envisaged IPA 2021 budget of EUR 1.855 billion, 35.7% has been allocated to the Western Balkans Investment Framework (WBIF) and Sustainable Transport Connectivity in the Western Balkans in line with the EIP.**

If the EIP is implemented, as would appear, through the WBIF using the current framework, the identified shortcomings of the Single Project Pipeline as set out above in section 3.2.6 and in more detail in Section 4.2.1 will not have been resolved. Generally, the infrastructural prioritisation mechanisms are politicised and need strengthening while maturity criteria are not taken sufficiently into consideration. Added to the noted lack of administrative and technical capacities for project planning and management, this does not provide a solid basis for a prompt start to the implementation of the EIP. Furthermore, **not all Western Balkans Beneficiaries have access to technical assistance for preparing infrastructure projects through a Project Preparation Facility;** while several PPFs are ongoing in Serbia and Serbia will continue to have support for the preparation of infrastructure projects under IPA 2021<sup>199</sup>, other IPA Beneficiaries such as Albania do not have IPA funding for the preparation of projects in the SPP, **thereby potentially impacting on the basis for a level playing field for access to the EIP allocated funds.**

From a programming perspective, as regards the same thematic priority in Windows 3 and 4, it is likely there will be a forced division of IPA III funds between those implemented through the WBIF and national action programmes, with different processes, undermining a more integrated approach which is not conducive to preparations for regional policy.

A first set of Actions under the EIP was approved on 16 December 2021<sup>200</sup> and provides the only publicly available information on programming and implementation. The Action Document for “EU Contribution to the Western Balkans Investment Framework (WBIF) 2021-2023” includes 4 components: Blending and technical assistance through three components: 1. EU4 Green and Digital Transition; 2. EU4 Green Growth and 3. EU4 Competitiveness and Innovation as well as a Budgetary guarantee under the Western Balkans Guarantee Facility (EFSD+ Guarantee and legacy ELM). EU4 Green and Digital Transition will support infrastructure projects in clean energy, environment, transport, digital and social infrastructure sectors included in a single project pipeline (confirmed by the National Investment Committees) and in strategies in line with the list of flagship projects included in the EIP. The Action Document for “EU Contribution to Sustainable Transport Connectivity in the Western Balkans 2021-2027” provides for contributions to Flagships I, II and III. Significantly, although indicators are provided, the Action Documents provide no baseline or target figures for monitoring and evaluation purposes. There is **unlikely to be access to finance for smaller scale projects that are not linked to flagships and which are not included in the SSPs and may result in less financing, thereby exacerbating territorial disparities,** for example, smaller-scale rural infrastructure investments for connectivity and the twin transitions are eligible under multi-annual operational programmes, or co-funding provided for infrastructure priorities under territorial instruments or smart villages strategies, which would also provide learning experiences for national structures at potentially lower risk given the scale of investments. EU4 Green Growth will contribute to the implementation of the Green Agenda for the Western Balkans; WBIF will

<sup>199</sup> [https://ec.europa.eu/neighbourhood-enlargement/system/files/2022-01/C\\_2021\\_9653\\_F1\\_ANNEX\\_EN\\_V2\\_P1\\_1661149.PDF](https://ec.europa.eu/neighbourhood-enlargement/system/files/2022-01/C_2021_9653_F1_ANNEX_EN_V2_P1_1661149.PDF)

<sup>200</sup> [https://ec.europa.eu/neighbourhood-enlargement/cid-16122021-financing-multi-country-multiannual-action-plan-support-western-balkans-investment\\_en](https://ec.europa.eu/neighbourhood-enlargement/cid-16122021-financing-multi-country-multiannual-action-plan-support-western-balkans-investment_en)

either invest directly or through contributions to new or existing multi-donor platforms such as the Regional Energy Efficiency Programme (REEP) and the Green for Growth Fund (GGF). EU4 Competitiveness and Innovation will provide support to the WB EDIF, in the form of technical assistance, studies, investment grants and financial instruments risk sharing mechanisms, will address financial gap of innovative companies, start-ups and micro, small and medium enterprises in strategic sectors aligned to the Smart Specialisation strategies priorities, in line with the priorities of the EIP, and including tourism, ICT, agri-food, global value-chain/trade. Particular attention will be paid in the selection to innovation and green growth, labour market inclusion, social entrepreneurship, impact finance, trade development, financing diversification. In this case, delays in finalising the Smart Specialisation Strategies in some IPA Beneficiaries may impact on the eligibility of enterprises to participate, while due consideration needs to be taken to administrative simplification and outreach for inclusive take-up; in this respect, grant schemes managed nationally could offer more tailored and more easily accessible schemes. More significantly, **by envisaging grant schemes and financial instruments for private sector outside the national action programmes, the capacities of national institutions to design and implement grant schemes or FIs in consultation with the economic stakeholders, will not be built.**

**Key Takeaway n. 3.24: The funds available for the Economic and Investment Plan for the Western Balkans (EIP) have a potential to decrease the gap convergence with the EU and reduce the development gap between Member States and the Western Balkans region.** The lack of transparency and partnership in defining investments for the EIP undermines its efficacy. The timeline envisaged appears unfeasible, given the lack of maturity of projects and past experience.

**The implementation mechanism through the WBIF does not address the identified shortcomings of the Single Project Pipeline in the Western Balkans and even more significantly allows for no learning-by-doing experience in the national institution for planning, implementing, managing and monitoring convergence-type infrastructure projects, grant schemes or financial instruments.**



## 4. Institutional readiness and pathways to delivering EU Cohesion Policy

This chapter examines the readiness of institutions to deliver EU Cohesion Policy, identifying the gaps in institutional capacities and setting out recommendations and solutions to progress in institutional readiness. The challenges which new Member States have faced on entry to the EU in managing EU Funds allow for a clear understanding of the issues facing the candidate countries and shows the importance of early preparation for Cohesion Policy, which should be addressed through IPA. Furthermore, it is essential that candidate countries are prepared in a forward-looking perspective, profiting from lessons learned and mechanisms and tools designed to improve Cohesion Policy delivery and performance, within the perspective of the simplification agenda which has driven the new Regulatory framework for Cohesion Policy.

### 4.1 The institutional framework

Member States must set up an institutional framework for the implementation of Cohesion Policy, in other words designate structures required by Regulation (EU) 2021/1060 also known as the Common Provisions Regulation (CPR). The Regulation requires that for each programme, the Member State must identify a managing authority and an audit authority, whereas specific tasks can be delegated to intermediary bodies. The Instrument for Pre-Accession (IPA) assistance, now entering its third cycle with the approval of Regulation (EU) 2021/1529, establishing the **Instrument for Pre-Accession assistance (IPA III)**, is **unique in addressing EU membership preparation, which is a long-term process**, including the preparation for implementing EU Cohesion and Agricultural policies, replacing previous assistance programmes (PHARE, ISPA, SAPARD, CARDS and the Turkey Pre-Accession Instrument). The focus of the analysis in this section is in particular on candidate countries that have been entrusted with the management of EU Funds as these countries are further advanced in their institutional readiness.

**IPA I** (Council Regulation (EC) No 1085/2006) was designed to grant assistance for candidate countries as well as for potential candidate countries in the context of a coherent framework, taking advantage of the lessons learned from earlier pre-accession instruments as well as Council Regulation (EC) No 2666/2000 on assistance for Albania, Bosnia and Herzegovina, Croatia, the Federal Republic of Yugoslavia and the Former Yugoslav Republic of Macedonia. It identified the scope of assistance to be granted for both candidate and potential candidate countries, whereby assistance for candidate countries should additionally focus on the adoption and implementation of the full *acquis communautaire*, and prepare them for the implementation of the Community's agricultural and cohesion policy (Recital 14). Specifically, the **Regional Development Component**, the **Human Resources Development Component**, and the Rural Development Component were accessible only to **candidate countries accredited to manage funds in a decentralised manner**, in order to **help them prepare for the time after accession, in particular for the implementation of the Community's cohesion and rural development policies** (Recital 19). Potential candidate countries and candidate countries that have not been accredited to manage funds in a decentralised manner were eligible, under the Transition Assistance and Institution Building Component and Cross-Border Cooperation, for measures and actions of a similar nature. Article 10 defines the scope of the Regional Development Component to support the candidate countries listed in Annex I<sup>201</sup> in policy development as well as **preparation for the implementation and management of the Community's cohesion policy**, in particular preparation for the European Regional

<sup>201</sup> Initially Croatia, Turkey and the former Yugoslav Republic of Macedonia, amended by Regulation (EU) No 153/2012 to include Iceland and Montenegro.

Development Fund and the Cohesion Fund<sup>202</sup>. Article 11 defines the scope of the Human Resources Development Component similarly, with reference to preparation for the European Social Fund<sup>203</sup>.

Consequently, IPA I allowed for the financing of multiannual operational programmes similar to those used for EU Cohesion Policy for countries included in Annex 1. As identified by the European Court of Auditors Special Report No 14/2011 *Has EU assistance improved Croatia's capacity to manage post-accession funding?*<sup>204</sup>, this addressed “**a significant shortcoming of the EU assistance to prepare candidate countries for the 2004 and 2007 enlargements was that the economic and social cohesion programmes financed by Phare were only annual programmes. Croatia has benefited from the approach introduced under IPA which provides for multiannual operational programmes akin to those used under the Structural Funds. This has both improved the possibilities for ‘learning by doing’ by establishing planning procedures closer to those applicable post accession and also enabled better planning of specific capacity-building interventions. Under IPA, the Regional Policy DG and the Employment, Social Affairs and Inclusion DG have also been able to provide their expertise to assist the Croatian authorities in this multiannual planning process more easily than was the case for the previous two accessions**” [our bolding].

**IPA II** (Regulation (EU) No 231/2014) introduced the **sector approach**, defining a coherent set of actions to bring about reform in a given area or ‘sector’, such as the rule of law, public administration and the environment<sup>205</sup>, and bring it up to EU standards, in order “to ensure **a more long-term, coherent and sustainable approach**, allow for **increased ownership**, facilitate **cooperation among donors**, **eliminate duplication of efforts** and **bring greater efficiency and effectiveness**”<sup>206</sup>. Assistance should build on IPA I and continue to make use of the structures and instruments that have proved their worth in the pre-accession process. The **transition from direct management** of pre-accession funds by the Commission to **indirect management by the beneficiaries should be progressive and in line with the respective capacities of those beneficiaries** (Recital 15). The programming and implementation of IPA II was organised differently from IPA I.

In this perspective, four specific objectives were identified, and as regards the focus of this chapter, Specific Objective 3 - *Strengthening of the ability of the beneficiaries listed in Annex I of the IPA II-Regulation to fulfil the obligations stemming from Union membership by supporting progressive alignment with, and adoption, implementation and enforcement of, the Union acquis, including preparation for management of Union Structural Funds, the Cohesion Fund and the European Agricultural Fund for Rural Development* - is of particular relevance. Implementation of IPA II was established, as a rule, through annual or multiannual, country-specific or multi-country programmes, as well as cross-border cooperation programmes. The Regulation also introduced the concept of the **Performance Reward** (article 14), provided for an appropriate amount of assistance to remain available to reward an individual beneficiary Country for: (a) particular progress made towards meeting the membership criteria; and/or (b) efficient implementation of pre-accession assistance whereby particularly good results are achieved with respect to the specific targets set in the relevant strategy paper. In the recently published Report of the European

<sup>202</sup> Under comma 2 of the same article, the direct reference is made to the regulations in place for Member States: *It may in particular contribute towards the financing of the type of actions provided for under Regulation (EC) No 1080/2006 of the European Parliament and of the Council of 5 July 2006 on the European Regional Development Fund and Council Regulation (EC) No 1084/2006 of 11 July 2006 establishing a Cohesion Fund.*

<sup>203</sup> Under comma 2 of the same article, the direct reference is made to the regulation in place for Member States: *It may in particular contribute towards the financing of the type of actions provided for under Regulation (EC) No 1081/2006 of the European Parliament and of the Council of 5 July 2006 on the European Social Fund*

<sup>204</sup> [https://www.eca.europa.eu/Lists/News/NEWS1202\\_01/NEWS1202\\_01\\_EN.PDF](https://www.eca.europa.eu/Lists/News/NEWS1202_01/NEWS1202_01_EN.PDF)

<sup>205</sup> The sectors can be considered broadly similar to the Components in IPA I.

<sup>206</sup> Reference taken from the Revised Indicative Strategy Paper for Albania Commission Implementing Decision C(2018) 5027 final but applicable in all the Revised Indicative Country Strategy Papers.

Court of Auditors on the performance of the EU budget – Status at the end of 2020<sup>207</sup>, in Chapter 6 relating to Heading 4 of the 2014-2020 multiannual financial framework (MFF), ‘Global Europe’, IPA II was selected for assessment. As regards performance on Specific Objective 3, the ECA noted that there are **no indicators** in the programme statement and the Annual Management and Performance Report (AMPR) **reporting on the readiness of IPA Beneficiary Countries to manage these funds.**

IPA III (Regulation (EU) 2021/1529) reaffirms that the objective of the instrument for pre-accession assistance is to prepare beneficiaries for future membership of the Union and to support their accession process, taking fully on board the revised enlargement methodology and the firm commitment to ‘fundamentals first’. It is in essence a shift from the IPA II sector approach to “policy first”. It is notable that there is **no longer a direct reference to the preparation for the management of Structural and Cohesion Funds** and EAFRD as a **specific objective**, even though IPA assistance may cover the type of actions provided for under the European Regional Development Fund and the Cohesion Fund as set out in Regulation (EU) 2021/1058 and the European Social Fund Plus established by Regulation (EU) 2021/1057.

As affirmed in Recital 35, *The transition from the direct management of pre-accession funds by the Commission to indirect management by the beneficiaries should be progressive and in line with the respective capacities of those beneficiaries, having regard to principles of good governance. The Commission should take appropriate supervisory measures ensuring the protection of the financial interests of the Union, and be able, where necessary, to reverse that transition. Assistance should continue to make use of the structures and instruments that have proved their worth in the pre-accession process.* The Regulation allows for **annual or multiannual action plans**, consisting of a set of measures grouped into one document, which constitute work programmes under the Financial Regulation. The Commission is conferred implementing powers to ensure uniform conditions for implementation, in particular specific conditions and structures for indirect management with the beneficiaries. *When establishing the uniform conditions for implementing this Regulation, the lessons learnt from the management and implementation of past pre-accession assistance should be taken into account* (Recital 52).

IPA III introduces the principles for approval of actions based on the assessment of the performance of the IPA III beneficiaries in the enlargement agenda, their commitment to and progress in implementing reforms, with particular attention to key areas of the political accession criteria, including the functioning of the judiciary, fight against corruption, fight against organised crime, freedom of expression and public administration reform. There is more focus on relevance and maturity at the Commission selection stage<sup>208</sup>, with the aim of ensuring stronger linkages with the reform agenda, accelerating implementation and reducing backlog.

The **successful management of pre-accession programmes** is taken as a **testing-ground** for the post-accession period. In the most recent enlargement, with the accession of Croatia, two out of seven closing benchmarks for Chapter 22 were connected with the satisfactory functioning of EU pre-accession funds under decentralised management; and the first closing benchmark for both Montenegro and Turkey refers to the satisfactory level of implementation and performance (respectively) of funds under indirect management in Cohesion Policy sectors. In Croatia, the timely implementation of operations, contracting and payment rates and correct implementation of public procurement procedures were

<sup>207</sup> [https://www.eca.europa.eu/Lists/ECADocuments/annualreport-Performance-2020/annualreport-Performance-2020\\_EN.pdf](https://www.eca.europa.eu/Lists/ECADocuments/annualreport-Performance-2020/annualreport-Performance-2020_EN.pdf)

<sup>208</sup> For IPA 2021 and IPA 2022, the Commission first carried out a ‘policy relevance assessment’ on all Action Fiches submitted, including those carried over from IPA II, which will result in a list of actions that can be developed in draft Action Documents. The draft Action Documents and supporting documents are then subjected to a ‘maturity assessment’. The complete view about budget allocation, including per action, per thematic priority, per window and per beneficiary will be available only after holding this assessment.

followed on a regular basis and in detail. The national authorities submitted monthly reports on the functioning of the decentralised management system, which was verified by audits and evaluations. Therefore, it is vital IPA Beneficiaries **build and test the pre-accession structures, and their capacities, with a view to the future management of Cohesion Policy programmes**. The ECA Special Report No 14/2011 referred to above confirmed that *In terms of results, EU assistance has made an important contribution to building up Croatia's capacity for managing post-accession funding, including through learning by doing* and that *the Commission has clearly learned important lessons from previous enlargements which has made its assistance to Croatia more effective*.

#### 4.1.1. Does IPA prepare for the management of Structural Funds

The first question that this sub-chapter will examine is **whether IPA implementation in practice is preparing candidate (and potential candidate) countries for the management of structural funds and implementation of EU Cohesion Policy**, as well as to extent to which the process identified for IPA III shall build on experience of IPA I and IPA II and lessons learnt. To this end, the analysis will focus on the implementation modality of decentralised/indirect management with the beneficiary country, while making general considerations on other implementation modalities.

Key to the **process of capacity-building and learning by doing** is the **conferral of management of EU funds to IPA Beneficiary Countries**, thereby allowing them to gain practical experience – with capacities that will be needed management of Cohesion Policy programmes upon accession. However, for the IPA Beneficiary countries to gain the appropriate experience, this should **privilege multi-annual operational programmes** (ideally covering a whole 7-year programming cycle) with an **appropriate volume of funds** and implementation of **different types of contracts and grant schemes**, including **large-scale infrastructural projects**, and the possibility for a **dedicated Technical Assistance measure**. Furthermore, multi-annual operational programmes allow for **national institutions in convergence sectors to gain consolidated experience and progress along the learning curve** in a trajectory that more closely mirrors structural funds.

At regulatory level, **all three IPA cycles allow for the possibility of multi-annual programmes in areas related to EU Cohesion Policy** to be implemented through **decentralised or indirect management by IPA countries, with or without ex-ante controls** by the Commission; however, by examining overall trends through IPA, except in the case of Turkey, there has been a **notable reduction in the use of multi-annual operational programmes in IPA II** with recourse to annual action Programmes as well as a **progressive reduction in the use of Indirect Management with the Beneficiary Country** modality (except in the case of Turkey). Furthermore, a certain shift towards Sector Budget Support (SBS) and Indirect Management by Entrusted Entities (IMEE) can be seen during the implementation of IPA II. The **transition from multi-annual to annual programmes under the sector approach**, coupled with **decreased IMBC allocations** and the shift towards SBS and IMEE, does not contribute to **building institutional capacity** and IPA Beneficiaries' **readiness for managing Cohesion Policy funds**. In addition, the fact that in many cases, **IMBC actions in annual action programmes are very limited as regards typical convergence policy areas** such as competitiveness and innovation and often rely on scattered IPA Units in a range of national institutions which may be formed only for a single action, results in **very little hands-on experience** where structures are able to learn from their mistakes and represents in effect a **built-in lack of sustainability**. In this situation, recourse to Technical Assistance projects to support national institutions,



in practice focused more on programming than implementation<sup>209</sup>, does not necessarily result in building the capacities of institutions or ensuring sustainability of the national structures, and risks merely “substituting” the national structures. **The rigid segregation of programming and implementation tasks in IPA does not reflect Member States practices** and leads to **cumbersome and artificial procedures for inter-institutional coordination** which is especially notable **in the scattered interventions in annual action programmes**, increasing **the risk of decommitment** and not preparing institutions for their competencies for managing Cohesion Policy Funds. In practice, IPA rules imply an unnecessary segregation of programming and implementation tasks, division of responsibilities between the NIPAC and the NAO, and strict segregation of programming and monitoring duties in project implementation units, considerably straining their institutional capacities.

Furthermore, candidate countries have access to assistance provided directly by the Commission to promote best practices in the management of EU funding; **the transfer of management responsibility from sector-specific DGs to DG NEAR in convergence sectors for IPA II** (unlike the case agricultural policy where DG AGRI continues to provide support) **means the direct nexus with DG REGIO and DG EMPL has been lost**; this **impacts on the quality of support offered to candidate countries as regards the management of convergence-type funds** where direct cooperation and regular contacts with the DGs most knowledgeable about the Cohesion Policy requirements would allow for hands-on guidelines and support to be provided, as well as monitoring the progress and development of capacities for the Cohesion Policy management. Additionally, **limited use in candidate countries (with the exception of Turkey) of grant schemes managed under IMBC**, both in ESF-type actions and the competitiveness and innovation sector – the major modality for convergence policy in Member States and a lack of experience in managing large-scale infrastructure projects mean that the structures do not acquire the necessary experience, even at the expense of making mistakes, accepting the appropriate consequences for such mistakes and identifying and implementing actions to address the problems in the future. This augurs poorly for their capacity to manage far larger volumes of funds and complex grant schemes once they are Member States.

**Key Takeaway n. 4.1:** Successive IPA cycles show a shift from a focus on operations (IPA I) to a sectoral approach in IPA II and in IPA III, a focus on policy. As the specific objective of preparation for the management of EU Funds post-accession is no longer identified in the IPA III Regulation, this needs to be achieved in practice through the appropriate programming of IPA assistance and its implementation through modalities which as far as possible those in place for the delivery of Cohesion Policy in Member States, including multi-annual programmes in convergence sectors.

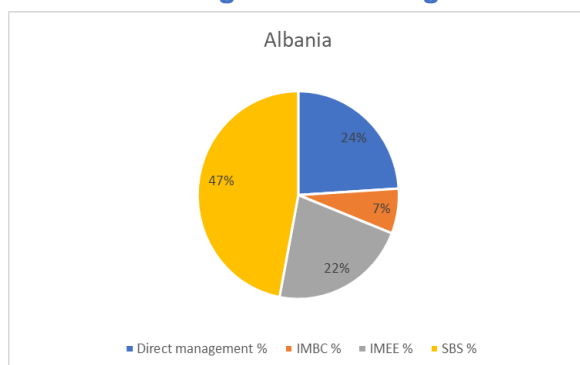
#### Analysis of trends in the management of EU funds by IPA Beneficiaries

Under IPA II, four implementation modalities are envisaged for IPA Funds: direct management by the Delegations, indirect management with the Beneficiary Country (IMBC), indirect management with entrusted entities (IMEE) and a new mechanism for IPA, sector budget support (SBS) for reform implementation. Recourse to these different modalities varied quite considerably between Beneficiaries; the figures below show the overall percentages allocated to the different implementation modes for 2014-2020; they include the contribution for participation in Union Programmes but exclude IPARD.

<sup>209</sup> As one example, the most consistent TA support in Serbia has been provided by successive Project Preparation Facilities which focus on supporting programming and technical project documentation, while support to institutions implementing IPA (NIPAC, NAO and the CFCU) has been more haphazard. In Albania, the structures have been without any support for lengthy periods during the IPA II perspective.



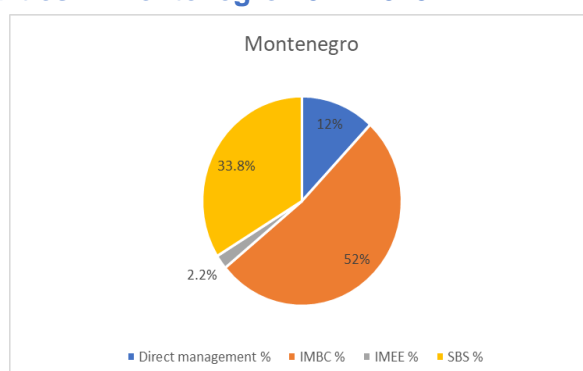
**Figure 4. 1 Management modalities in Albania 2014-2020**



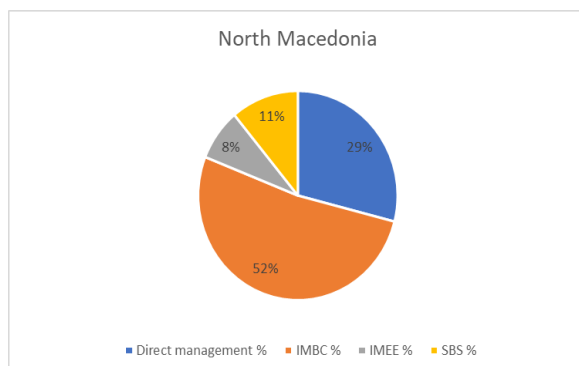
Strikingly, in Albania, only 7% of funds were implemented under IMBC, and recourse to Sector Budget Support was by far the highest among IPA countries, at 47% of total allocated funds. Over one fifth of funds were managed by entrusted entities.

**Figure 4. 2 Management modalities in Montenegro 2014-2020**

In the case of Montenegro, 52% of IPA allocations were implemented under IMBC and notably a very small percentage by entrusted entities (2.2%); indicating a certain experience in managing EU funds by Montenegrin institutions, where the CFCU within the Ministry of Finance and Social Welfare and the Public Works Administration (PWA) act as contracting authorities depending on the type of contracts or sector. The PWA is contracting authority for infrastructure projects in the environment and transport sectors.



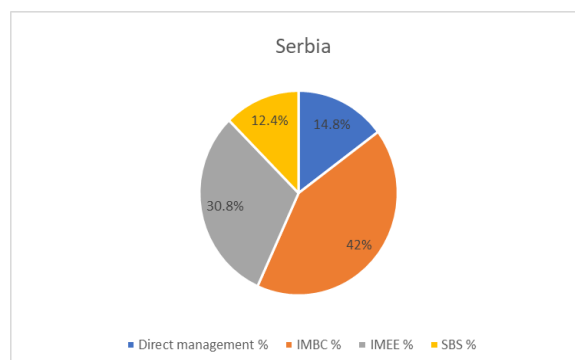
**Figure 4. 3 Management modalities in North Macedonia 2014-2020**



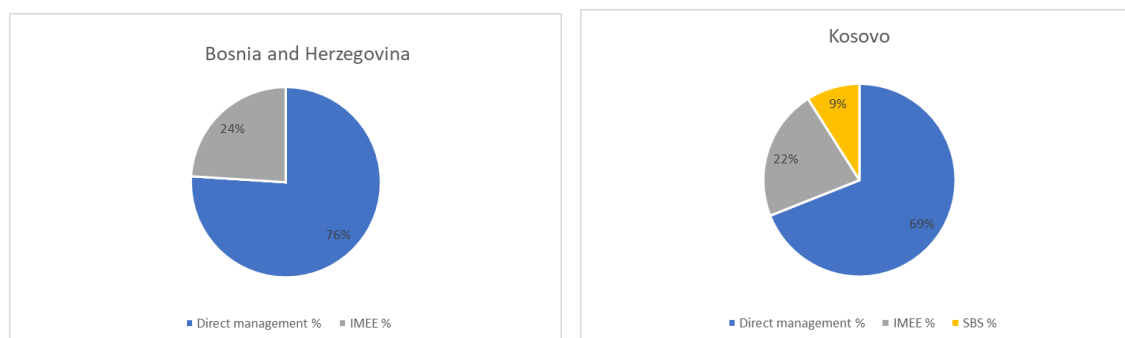
Similarly, to Montenegro, 52% of IPA allocations were implemented under IMBC. Again, the recourse to implementation with entrusted entities is relatively low (8%) and there is a low use of Sector Budget Support (11%).

**Figure 4. 4 Management modalities in Serbia 2014-2020**

In Serbia, 42% of funds were allocated under IMBC, a lower percentage than in Montenegro and North Macedonia, and nearly one third of funds (30.8%) implemented with entrusted entities, the highest percentage among all IPA countries.

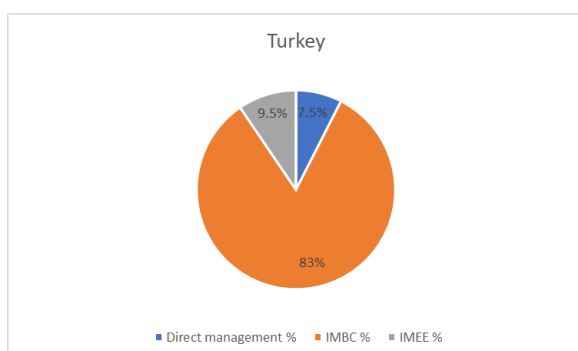


**Figure 4. 5 Management modalities in Bosnia and Herzegovina and Kosovo\* 2014-2020**



Unsurprisingly, where there has been no conferral of management powers, as in Bosnia and Herzegovina or Kosovo\*, the majority of funds are implemented through direct management.

**Figure 4. 6 Management modalities in Turkey 2014-2020**



A quite different picture emerges for Turkey, where 83% of funds were allocated to IMBC; 9.5% implemented with entrusted entities and only 7.5% through direct management. There was no recourse to Sector Budget Support in Turkey.

In short, with the exception of Turkey, **opportunities for institutions for preparing for the management of EU funds were not maximised**: in Montenegro and North Macedonia, just over half of IPA funds were allocated to IMBC (52%), in Serbia 42% and in Albania only 7%. There are quite **significant differences as concerns recourse to Sector Budget Support (SBS)**, used principally by Albania, followed by Montenegro, in part due to COVID-19 measures, while SBS was not used in Bosnia and Herzegovina or Turkey. Strikingly, **in four countries, between 22% and 30.8% of assistance is delivered through indirect management with entrusted entities**. The trends observed regarding **Decentralised/Indirect Management with the Beneficiary Country** are analysed in detail below, as the most relevant for the preparation for the management of **structural Funds**. The analysis excludes funds allocated as a contribution to Union Programmes<sup>210</sup> and IPARD. No up-to-date, consistent figures on contracted and disbursed funds are available, so reliance is on published Commission Implementing Decisions, thereby limiting the depth of the analysis especially at cross-country level. Financing Agreements, annexes and addendums to them (in particular as regards implementation modalities) are not publicly available in general.

The Table below clearly shows the gradual shift away from decentralised/indirect management with the beneficiary countries. Even taking into account the conferral of management to Albania, Montenegro and North Macedonia only in 2014 which clearly impacts on the overall volume and percentage of IPA I funds under decentralised management, in total for all analysed countries **more than 3.9 billion EUR** was managed through **decentralised management** for the financial perspective **2007-2013** compared to

<sup>210</sup> The payment of entry tickets does not involve any contracting procedures so has not been included in this assessment.

**2.62 billion EUR under IMBC** for the **2014-2020** period. In terms of **overall (indicative) allocations**, this represents just under **34% of total funds allocated for 2014-2020** and in the case of the **WB6, 19.4% of their total allocation**.

**Table 4. 1 Funds under decentralised/indirect management by IPA Beneficiary<sup>211</sup>**

IPA Beneficiary	IPA I - Programme and amount <sup>212</sup>	IPA II - Programme and amount
<b>Albania</b>	IPA 2012: 15.26 million € <sup>213</sup> (19%) IPA 2013: 17.8 million € (22%)  <b>Total: 33.06 million € (5.6%)</b>	IPA 2014: 16.3 million € (24.4%) IPA 2015: 17.2 million € (19.1%) IPA 2017: 1.85 million € (3%) IPA 2019: 2 million € (2.8%) IPA 2020: 2.45 million € <sup>214</sup> (2.4%) <b>Total: 39.5 million € (7%)</b>
<b>Montenegro</b>	OP Regional Development IPA 2012-2013: 22.24 million € OP Human Resource Development 2012-2013: 4.93 million €  <b>Total: 27.17 million € (11.5%)</b>	IPA 2014: 20.43 million € (57%) OP Human Resource Development IPA 2015-2017: 15.3 million € IPA 2016: 17.61 million € (79%) IPA 2017: 12.54 million € (44%) IPA 2018: 22.47 million € (62%) IPA 2020: 7.85 million € (36%) <b>Total: 96.2 million € (44%)</b>
<b>North Macedonia</b>	OP Regional Development: 199.9 million € OP Human Resource Development: 54.4 million € IPA 2009: 33.4 million € (80%) IPA 2010: 30.1 million € (82%) IPA 2011: 21.2 million € (73.6%) IPA 2012: 19.9 million € (71%) IPA 2013: 21.5 million € (76.9%) <b>Total: 380.4 million € (62%)</b>	IPA 2014: 20 million € (38%) OP IPA 2014-2020: 194.25 million € IPA 2017: 12.65 million € (28%)  <b>Total: 226.9 million € (44%)</b>
<b>Serbia</b>	IPA 2013: 145.6 million € (81%)  <b>Total: 145.6 million € (11%)</b>	IPA 2014: 57.53 million € (50%) IPA 2015: 60.76 million € (31%) IPA 2016: 5 million € (3%) IPA 2017: 85.79 million € (62%) IPA 2018: 73.71 million € (41%) IPA 2019: 16 million € (12% <sup>215</sup> ) IPA 2020: 87.76 million € (56%) <b>Total: 456.3million € (42%)</b>
<b>Turkey</b>	Annual Programmes under IPA 2007-2013 Component I: 1,082.5 million € (66,5%) Transport Operational Programme: 592 million € Environment Operational Programme: 706 million € Regional Competitiveness Operational Programmes: 480 million € Human Resources Development Operational Programme: 474 million €  <b>Total: 3,334.5 million € (85%)</b>	IPA 2014: 178.06 million € (90%) IPA 2015: 245.15 million € (96%) IPA 2016: 130.75 million € (86%) IPA 2017: 12.74 million € (98%) IPA 2018: 31.67 million € (89%) IPA 2019: 14.6 million € (18%) IPA 2020: 17.88 million € (56%) MAP Transport 2014-2018: 347.9 million € MAP Environment and Climate Action 2014-2019: 332.43 million € MAP Competitiveness and Innovation 2014-2018: 221.1 million € Human Resources Development Operational Programme 2014-2018: 275.1 million EUR <b>Total: 1,807.45 million EUR (51%)</b>

Sources: DG NEAR, Annual Implementation Reports (where available)

<sup>211</sup> Figures sourced from published information on the DG NEAR website, unless indicated in specific footnotes. Total percentages are based on the indicative allocations 2007-2013 published on the DG NEAR website.

<sup>212</sup> In the case of annual programmes, amounts and percentages refer to the total allocated under Component 1 - Transition Assistance and Institution Building.

<sup>213</sup> Based on information included in the TAIB Annual Report for 2012 following the conferral of management powers.

<sup>214</sup> [https://ec.europa.eu/neighbourhood-enlargement/cid-11112020-amending-commission-implementing-decision-c2020-424-1722020-adopting-annual-action\\_en](https://ec.europa.eu/neighbourhood-enlargement/cid-11112020-amending-commission-implementing-decision-c2020-424-1722020-adopting-annual-action_en)

<sup>215</sup> Excluding the special measure for migrations.

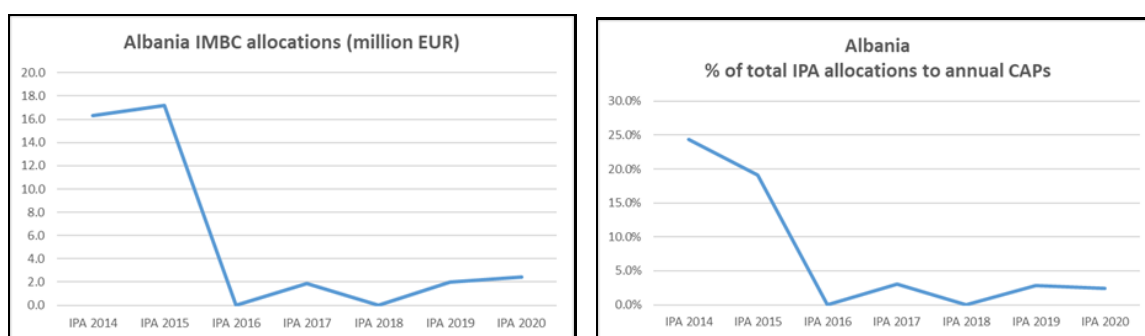
Recourse to **multi-annual operational programmes under indirect management** – despite the fact that these are **the only programmes that mirror structural funds** – **decreased notably in Montenegro and North Macedonia**, where a total of **15.3 and 194.25 million EUR respectively** allocated for **multi-annual operational programmes under IMBC in 2014-2020 compared to 27.17 million EUR and 254.3 million EUR respectively** for decentralised management of multi-annual programmes in **2007-2013**. **Neither Serbia nor Albania were allocated funds under national multi-annual operational programmes**. Therefore, **learning opportunities in the WB6 for the management of EU structural funds have been very limited**, exception made for North Macedonia.

The trends in each of the IPA WB6 countries conferred with management powers are presented and analysed below. The case of Turkey is examined separately.

### Albania

The two graphs below clearly show the **strongly declining trend in allocations of IPA Funds under annual Action Programmes to IMBC in the case of Albania** where no funds were allocated under IMBC in IPA 2016 and only marginal amounts successively. In Albania, there was significant decommitment in IPA 2015 IMBC (only 69.2% contracted compared to 90.1% of IPA 2014 IMBC); however, this should be seen in the overall context of the overall limited volume of funds and low number of contracts, impacted in particular by the failure to contract a supply contract for the Establishment of mobile radio and data network and purchase of end user equipment<sup>216</sup> in the Rule of Law and fundamental rights sector with the indicative value of 3.2 million EUR. Overall in the period 2016-2020 in Albania, **only 6.3 million EUR or the equivalent of 1.6% of funds were allocated to IMBC**.

**Figure 4. 7 IMBC allocations to Albania 2014-2020 in million EUR and percentages**



In Albania at least, **the focus on IPA specific objective 3 with relation to preparation for the management of EU structural funds has been lost** over time and priorities for the Commission have shifted, and Albania has experienced **a reverse trend**, no longer based on the learning by doing approach. However, national actors can only **prepare for implementing Cohesion Policy** if they are **progressively given the responsibility for management**, in particular **focused on convergence sectors such as environment, transport and competitiveness sectors, education and employment to build capacities of the national institutions**, even at the expense of making mistakes and taking the appropriate consequences for such mistakes. For **timely and efficient contracting and implementation** of IPA programmes, **capacities in terms of sufficient number of staff** and knowledge for the preparation of tender documentation need to be improved; however, with such **a low volume of funds to manage**, as well as **uncertainty over the amount of funds allocated to IMBC** year-by-year, the **sustainability of the**

<sup>216</sup> The case in point is emblematic since in the first drafted technical specifications, the technology originally identified was outdated so the procurement procedure was cancelled, there was poor inter-institutional coordination and the beneficiary did not have the technical capacity to draft new specifications in time for the contracting deadline.

**operating structures is in severe doubt**; accurate three-year workload analysis as required and proper staff planning are not possible under such circumstances. The **continuous and gradual increase in IMBC funds** would enable the **predictability in planning resources** for IMBC and **contribute to sustainability**. Furthermore, **without clear prospects** in terms of their workload, **qualified staff are discouraged** from remaining in the **IMBC system**.

Finally, **Albania has no experience in managing multi-annual operational programmes**; their programming and implementation entails a drastic transformation of the institutional approach (on central and local level) in planning, programming, financial forecasting and planning, contracting and payments providing significant knowledge and experience that would certainly pay off later in improving the absorption of capital investments.

### North Macedonia

The **case of North Macedonia** is illuminating showing a **pattern of difficulties which in general are replicated in other IPA countries and the nuanced approach of the Commission**.

The **IPA I allocation for the period 2007-2013** for North Macedonia was around 622.5 million EUR<sup>217</sup>. Funds were allocated to all five IPA components with the biggest share around 243 million EUR or 39% to Component I; 57% of the total of Component I was implemented under decentralised management with ex-ante control<sup>218</sup>. Around 33% of funds were allocated to the Component III related to regional development and 9% to Component IV related to Human resources development under two multiannual operational programmes under decentralised management. **In total 392.6 million EUR of the national IPA I allocation were implemented under decentralised management, equivalent to 63% of the total allocation**. Conferral of management powers and accreditation of structures came rather late, in July 2009 and for annual programmes in 2010. Newly established structures were, for the first time, facing challenges of the tender preparation process and evaluation. Due to the sudden larger portfolio, new rules to be respected and increased workload, IPA structures were facing high performance demands with low capacities in preparation and implementation of IPA projects, which eventually created bottlenecks in contracting and decommitments.

Contracting rates for IPA 2010 and IPA 2012 and the Human Resource Development programme (OP HRD) were low (50%; 56% and 65% respectively), indicating that significant capacity-building and improvements were needed; however, in the case of the Regional Development Operational Programme<sup>219</sup>, the contracting rate (96%) and percentage of funds disbursed (87.6%) was quite high; this could be considered broadly comparable to Croatia where the absorption rate<sup>220</sup> for CF 2007-2013 (OP Environment) was 99.6% and ERDF 2007-2013 was 79.63%. Initial allocations for the OP HRD 2007-2013 were reduced to 35.7 million EUR as a result of the **decommitments of funds in 2013, 2014 and 2015<sup>221</sup> due to N+3 rules<sup>222</sup>** and thus the contracting rate of the initially allocated funds for the programmes was lower (65%). The poor performance for Component IV – Human Resource Development – is not unexpected - in general Member States also

<sup>217</sup> [FINANCING\\_mk.pdf \(aaipa.mk\)](#)

<sup>218</sup> All data were obtained by the NAO representatives during interview.

<sup>219</sup> Support was focused on the environment and transport sector, so also including typical Cohesion Fund type sectors.

<sup>220</sup> 2021 data from <https://cohesiondata.ec.europa.eu/2007-2013-Finances/SF-2007-2013-Funds-Absorption-Rate/kk86-ceun/data>. The IPA 2007-2013 Programmes were directly converted to Structural Funds on accession on 1 July 2013 and the absorption rates cover the whole financial framework therefore also the relevant IPA Funds.

<sup>221</sup> Multi-annual Operational Programme "Human Resource Development" 2007-13, IPA Component IV, [MINISTRY OF LABOUR \(finance.gov.mk\)](#)

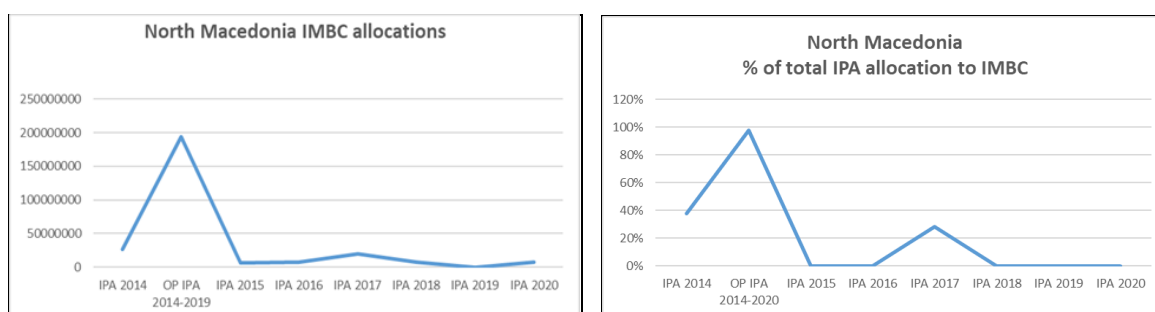
<sup>222</sup> EC automatically decommitted portion of a budget commitment where by December of the third year following year n (being the year in which the budget commitment was made) is not disbursed.



face difficulties in ESF absorption: Croatia absorbed 68.67% for the ESF 2007-2013, with Romania faring somewhat better (78.8%).

As regards IPA II, **apart from the multi-annual operational programme** (covering the sectors Environment and Climate Change and Transport) with an EU contribution of 194.25 million EUR, **very limited volumes of funds were implemented under IMBC**. The same structure was contracting authority for all IMBC funds, and annual programming took into consideration **systemic problems, the need to tackle the procurement backlog accumulated under IPA I and avoid potential bottlenecks, aiming to reduce the pressure on the IMBC structures** both the contracting authority and IPA Units in line ministries; in practice, apart from the contribution to Union Programmes, IMBC was envisaged only in IPA 2014 and IPA 2017 in order to facilitate implementation under indirect management of the multi-annual operational programme.

**Figure 4. 8 IMBC allocations to North Macedonia 2014-2020 in million EUR and percentages**



To a certain extent this approach may be understandable; however, **a more pro-active Action Plan to address the verified problems and emerging challenges**, with support from the Commission, **would allow for the continuation of IMBC in all annual Action Programmes**, with some experience for all sectors (notably there was **no IMBC in the Competitiveness and Innovation sector**). Action could have been taken to support the Central Finance and Contracting Department (the contracting authority) with IPA 2014 where only 64.5% of funds were contracted for better procurement planning had an early warning system been in place, also with Commission support<sup>223</sup>. **A more graduated approach to increasing the volume of IPA funds under IMBC especially in other convergence sectors** relevant for Cohesion Policy would **assign a wider range of national institutions with the responsibility of indirect management and provide hand-on experience and practical case study peer-learning**. The CAP 2014-2020 is managed in line with the N+5 rule and there have been no decommitments so far.

### Montenegro

With the conferral of management powers for indirect management with ex-ante control rather late in December 2014, around 12% of IPA I funds were allocated to the two Sectoral Operational Programmes 2012-2013 under IPA component III Regional Development (OP RD) and IV Human resources development (OP HRDS). **Implementation was particularly challenging for the infrastructure-focused OP RD, which included a major project for water supply and sewage in the municipality of Berane; the challenges of new implementation rules for inexperienced institutions meant that the level of contracted and disbursed funds was quite poor, and to finalise the programme national budget funds were used.** In the case of the OP HRDS (services and 3 grant schemes) after a slow

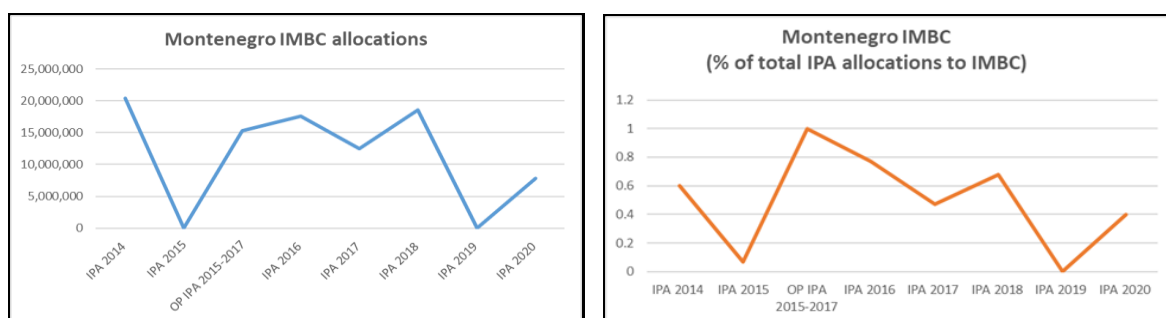
<sup>223</sup> In the interview with the Montenegrin representatives of the NIPAC, it was communicated that no support had been provided from DG NEAR unlike the cooperation with DG REGIO and DG EMPL under IPA I which had helped overcome the issues encountered during OPRD and OPHRD implementation.

start to implementation with some decommitment due to failure to meet contracting and payment deadlines, capacities were gradually acquired through a learning-by-doing process and by the end of the programme over 90% of the funds were contracted and over 80% disbursed.

The only multi-annual programme adopted under IPA II Sectoral operational programme 2015-2017 was a follow-up of the 2012-2013 OP HRDS and is managed in line with the N+5 rule. According to the latest Annual Audit Activity Report for the 2020 by the Audit Authority, **70.7% was contracted out of which 49.2% was disbursed**. An Operational Programme Regional Development 2016-2020 was prepared, covering the transport, environment and competitiveness and innovation sectors, but was financed through the IPA 2016 and IPA 2017 Annual Action Programmes, thereby depriving the Montenegrin institutions of the opportunity to acquire valuable hands-on experience for the management of Cohesion policy in these sectors through multi-annual programmes. Information from the NAO on contracting rates for the annual Action Programmes show that the high rate for IPA 2014 (98%) was not maintained under IPA 2016 where only 60% of funds were contracted, mainly due to lack of capacities in the Public Works Administration regarding infrastructure and insufficient maturity of the project pipeline.

Under IPA II annual Action Programmes, the percentage of funds implemented through IMBC with ex-ante control varied from year to year; except for IPA 2015 and IPA 2019 which provided support for urgent measures to address the COVID 19 pandemic.

**Figure 4. 9 IMBC allocations to Montenegro 2014-2020 in million EUR and percentages**



**Both North Macedonia and Montenegro show a clear shift from multi-annual operational programmes under IPA 2007-2013 (in the latter case only for the last 2 years of IPA programming under the financial cycle) to annual Action Programmes.**

Some **general conclusions** can be made for **both Montenegro and North Macedonia**. With hindsight, in order to reduce pressure on newly established IPA structures and on the other hand enhance and support their capacity building, **a gradual but constant increase of funds and contracts managed through indirect management by the IPA beneficiary institutions from the beginning would be more beneficial and would have a positive effect on capacity building and IPA implementation results. Opportunities for institutions to learn from their mistakes** in IPA I and early implementation of IPA II **were not exploited**, the Commission rather choosing to reduce IMBC funds thereby limiting the decommitment risk; however, this runs **contrary to the specific objective of IPA and alternative strategies and approaches** could have been foreseen, **similar to those enacted for EU Member States with poor absorption in the Commission Task Force for Better Implementation (TFBI)** <sup>224</sup>, as proposed further in the recommendations. In this

<sup>224</sup> The issue of low absorption of EU funds had been identified already by the 2007-2013 budget period. In 2014, the Commission set up a Task Force for Better Implementation (TFBI) intended to help the countries whose fund absorption rate for the 2007-2013 was below average, namely Italy, Romania, Bulgaria, Czechia, Slovakia, and Croatia, which was able to substantially increase absorption of funds by these countries.

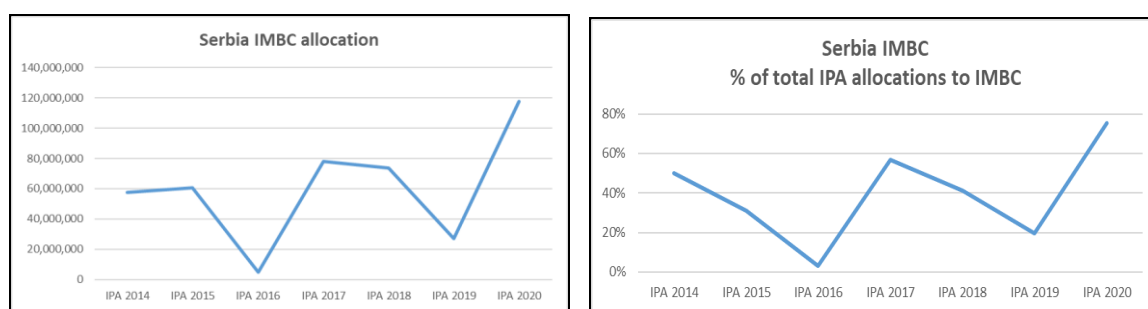
respect, multi-annual programmes provide the opportunity for financial forecasting and planning, establishing targets and allowing for remedial action to be taken. Yet, in the case of **the 2 multi-annual programmes financed under IPA II where a N+5 decommitment rule applied**, in terms of preparation for managing Cohesion Policy, compared to the 2007-2013 programmes where N+3 applied (as for Cohesion Policy), **they represent a step backwards**. A **shorter disbursement deadline might provide a better incentive** to start preparations on time, and **align the practice** to what will be required under **Cohesion Policy**.

### Serbia

The **case of Serbia** is somewhat different from the other three WB countries described above. Serbia was conferred with management powers in 2014 and structures accredited for decentralised management of Component 1 under the IPA 1013 Programme. Although Serbia prepared Operational programmes for IPA I components III and IV coordinated by the DG REGIO and DG EMPL, they were never submitted as sectoral programmes but integrated into the Component I Annual Action Programme. Decentralised management under IPA I (81% of the total allocation<sup>225</sup> equal to 145.6 million EUR) can be said to be rather successful, with a 98% contracting rate and absorption rate of 86% so far<sup>226</sup>. **Compared to Albania and Montenegro, who were conferred management in the same year, this is a far higher volume, providing significant opportunities for learning-by-doing**. It is of note that the **IPA I experience included grant schemes for social policy and municipalities and direct grants contributing to national schemes operating in Serbia in convergence fields**. These can be identified as early examples of practice in **convergence type funds allowing for the capacity-building of relevant institutions in grant management**. The portfolio also included works, services, supplies and twinning contracts.

Under IPA II, **Serbia did not have the opportunity to manage any multi-annual operational programmes although the programming process was initiated**. Instead, each annual Country Action Programme allocated funds for indirect management, while sector and the volume/percentage of indirectly managed funds varied considerably over the years. This can be considered **a lost opportunity** for learning-by-doing.

**Figure 4. 10 IMBC allocations to Serbia 2014-2020 in million EUR and percentages**



These **fluctuations made accurate multi-annual planning for the operating structures somewhat challenging** and in this respect a gradual increase would have been helpful; however, apart from the notable dip in 2016 and COVID-related measures in 2019, **a sizeable amount of funds was generally allocated**. From a sectoral perspective, in terms of convergence, **44% of funds allocated to education, employment and social policies were implemented under IMBC and about 17% to competitiveness and innovation, 94% to transport (only financed under IPA 2015) and 83% under Environment and Climate Change**. A **tailored approach to annual programming taking into consideration the capacities of the national authorities in related sectors and**

<sup>225</sup> Excluding Union Programmes and IPARD.

<sup>226</sup> The implementation period is extended to December 2022.

**readiness of the infrastructure projects was adopted:** funds for the environment sector were programmed under CAPs IPA 2014, 2017 and 2018 and for the transport sector only under CAP IPA 2015. This was planned to facilitate implementation to allow for capacities to be built in more complex higher-value infrastructural projects in the environment and transport sectors which require specific capacities for successful preparation and implementation with higher financial risks.

Even though it is too early to draw overall conclusions on the implementation of IPA II through IMBC (the implementation deadline for IPA 2014 is December 2021), after a somewhat less successful start for IPA 2014 (81.7%) contracting rates for IPA 2015 and IPA 2016 were high (95.78% and 99.99% respectively). However, provisional data (as of June 2021) for IPA 2017, where the contracting deadline is December 2021, indicates a contracting rate of only 1.78%; sectors covered are environment, energy and support to EU integration and given that 14 contracts are still in the tendering/contracting process there is a high risk of decommitment, despite the tailored approach adopted.

**Figure 4. 11 Serbia – no of contracts 2013-2020**



Compared to the other Western Balkans countries, the Department for Financing and Contracting of EU Funded Programmes (CFCU) is **preparing and managing a (relatively) high number of contracts overall in the period 2013-2020**. However, the number of contracts under IPA 2013 is equal to the envisaged total number of contracts over the IPA 2014-2020 period, due to implementation challenges. With such uneven numbers

and flows, proper workload analysis is challenging and there are risks of bottlenecks or underutilisation of certain units; the same applies also to IPA units in the involved sectoral institutions. The **lack of multi-annual operational programmes means that the human resource management for fund management similar to that for Cohesion Policy has not been experienced in Serbia**. Furthermore, there is some indication that the CFCU is facing **difficulties with complex infrastructure projects where technical expertise and high levels of inter-institutional coordination** are needed; these would be simpler if sectoral operational programmes were in place. **Sectoral structures have been supported by successive Project Preparation Facility assistance (10 in all) but such assistance could be more sustainable in the context of multi-annual sectoral operational programmes focusing on capacity-building and mentoring of the institutions as well as technical project preparation.**

**Key Takeaway n. 4.2** If Beneficiary countries are to be prepared to implement Cohesion Policy, it is **impelling to reverse the shift away from Indirect Management by the Beneficiary Country (IMBC) towards multi-annual operational programmes under IMBC mirroring structural funds rules as far as possible in convergence sectors**, involving the competent institutions in the country to avoid parallel systems. The **artificial split between programming and implementation should be avoided**; it does not reflect Cohesion policy practice and creates bottlenecks and impedes smooth and efficient programme management. **Learning-by-doing** must be prioritised to allow Beneficiary countries to take on responsibilities and learn from their mistakes.

Do the Actions financed under IMBC in the Western Balkans prepare for implementing Cohesion Policy?

In order for candidate countries to be prepared for the implementation of Cohesion Policy as Member States, **due experience needs to be built in designing and implementing the type of measures and operations commonly financed in convergence sectors.**

#### Lack of experience with grant schemes

**EU Cohesion Policy is implemented primarily through grant schemes<sup>227</sup>** (through open or restricted calls) **for a wide range of Beneficiary typologies**, including the private sector, local administrations, public bodies, research institutes, NGOs and associations and umbrella organisations and a more limited number of major/strategic projects through direct award grants. However, for the most part, **only small-scale grant schemes have been implemented under decentralised management/IMBC**, for the most part directed to **social policy, CSOs or municipalities**, with in general soft measures supported. This means that **experience of grant scheme management is in general very limited** (some exception made for CBC programmes under indirect management which are not considered in this analysis), **in terms of typology of beneficiaries, types of eligible costs and total volume, and the corresponding administrative burden very high on both the beneficiary and administration side for very low-value grants.** For example, in Albania, only 3 grant schemes are implemented under IMBC, two for CSOs to support EU integration and one for social inclusion in IPA 2019, with a total budget of 2 million EUR. **In Serbia**, there is slightly more experience, with **3 grant schemes implemented under IPA I in social policy** (55 grant contracts awarded) **but only 2 grant schemes under IPA II related to employment and social policy** (24 grant contracts awarded) and Support to local self-government units (18 grant contracts awarded with the support of the Standing Conference of Towns and Municipality through a direct grant to support implementation of the scheme). In addition, **transfers to national schemes run by the Innovation Fund of the Republic of Serbia** (4.4 million EUR and 18 million EUR under IPA I and IPA II respectively) **and the National Employment Service** (5 million EUR in IPA I); while these can be seen as **early pilot practice**, the **volume of funds and number of contracts implemented under grant schemes is miniscule** compared to those that would be available under Cohesion Policy as a Member State<sup>228</sup>. **Montenegro shows some practice in implementing grant schemes, principally under the human resources development programmes:** in total 10 grant schemes were programmed<sup>229</sup> starting from the OP HRDS 2012-2013, for the most part implemented by the CFCU except one grant scheme in the Environment sector by the Public Works Directorate. Consequently, **experience is lacking in other sectors such as competitiveness and energy efficiency.** Although **North Macedonia implemented two sectoral Operational Programmes under IPA I Components III and IV, with 3 grant schemes programmed;** 6 grant schemes are programmed under IPA II<sup>230</sup>, with an average of 10-15 grants per scheme. From this overview, it is clear that **given the implementation mechanisms for support under Cohesion Policy, only the continuous and increased implementation of grant schemes/grant contracts is a good practice for capacity development on both sides; for the organisations who are preparing and managing grant schemes; and for the organisations who are participating as beneficiaries**, as will be discussed elsewhere in this chapter. Due to the fact that **very few grant schemes have been implemented for the competitiveness sector**, under IPA I and IPA II, and none for energy efficiency, coupled with the fact that the private sector did not have the opportunity to participate and develop capacities **can be considered a significant deficit.** Furthermore, **the majority of IMBC grant schemes in the Western Balkans do not cover works** (exception made for some very small-scale works) **or large-scale supplies,**

<sup>227</sup> CPR article 52: Support from Cohesion Policy Funds may be provided in the form of grants, financial instruments or prizes or a combination thereof. It can be noted that on the basis of summary information for the 2014-2020 period, as of the end of 2019, about 7% of ERDF/CF was committed Financial Instruments, illustrating the predominant use of grants.

<sup>228</sup> In terms of population and GDP, the Republic of Serbia is broadly comparable to Bulgaria; Bulgaria received 8.7 billion EUR in Cohesion Policy Funds 2014-2020.

<sup>229</sup> 1 planned grant scheme for Competitiveness was cancelled and funds re-programmed for COVID-19 measures.

<sup>230</sup> The funds set aside for a seventh grant scheme planned for the competitiveness sector were re-programmed for COVID-19 related measures.



**focusing on softer support.** Where works are envisaged, challenges have been found in design, contracting and implementation of the grant schemes, indicating that this is key area of support. The consequences of this as regards the capacities of potential beneficiaries of Cohesion Policy are discussed in section 3.2.

**Key Takeaway n. 4.3: A far wider use of grant schemes – the major delivery mechanism for Cohesion Policy – needs to be prioritised as learning-by-doing practice, extended also to private sector beneficiaries.**

### Use of PRAG

Under **direct management and IMBC in IPA II national annual programmes**, support is provided **in accordance with the contract procedures for European Union external actions (PRAG)** which provides contracting authorities, on the one hand, and tenderers, candidates, applicants and contractors, on the other hand, with practical assistance in preparing and implementing procurement and grant contracts in the field of external action. In other words, actions are managed by the contracting authorities as: grant schemes, works, supplies, services where the contracting authorities are responsible for preparing the documentation in line with a series of guidance and templates that, although not legally binding, are adhered to as a general practical tool. PRAG does not apply to contracting authorities, international organisations, national bodies with which there is an agreement for use of their own procedures<sup>231</sup>, or to Twinning, where the Twinning Manual applies. Overall, this means that, except in the case of grant schemes, the support managed by the IMBC contracting authorities **follows a “procurement” logic rather than the logic of an “operation”**. In practice this has **several consequences in terms of the preparation for Cohesion Policy**, as analysed below.

A key issue is that **PRAG is designed for external action and it although the principles are shared, it does not mirror exactly EU and nationally-aligned procurement rules** (for example, when appeals are submitted in PRAG, the contracting process is not suspended unlike under EU procurement), **while in terms of progress to accession, the IPA Beneficiary countries should be building aligned national procurement systems and the related institutional capacities of contracting authorities**, as well as capacities in developing procurement strategies. In other words, **IPA is administered through a parallel system where capacities are built in the institutions (both operating structures and beneficiaries) according to rules and practices which are not linked to national public procurement systems and national procurement bodies are not involved**; even if there is a possibility for litigation to be managed under national systems, given the different practices and the language issue, it is difficult to see how this could in fact be implemented in practice. The most recent PRAG guidelines<sup>232</sup> still do not allow for e-submission under indirect management, whereas most IPA countries have successfully developed e-procurement systems, which have significantly increased transparency. There is no communication between national stakeholders establishing the public procurement system and the IPA contracting authorities, to transfer experience and good practice. The risk that the use and experience in PRAG procedures is consolidated and somehow “trapped” in the very institutions that are receiving capacity-building support to implement Cohesion Policy on accession is very high. Furthermore, contracting authorities are loth to use the simplification mechanisms that are envisaged in PRAG (such as simplified cost options and simplified procedures for grant beneficiaries) through fear of making mistakes. This leads to an extremely high and unnecessary administrative burden for both contracting authorities and grant beneficiaries in the case of secondary procurement.

In effect, PRAG gives the contracting authority certainty that the applied procurement procedure will be in line with the required principles and can help to build capacities initially,

<sup>231</sup> Generally used in the case of IMEE.

<sup>232</sup> 15 December 2015 <https://intpa-econtent-public.s3.eu-west-1.amazonaws.com/ePrag/2021.0/ePrag-en-2021.0-full.pdf>

especially when countries are starting implementation under IMBC. However, as national experience in IMBC grows, there is also a risk of over-reliance on the standardised PRAG templates and no experience in developing individualised procurement strategies, in line with national legislation that may include other procurement procedures such as dynamic purchasing systems<sup>233</sup> or innovation partnerships. Experience from Croatia has shown that the reliance on standardised templates and procedures lingers on in contracting authorities post accession.

Given that errors in public procurement are the major reason for financial corrections in ESI funds, **failure to properly prepare contracting authorities in the applicable procurement rules is likely to be one of the highest risk factors concerning EU Funds and place a potential very high burden on the national budget and public bodies if financial corrections are applied.**

The logic of PRAG is undeniable in situations where national procurement systems are not aligned with the EU Directives; however, **as alignment progresses in chapter 5, the use of national procurement should be established** in Financing Agreements, to avoid further consolidating experience in parallel systems and allow better exchange between institutions.

**Key Takeaway n. 4.4:** Once chapter 5 is provisionally closed, Managing Authorities should shift to the use of aligned national procurement systems in place of PRAG. Procurement procedures for grant scheme beneficiaries could be simplified and harmonised across programmes and the use of Simplified Cost Options (such as flat rates and unit costs) promoted to ease the administrative burden on all sides. Local languages for applications to grant schemes (as in IPARD) should be used to maximise reach and balanced uptake.

#### IMBC experience in financing infrastructure

**A key challenge for the WB IPA countries is to gain experience in preparing mature project pipelines for public infrastructure projects and the capacities to manage them successfully, if they are to address the convergence gap, improve connectivity and meet the goals of the green and digital transitions, as well as move towards closing the gap with EU Member States.** The IPA envelope is clearly inadequate to meet the infrastructural needs, and in general, larger infrastructural projects are financed by IFIs, including the specific initiative of the WBIF which has increased its portfolio and scope over successful implementation periods, and the donor community. **The IMBC experience in financing works is limited, not only because of the small size of the IPA envelopes and IMBC allocations but also due to a series of attested challenges in the implementation of complex works projects in IPA I** (notably the major project under the OP RD 2012-2013 in Montenegro for water supply and sewage in the municipality of Berane and phase II of the sewerage system in Vlora in IPA 2013 for Albania which was shifted from direct management to decentralised management in 2015). In Serbia, where over the two financial perspectives, 19 works contracts are implemented or in the pipeline, 7 of which under the IPA 2013 National Programme; national institutions are struggling with the insufficient capacities and knowledge required for the preparation and implementation of works contracts, as is discussed in more detail in section 3.2. **Due to the complexity of documentation required for infrastructure projects, the preparation of documentation is as the rule entrusted to technical assistance projects such as PPF projects or JASPERS funded by IPA, other initiatives for the Western Balkans or projects funded by other donors not under IMBC, and as a consequence capacities for coordinating Feasibility Studies and checking technical documentation as well as experience in the management of infrastructure investments are not being built, particularly at the level of the responsible ministries and institutions, which creates a serious risk for the**

<sup>233</sup> The latest PRAG defines the legal framework of the dynamic purchasing system for future use, but the IT tools (confidentiality, security) are not yet available in the European Commission.

**preparation of a strong and mature pipeline of capital investment projects needed for the quick uptake and absorption of Cohesion Policy Funds on accession.** The continued use of an instrument like JASPERS for larger capital projects could be useful if specifically geared to the institutional needs and could be extended outside the WBIF. The ECA Special Report n. 1 Joint Assistance to Support Projects in European Regions (JASPERS) – time for better targeting<sup>234</sup> found that JASPERS led to quicker project approval and had an impact on the quality of projects and the underlying project documentation, which are particular weakness in IPA countries, and were less frequently affected by legality and regularity errors during compliance audits. The Report recommends that the Commission integrate JASPERS activities into its own technical assistance strategy, with the aim of improving coordination with JASPERS on carrying out ongoing (as opposed to ad hoc) activities for developing Member States' administrative capacity – this could be even more valid for IPA Beneficiary Countries.

From the perspective of the institutions managing EU Funds, as opposed to project promoters, key skills are required for the assessment of the presented documentation, including abilities to assess the costs, implementation timeframe, economic appraisal and compliance with environmental legislation; the introduction of the EU taxonomy for IPA Beneficiaries as far as possible post 2021 will only create new challenges in this respect. Consequently, responsibilities for the management of works contracts should be assigned to competent institutions in the country, such as the Public Works Administration in Montenegro. To build capacities for the future management of structural funds, all infrastructural projects – whether implemented through pre-defined actions or grant schemes – should be subject to transparent and broadly harmonised prioritisation/selection criteria.

**Key Takeaway n. 4.5: Institutional capacities urgently need to be built in preparing and managing capital investments to be financed through EU Funds, in line with the EU taxonomy, and provide quality support for major projects avoiding over-reliance on external expertise, eventually through a JASPERS-like instrument for advice on major projects, the application of the EU Taxonomy, by empowering and transferring knowledge to competent national institutions.**

#### Use of financial instruments – an opportunity for IPA beneficiary countries

**Use of financial instruments (FIs) has been limited in the region, with most WB6 economies absent from the credit support landscape;** the use of FIs has **primarily been in cooperation with international financing institutions, without knowledge transfer and capacity building to national institutions**, with some exceptions<sup>235</sup>. The OECD 2021 Report indicates, over the past decade, and prior to the crisis triggered by the COVID-19 pandemic, access to finance was a major concern in Western Balkan economies; obtaining credit is still a significant challenge. **However, due to the COVID-19 pandemic, all WB6 economies have established initial or supplementary national credit guarantee schemes** to mitigate the impact of the crisis and increase the liquidity of SMEs, with Bosnia and Herzegovina, North Macedonia and Serbia also opening donor-based credit lines in partnership with donor institutions. The Report<sup>236</sup> recommends the “Transition from temporary credit guarantee schemes to permanent structures, for those economies without existing mechanisms. The COVID-19 pandemic has compelled economies to take the first steps to initiate widespread credit guarantees and lines to both SMEs and large enterprises. By building upon the preliminary framework established during the pandemic these schemes can continue to play an important role in enabling the flow of credit to the productive sectors. ... Access to alternative financing sources needs to be enhanced:

<sup>234</sup> [https://www.eca.europa.eu/Lists/ECADocuments/SR18\\_01/SR\\_JASPERS\\_EN.pdf](https://www.eca.europa.eu/Lists/ECADocuments/SR18_01/SR_JASPERS_EN.pdf)

<sup>235</sup> For example, there are two national credit guarantee schemes in Serbia, one aimed at the banks and the second to support export-oriented firms.

<sup>236</sup> p.183.

economies need to develop more comprehensive financing options for businesses to support sustainable economic growth and boost the resilience of the financial sector, through policies accompanied by the development of capital markets and appropriate financial instruments for encouraging both debt and equity financing. They should particularly target enterprises more likely to be under-served by the banking sector.”

Most WB6 economies lack dedicated regulatory frameworks for private equity and venture capital; however there has been some participation in the Enterprise Innovation Fund, which is a stand-alone venture capital covering the Western Balkans region funding early stage high-growth companies mainly in the technology sector.

Consequently, **the context is now mature to exploit the possibilities for using IPA Funds for the design and implementation of Financial Instruments**, building on success stories Member States with ESIF Funds. Summary data reported by the Commission on the use of FIs in ESIF Funds<sup>237</sup> show that FIs are implemented using ESIF in 25 Member States. By the end of 2019, the total programme contributions committed to FIs were nearly EUR 23.5 billion of which EUR 17.2 billion was from ESIF. The total number of planned or operational FIs stood at 756. As at the end of 2019, **the indicative ERDF and CF allocation for FIs in the submitted ESIF programmes was about 7%** of the whole envelope for the 2014-2020 period<sup>238</sup>. As stated in the Summary Report (p14), “For 2021-2027, the justification of the form of support, whether grants or FIs, is now required in all programmes. Grants will continue to be used in many areas where projects are not financially viable. However, the Commission does not expect that in the 2021-2027 perspective, grants are used in priorities for investments which are revenue-generating or cost-saving, in particular when programme resources are planned to be used to support enterprises or generate energy savings without a solid justification”.

Given **the future orientation for the increased use of FIs**, IPA beneficiary countries should be encouraged to start using them, with a particular focus on **building institutional capacity building to deliver FIs**, also using the expertise of the national promotional banks or international financial institutions. **Support could also be given to the existing development finance institutions to prepare them for a role in implementing some FIs**, such as debt instruments, so they can gain more experience. In this context, the experience of Member States in the region could provide useful insights on the potential of financial instruments. **Pilot FI schemes for digital transition and competitiveness in particular** would provide the basis for the successful preparation and roll-out of larger-scale FIs upon accession.

#### **Box 5: Croatia: a success story in the use of Financial Instruments<sup>239</sup>**

Despite the potential challenges for the newest Member State, **Croatia successfully implemented Financial Instruments using its national institutions in ESIF 2014-2020**; in the case of **the Rural Development Programme, it is the leading Member State in the number of final recipients supported**.

On accession, **Croatia shared many of the problems common to the Western Balkans countries in terms of its economic context<sup>240</sup>**: economic regression over 2008-2013 and a feeble enterprise sector; excessive macroeconomic imbalances; weak financial position of enterprises, with a liquidity index below 1.0 for all segments of SMEs with micro firms

<sup>237</sup> [https://ec.europa.eu/regional\\_policy/sources/thefunds/fin\\_inst/pdf/summary\\_data\\_fi\\_1420\\_2019.pdf](https://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/summary_data_fi_1420_2019.pdf)

<sup>238</sup> The figures available do not include the mobilisation of ESIF financial instruments, including in combination with grants, to respond to the COVID-19 health crisis and its social and economic impacts <https://www.fi-compass.eu/publication/factsheets/factsheet-responding-covid-19-crisis-through-financial-instruments>

<sup>239</sup> Ibid, <https://www.hbor.hr/en/tema/esif-growth-and-expansion-loans/>, <https://www.fi-compass.eu/financial-instruments/croatia>

<sup>240</sup> [https://strukturnifondovi.hr/wp-content/uploads/2017/03/Ex-ante-Assessment-Report\\_eng.pdf](https://strukturnifondovi.hr/wp-content/uploads/2017/03/Ex-ante-Assessment-Report_eng.pdf)



being most affected; negative trends in the labour market, particularly affecting youth and 50+; high risk aversion and a non-performing banking loan portfolio exceeding 30%.

Under the ERDF/CF Operational Programme Cohesion and Competitiveness, **596.8 million EUR was committed to FIs** (6% of the total allocation) through **10 instruments managed by the Croatian Bank for Reconstruction and Development (HBOR), the Croatian Agency for SMEs, Innovations and Investments (HAMAG-BICRO) and the European Investment Fund (the Croatian Venture Capital Initiative)**. They include **FIs for energy efficiency** (including energy efficiency for public buildings and public lighting) **and SMEs**. As of 9 December 2021, 3358 loans were approved by Hamag-Bicro, worth more than 108 mil EUR and 508 approved, worth more than 263 mil EUR and HBOR approved 109 loans, worth 81.5 mil EUR. As one example of a Financial Instrument, the FI ESIF Growth and Expansion Loans managed by HBOR are long-term investment loans for SMEs that have been operating for at least two years in the processing industry, tourism, creative industry and knowledge-based services. ESIF Growth and Expansion Loans are financed 50% from ESIF at a 0% interest rate and 50% from commercial banks' resources at market interest rates so the final interest rate for entrepreneurs is significantly lower than if no ESIF funds were utilised. As added value, final recipients are relieved of any fees for the processing of loan applications, entering into loan contracts and the regular disbursing of loans. The loan is for investments in tangible and intangible assets as well as the transfer of ownership rights; up to 30% can be earmarked for working capital related to the investment. Loans are for new investments only with a 12-year repayment period (up to a 2-year grace period included) and in the tourism industry up to 17 years (up to a 4-year grace period included). The minimum loan amount is EUR 100 thousand and the maximum EUR 3 million, or up to EUR 10 million for the tourism industry.

In the case of the Rural Development Programme, the use of FIs was so successful that 70.4 million EUR was programmed and 85.8 million EUR committed (122%) leading to an RDP modification to increase the amount. Only Croatia and the Managing Authority of Italy Puglia implement FIs both through a fund of funds (managed by HBOR in the case of Croatia) and through specific funds. By the end of 2019, **Croatia “reached a staggering number of 420 final recipients (out of which 411 microenterprises)”** of two FIs, the highest of any Member State. A Financial Instrument is also offered to farmers, the agricultural products processing industry and the forestry industry in difficulty as a consequence of the COVID-19 pandemic.

**Key Takeaway n. 4.6: The potential of financial instruments and pilot FI schemes for digital transition, competitiveness and energy efficiency using national institutions for capacity-building should be exploited to enable the successful preparation and roll-out of larger-scale FIs upon accession.**

Trends and analysis of other implementation modalities in IPA II: indirect management with entrusted entities and a new mechanism for IPA, sector budget support (SBS)

Recourse to indirect management with entrusted entities (IMEE) was used quite consistently in 4 of the IPA countries, ranging between 22% and 30.8%. From **the perspective of preparation for management of EU Funds, almost no learning benefits can be gleaned from IMEE<sup>241</sup>**; these institutions apply their **own (different) procurement rules** of the various donors and follow **different monitoring schedules and procedures**. Although they work with the relevant IPA units, **there is no clear or consolidated nexus with EU funds monitoring and reporting practices**. Formally, monitoring obligations as regards the NIPAC and DEU are defined in Programme documents but there are no

<sup>241</sup> IMEE, however, reduces the administrative burden for the Delegations.



procedures or checks in place. In most cases, these entities are working directly with sectoral institutions (such as policy bodies, justice structures, border police, local municipalities), or target groups (Roma, innovation actors). Information on implementation is presented in project steering committees but representatives of the NIPAC Office are not always present; as regards **financial information, this is not available publicly or provided directly to the NIPAC Offices**, although can be requested from the Delegation. **Visibility of the actions is managed directly by the entrusted entity**, in general on their websites, with often only limited project information available, although this varies from case to case. In other words, in these countries, **for approximately a quarter of the funds, there is no contribution to capacity building of institutions involved in the management of funds**. Furthermore, it is difficult for NIPAC offices to effectively monitor progress with overall IPA allocations at sector level, also in terms of indicator achievement.

From certain perspectives, **recourse to IMEE is welcomed by some sector institutions as it relieves them of the administrative burden** and, in some cases, can be activated quickly so is seen as a “quick win” for implementation; however, where assistance also envisages loan agreements, such as with the IFIs, the procedures for loan agreements can be lengthy and implementation delayed.

Regarding **Sector Budget Support, the approach of the IPA Beneficiaries has been rather mixed**. In some cases, it is seen as an easier opportunity to obtain IPA funds without an administrative burden. Notably, nearly 50% of assistance in Albania was implemented through this modality, in various sectors such as democracy and good governance, justice and rule of law, employment and social inclusion and transport. However, there were **challenges in implementation of sector budget support, in particularly in defining and achieving the set indicators**. In general, **SBS is a typical mechanism for development aid**; it aims to support policy reform mechanisms and is not designed as a convergence mechanism nor does it provide any capacity-building for the management of structural funds. **A shift from IMBC to SBS, as seen in Albania, moves away from political commitment and readiness to implement cohesion policy**. On the contrary, North Macedonia gave preference to IMBC and only used SBS to a very limited extent<sup>242</sup>, for the piloting of the Youth Guarantee Scheme; given the novelty and complexity of the Action this is potentially an interesting example of a highly focused and defined SBS allowing for the setup of structures, procedures and coordination mechanism that will serve also for convergence priorities, and exceptionally, reprogramming assistance as a special measure for COVID-19. The COVID-19 pandemic justified in general reprogramming and recourse to both SBS and IMEE as appropriate implementing mechanisms in exceptional circumstances; however, it was unfortunate that in some cases (such as Albania), this was at the expense of the IMBC allocation, reducing even further planned allocations.

Where the mechanism can still be of value as regards preparations for the management of EU funds is in those cases where fundamental reforms are still ongoing and support is needed to reach and maintain the required standards, such as Public Finance Management, Public Administration Reform, rule of law and anti-corruption. However, in these cases it should be stressed that the aim is not only to reach the identified targets for disbursement but to maintain and consolidate them to avoid backsliding, which is much more challenging and could potentially be built into a more nuanced SBS support.

**Key Takeaway n. 4.7: Recourse to Indirect Management with Entrusted Entities as the delivery modality in convergence actions should be avoided as it provides no learning benefits; Sector Budget Support should be limited only to support fundamental reforms.**

The experience of Turkey with indirect management: an outlier but with lessons to be learnt for the WB6

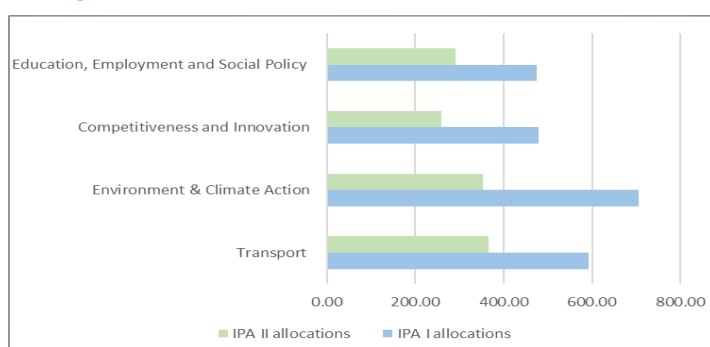
<sup>242</sup> On insistence of the DEU; the position of the NIPAC was against the use of Sector Budget Support.

The experience of **Turkey differs considerably** from the Western Balkans countries. Turkey established structures for the implementation of EU funds by its national authorities as of 2003 which makes Turkey the candidate country with the **longest experience in indirect management**. Throughout the years, **the majority of IPA funds have been implemented indirectly, and multiannual programmes have been fully managed by the national authorities**. Eight multi-annual programmes have been programmed and implemented in the period 2007-2020. Furthermore, Turkey has continuous and long-term experience in the implementation of wide-scale grant schemes and infrastructure projects.

Strengthening the capacity of the national authorities to prepare strategic documents, ensure sector coordination and monitor the implementation of such strategies, to develop capacities for multi-annual and performance-based budgeting are one of the key priorities in preparation for Cohesion Policy. Turkey has **extensive experience in multi-annual planning of seven-year operational programmes IPA mirroring the structural funds programmes designed for the EU Member States**.

Under IPA I Components I and II (annual programmes), **the Central Finance and Contracts Units was contracting authority for 2,431 contracts and 83% of the allocated IPA I funds for the annual national programmes were contracted**. Four operational programmes were implemented under Components III and IV<sup>243</sup> for the seven-year period 2007-2013. Under the **Transport Operational Programme (592 mil EUR), 39 infrastructure projects were prepared and submitted to the Commission and 1000 km of Turkish railways rehabilitated**. The **Regional Competitiveness Operational Programmes (480 mil EUR)** financed projects from 12 NUTS II regions with a GDP % below 75% of the national average. The Environment Operational Programme (706 mil EUR) focused on water and waste projects. **The Human Resources Development Operational Programme (474 mil EUR) funded 38 operations and 936 contracts (mostly grants)**, showing impressive results, for example “more than 26,000 women participated in the labour market; more than 17,000 young people participated in trainings increasing their employability; more than 7,500 girls had access to secondary education and more than 35,000 disadvantaged people directed to public employment services, received guidance, counselling and benefited from rehabilitation services.”<sup>244</sup> **Each of the operational programmes was managed by the appointed operating structure including the relevant ministry/ies**.

**Figure 4. 12 Allocations for IPA I and IPA II multi-annual programmes in Turkey**



The four Operational Programmes were continued for the period 2014-2018, albeit with significantly decreased funds as shown in the graph below. As under IPA I, the majority of funds (83%) are implemented under indirect management with IPA II beneficiary (IMBC with ex-ante control). Management

responsibility was transferred from sector-specific DGs to DG NEAR for IPA II (except in the case of IPARD). As reported in the European Parliament 2016 Study *Turkey: How the pre-accession funds have been spent, managed, controlled and the monitoring system?*<sup>245</sup>, “Views provided in the course of this study indicate that the European Commission may find it challenging to maintain the quality of support and advice it provides regarding the

<sup>243</sup> Component III Regional development and Component IV Human Resource Development; Turkey also implemented IPARD 2007-2013 under Component V

<sup>244</sup> Delegation of European Union to Turkey website: [EU Support Changing Lives: Education, Employment and Social Policies | EU Delegation to Turkey \(avrupa.info.tr\)](http://EU.Support.Changing.Lives:Education,EmploymentandSocial.Policies|EU.Delegation.to.Turkey(avrupa.info.tr))

<sup>245</sup> [https://www.europarl.europa.eu/RegData/etudes/STUD/2016/572699/IPOL\\_STU\(2016\)572699\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2016/572699/IPOL_STU(2016)572699_EN.pdf) p.11

management of EU pre-accession funds in certain sectors, following the transfer of management responsibility from sector-specific DGs to DG NEAR.”

The Central Finance and Contracts Unit (CFCU) managed 87.2 % of IPA I funds and manages 84.2% of IPA II funds under annual programmes. However, **implementation performance by the CFCU is weak, with a significant backlog and implementation delays that cause de-commitment**<sup>246</sup>. Until 2017,<sup>247</sup> around 25% of funds were de-committed from the IPA 2012 Financing Agreement and 23% from IPA 2013<sup>248</sup>. In 2017, under the IPA 2014 Financing Agreement, the Turkish authorities still had to contract more than 93%<sup>249</sup>, which indicates a significant backlog in implementation given that the contracting deadline expires in December 2018. The main reasons were **weak administrative capacities at the line ministries; difficulties in transition to a sector approach and handling more complex and numerous projects by the operating structure; and a significant staff turnover in the CFCU**. However, the backlog has been progressively reduced since 2018 following measures taken by the Commission and Turkey.

The latest EC 2021 Report for Turkey assessed that „some progress was made in this area especially in **accelerating the absorption of IPA II funds** and in **addressing some structural weaknesses**“ and that “no de-commitments were performed at the end of 2020, notably because of increasingly higher absorption and contracting rates in the multiannual action programmes. “Nevertheless, it is still concluded that “implementation and disbursements rates, however, need to further progress “.

Practice shows that **contracting is rather slow throughout years and accelerated in the last year close to the contracting deadline**. This is a result of increased work on tender preparation and contracting over years under different programmes. **Due to the larger portfolio and workload, not proportionally matched by an increase in staff capacities, IPA structures are facing higher performance demands which creates bottlenecks**.

In addition, **the procedures for procurement and contracting under IPA are burdensome and time-consuming. Coupled with the lack of experienced staff, staff turnover and insufficient quality of documentation prepared by the line ministries, the quality of documentation and management of the processes is affected**. For timely and efficient contracting and implementation of IPA programmes, staff turnover remains an issue of concern. The problem of insufficient number of experienced staff for preparation of tender documentation needs to be resolved.

The grant mechanism is one of the main delivery mechanisms under the Cohesion Policy. It is observed that **grant schemes were continuously implemented under IMBC in Turkey** through annual and multiannual programmes – unlike in the other IPA Beneficiary Countries – which is **good practice for the preparation for management of EU structural funds and capacity development on both sides**; for the institutions preparing and managing grant schemes; and for the applicants and potential beneficiaries.

Equally, a significant **number of large infrastructure projects** were **prepared and implemented by the national authorities mainly through the multiannual programmes for Transport and Environment solely, or in collaboration with the IFIs. Blending IPA grants with IFI loans** can be assessed as **good practice that will ensure the best use of EU funds and achieve stronger overall impact and ownership**. Furthermore, the **development of the local financial institutions and their capacities for financial support** and funding in implementation of EU funded projects is assessed as **good**

<sup>246</sup> Special Report No 7/2018, „EU pre-accession assistance to Turkey: Only limited results so far“, European Court of Auditors

<sup>247</sup> Please note that this is the latest available information.

<sup>248</sup> Special Report No 7/2018, „EU pre-accession assistance to Turkey: Only limited results so far“, European Court of Auditors

<sup>249</sup> Ibid.

**practice for preparation for Cohesion Policy.** For instance, as indicated in the IPA II multi-annual programme Environment and Climate Action: “İllbank A.Ş., as a local investment and development bank that has specific expertise on the finance of municipal infrastructure projects, acts as an intermediary for the use of IFI loans to municipalities and undertakes coordination and monitoring functions during the implementation period. The Bank plans to expand its operations by establishing partnerships with other IFIs to support sustainable urban infrastructure investments of Turkish local administrations. IFIs which do not seek sovereign guarantees are active lending directly to the municipalities.”<sup>250</sup>

In short Turkey has more than 15 years of experience with multi-annual programmes and the implementation of sector programmes, a long-standing involvement of sector institutions in programme management meaning capacities are being built and a strong administrative system with a respectable tradition; however, this is undermined by the fact that decision-making in the presidential system is highly centralised (including the recruitment process) and the procurement system not aligned with the EU legislation (use of domestic preference). In this respect, in line with Specific Objective 3 of the IPA II Regulation, the indirect management of funds is contributing to preparation for management of Union Structural Funds, the Cohesion Fund and the European Agricultural Fund for Rural Development. In the case of IPARD<sup>251</sup>, for example, **the IPARD I Programme was successfully completed between 2007 and 2013 and 99.7% of the budget disbursed. Eleven thousand projects were supported, for a value of 1 billion and 45 million Euro (EU + Turkey Contribution) in total, and approximately 57 thousand people were employed.** Under the ongoing IPARD II, nearly 333 million Euro (EU + Turkey Contribution) has been provided to 5,567 projects that were completed by 30 April 2021.

**Key Takeaway n. 4.8:** The example of Turkey shows the value of learning-by-doing for the institutions involved in convergence-oriented programmes as well as in terms of gradually improving performance and the achievement of results; it confirms the need to prioritise multi-operational programmes under indirect management that cover all convergence objectives and delivery through grant schemes including works elements, supported by high-quality support from relevant DGs.

#### Ex-ante control

In general, **IMBC is implemented with ex-ante control** on the procurement documents by the Commission. **Ex-ante control by the EU Delegations has been seen by the IPA Beneficiary countries as valuable, especially early in the process when experience has not been acquired.** Under IPA I, the preparation of a Roadmap for the waiver ex-ante control was required, which was not the case for IPA II. For example, in Albania, where IMBC had started only for IPA 2013 in 2014, in 2015 the Albanian authorities were informed that certain IPA 2014 contracts would be implemented without ex-ante control. No roadmap for the waiver of ex-ante controls had been developed and institutions had accrued little experience of IMBC. However, after the performance of ex-post controls, it was identified that the procurement process had not implemented in line with the required principles and rules which led to a 100% financial correction (around EUR 1 mil) and ex-ante control was reintroduced. However, **as capacities develop, especially over a financial perspective, it is questionable how valuable ex-ante controls really are.** There tends to be an **over-reliance on ex-ante control thereby undermining the development of independent capacities** and it is of utmost importance for structures to take over responsibility for IPA implementation and face any consequences for low performance as part of the learning by doing process. It would be better from this perspective to **strengthen quality control units in the contracting authorities and ensure stronger ownership by the IPA beneficiary**

<sup>250</sup> COMMISSION IMPLEMENTING DECISION of 11.12.2014 adopting a multi-annual Action Programme for Turkey on Environment and Climate Action, Annex I, Brussels C(2014) 9575 final

<sup>251</sup> As reported in the 11<sup>th</sup> IPARD II Monitoring Committee on 24 June 2021 <https://ipard.tarim.gov.tr/hdetay-en/81#>



**for the actions and transactions** undertaken. This might also force **political decision makers towards a stronger commitment to build and retain administrative capacities** in order to ensure results in IPA implementation.

Furthermore, ex-ante control represents **a heavy administrative burden on all sides that slows down considerably the process of tender preparation, evaluation and contracting and can even result in decommitment**. The **quality of ex-ante control is not consistent** between Delegations and within the same Delegation, often seeming to rely more on personal approaches and sometimes with rather trivial and inconsistent recommendations that do not impact on the legitimacy of the process or documentation. Given the frequent recourse to a series of clarifications in tender documentation, it does not seem that ex-ante controls have been particularly useful in improving clarity.

Ideally, a roadmap for waiver of ex-ante control could have been developed in IPA II to enable countries to prepare and adjust for the transition to ex-post control; however, this also requires a sufficient volume of funds implemented under IMBC, which in some countries is not the case, and also requires the Delegations to have more consistent and valid comments. **Strengthening internal quality control processes and strengthening the advisory function of Delegations (as well as specific support from relevant sectoral DGs) would be more appropriate measures than ex-ante-control**. Certainly, the aim should be to work towards **multi-annual operational programmes without ex-ante control under IPA III as is envisaged**. Given the decade-long experience in implementing under IMBC as well as experience in IPARD, the shift to ex-post control is logical. However, as regards Bosnia and Herzegovina and Kosovo\*, where the financial management, control and audit system for EU funds is missing, (exception made for CBC for Bosnia and Herzegovina) the first step would be to support the countries to progress in meeting the conditions for IMBC; this could be achieved with IPA support, including SBS, potentially through the implementation of a closely monitored roadmap for the steps towards conferral and subsequently to assist along the learning curve with IMBC, whether through the ex-ante control mechanism under annual action programmes, or enhanced advisory support if multi-annual programmes without ex-ante control are approved.

Finally, **ex-ante control is not an appropriate instrument to monitor and enhance the implementation performance of the IPA beneficiary country**; better tools are the monitoring and follow up of procurement plan implementation or Action Plans for improving contracting rates, monitoring of key performance indicators, and regular task force meetings as well as specific advisory support.

Consequently, the planned shift from ex-ante control to ex-post control under IPA III is a welcome development.

**Key Takeaway n. 4.9:** The use of **ex-ante control should be limited to IPA potential candidates that have no experience of Indirect Management** as it delays implementation and risks becoming a prop for avoiding responsibility without clear added value, in favour of more targeted and qualitative advisory support.

#### Experience in monitoring and evaluation of EU Funds

In line with the Cohesion policy regulatory framework, EU funding must be spent effectively and in accordance with its defined purpose. For this reason, extensive evaluation and monitoring procedures have been established through EU legislation to check that EU cohesion policy programmes are performing properly and delivering results that can be checked against agreed criteria. In this regard, Member States are responsible for establishing a performance framework covering all indicators, milestones and targets in order to monitor, report on and evaluate programme performance. The monitoring system shall be based on quality and reliable data and indicators, which then is used for monitoring and assessing the performance of programmes. Each Member State is required to set up



a committee to monitor the implementation of the programme (monitoring committee), respecting balanced representation of the relevant Member State authorities, intermediate bodies and representatives of the partners, in line with the partnership and multi-level governance principle. Documents submitted to the monitoring committees are required to be publicly available. Collection and exchange of data for the purpose of monitoring progress in implementation, including results and performance of programmes, is ensured through a system of electronic data exchange between beneficiaries and managing authorities, and between different authorities of the management and control system.

Cohesion Policy Programmes are subject to regular annual performance review and a substantial and in-depth mid-term review of programme performance, providing an opportunity to take account of new challenges and relevant country-specific recommendations issued in 2024, as well as progress in implementing integrated national energy and climate plans and the principles of the European Pillar of Social Rights.

Member States or Managing Authorities are responsible for carrying out evaluations of programmes, which assess effectiveness, efficiency, relevance, coherence and Union added value of the programmes with the aim to improve the quality of the design and implementation of programmes, conducted in accordance with the partnership principle. Such evaluations shall be entrusted to internal or external experts who are functionally independent. The European Commission is responsible for carrying out a mid-term evaluation of each Fund by the end of 2024 as well as a retrospective evaluation.

IPA Implementing Regulations and the Framework/Sectoral Agreements between the IPA Beneficiary Countries and the Commission, Commission Implementing Decisions adopting the Action Programmes and the annual/multi-annual Financing Agreements set out the legal requirements for the monitoring and evaluation of IPA Funds. The purpose of this overview is to assess extent to which monitoring and evaluation under IPA prepares the countries for their responsibilities under Cohesion Policy funds.

Unfortunately, although the principles for monitoring are similar under IPA, **the organisation and implementation of monitoring** is quite different, and **depend on the management modality in place**. Essentially, monitoring responsibilities under Direct Management are assigned to the Commission, and only for actions under IMBC to the Beneficiary Countries (under the overall coordination of the NIPAC). Under IPA I, IPA Monitoring Committees were only established if decentralised management was in place; this was addressed in IPA II where IPA Committees were set up in all countries to review the overall effectiveness, efficiency, quality, coherence, coordination and compliance of the implementation of all actions towards meeting their objectives. However, **given the complexity of IPA II, with annual programmes and different management modalities, the discussion in IPA MCs cannot cover all aspects in sufficient depth**. Where IMBC is in place, **sectoral (or programme) monitoring committees** are established, which for the most part **monitor implementation only for IMBC**; clearly, many actions in countries with low levels of IMBC are not monitored at sectoral level in SMCs. In countries with very low levels of IMBC, the monitoring capacities of the NIPACs and relevant national institutions are not being developed, in particular where there is high implementation through IMEE. The DEUs' overall monitoring data is not consistent shared with NIPACs. SMCs review physical and technical implementation, as well as the progress towards achieving results and report to the IPA MC; however, these reports are not publicly available. In general, **civil society and partners are not formally members of the SMCs (except in the cases of multi-annual programmes)** and when they do participate their role is not clear.

**Annual Implementation Reports (AIR)** are sent to the Commission by 15 February of the following year - the **focus** of the reports is **on IMBC actions** and the 15 February<sup>252</sup>

<sup>252</sup> Under most multi-annual operational programmes, the reporting deadline is 15 June of the following year.

reporting deadline makes effective reporting challenging, especially for information at sectoral level other than on IMBC actions where NIPACs and IPA units do not always have consistent information; the reports **do not monitor financial progress sufficiently at overall IPA level**. The AIRs are not systematically publicly available, although can be accessed online in a few cases. **Very few comprehensive management/monitoring information systems for IPA are in place and the NIPACs do not have any access to DG NEAR's monitoring system**. In this respect, **IPA territorial cooperation programmes under shared management provide national IPA authorities with appropriate access to their programme MIS so national level monitoring and reporting is possible** at the level of the programme, project and beneficiaries, both **for financial information and progress with indicators**. Furthermore, the quality of the indicators themselves is often rather poor. In convergence-type objectives, it would be useful to use the Cohesion policy indicator framework, which would improve practice and capacities in view of accession, as well as providing clear methodological approaches.

In terms of **monitoring capacities**, these are generally assessed as **rather poor**; the **administrative burden for monitoring and reporting is very high**, with **reliance on paper-based information** or individual institutional IT tools with **manual inputting**, leading also to unforced error; furthermore, there is a generalised **lack of understanding of why monitoring and reporting is needed**. **Financial monitoring** tends to be completely divorced from project/action level monitoring.

**Key Takeaway n. 4.10: Monitoring Committees should respect the ECCP principles and the capacities of the members built**, also through Technical Assistance. Their work should be more **transparent** and their **membership public**.

**Capacities in monitoring and reporting need to be built** but ensuring that the administrative burden is reduced by the introduction of **monitoring information systems for IPA Funds under IMBC accessible to all institutions in the system**, with potential also for the exchange of basic monitoring data (financial and indicator-related) regarding other implementation modalities so that NIPACs can have a full overview of IPA Funds in the country. The real value of Annual Implementation Reports needs to be considered and steps taken to ensure deadlines are feasible for quality reporting, the content is streamlined and the administrative burden is reduced.

Indicator frameworks are poor and do not mirror Cohesion policy indicators for convergence objectives, thereby limiting learning potential.

As far as evaluation is concerned, **national authorities are only responsible for organising interim evaluations for actions under decentralised/indirect management**; consequently, exception made for Turkey, **evaluations risk being only “project oriented” and very limited in scope** (given that under a single Action, only a small percentage of the total allocation may be under IMBC), thereby undermining its potential as learning; real experience in organising evaluation processes and the needed follow-up is not gained among national institutions. **The introduction of SOPs under IMBC will partially address this and allow for capacities of the programme bodies – and the partners – to be built for interim evaluations**; it would be useful for **evaluation officers in IPA countries implementing SOPs to participate in the Evaluation Network set up by DG REGIO** as observers to gain more knowledge on evaluation; **a (virtual) Evaluation Network for IPA Beneficiaries** could also be set up to facilitate exchange of experience and good practice in order to strengthen evaluation capacity. Capacity building in evaluation for programme bodies and partners, as well as the evaluations themselves, should be covered fully by Technical Assistance.

**Key Takeaway n. 4.11: Experience in evaluation is limited only to IMBC actions**; in order to gain more knowledge, IPA countries could participate in Cohesion Policy Evaluation

Networks and a functioning virtual IPA Evaluation Network could allow for peer exchange to build up evaluation capacity.

### Visibility, transparency and communication

One of the most critical aspects of EU assistance in IPA countries is **the failure to provide easily accessible and transparent information on the IPA assistance** that is provided, as has been already discussed in Chapter 1. Due to the different management modalities and diverse entities involved in the very same annual action (which could involve direct management, IMBC and IMEE with more than one entity), there is no coordinated or common communication on IPA Funds in practice on IPA funds as a whole, despite the framework Agreement obligations<sup>253</sup>, or any public understanding of what is actually funded, with consequent impact on support for EU integration. The NIPAC IPA webpages<sup>254</sup> are only descriptive providing the most basic information on IPA with links to the DG NEAR website; in most cases the websites focus on progress with accession. The NIPAC and DG NEAR websites do not provide any consistent, systematic data or information on progress in actions or programmes, financial progress or results obtained. The DEU websites are a little more dynamic, providing some news and success stories but again there is no systematic data or information on progress in actions or programmes, financial progress or results obtained under the various IPA programmes.

The **obligations for Member States concerning visibility, transparency and communication** should be **broadly mirrored for IPA countries**, with DEUs and entrusted entities providing the necessary information on a regular basis. **IPA Technical Assistance should finance a specific website or webpage that is maintained and regularly updated**, under the NIPACs' responsibility, which provides information on the **whole progress of IPA including financial progress and achievement of results**, and links to the webpages for the specific multi-annual programmes including IPARD and ETC, in the latter case regardless of the management modality. A clear communication strategy should be drafted, also taking into account specific communication plans for SOPs. **A communication officer should be nominated for each SOP, and each SOP Managing Authority should provide a website** where information on programmes under its responsibility is available, **covering the programme's objectives, activities, available funding opportunities and achievements**. Given the poor track record in communication, **a SOP communication plan should be drafted and approved by the SOP Monitoring Committee, to be funded by Technical Assistance**; the communication plan should include measurable communication targets and progress reported regularly to the Monitoring Committee. **IPA Communication Coordinators and Officers could benefit from peer exchange with Member State Communication Coordinators and Officers** in the perspective of accession; to this end they should be **associated with the Cohesion Policy Network**.

**Key Takeaway n. 4.12: There is no coordinated or common communication on the implementation of IPA Funds as a whole at national level, or any public understanding of what is actually funded, with consequent impact on support for EU integration.** The NIPAC IPA webpages provide only the most basic information on IPA; in most cases the websites focus on progress with accession. DG NEAR websites do not provide any consistent, systematic data or information on progress in actions or programmes, financial progress or results obtained.

### Lessons from the implementation of IPARD

<sup>253</sup> Article 24 The Commission and the IPA II beneficiary shall agree on a coherent plan of visibility and communication activities to make available, and actively publicise information about programmes and actions under IPA II assistance.

<sup>254</sup> For example <http://integrimi-ne-be.punetejashtme.gov.al/en/mbeshtetja-e-be-se/ipa/>; <https://www.dei.gov.ba/en/instrument-for-pre-accession-assistance>; <https://www.mei.gov.rs/eng/funds/eu-funds/ipa-instrument-for-pre-accession-assistance/instrument-for-pre-accession-assistance-2014-2020/>.

Although the focus of this Study is not on preparations of the IPA Countries as regards Common Agricultural Policy, it is worth recalling that from the perspective of gaining experience in managing EU Funds, **the 4 Western Balkans countries examined above were entrusted for budget implementation tasks for measures under the multi-annual IPARD programmes for agriculture and rural development**, which closely mirror measures in Rural Development Programmes in Member States. This gave the opportunity to gain experience in managing and monitoring multi-annual programmes, including financial planning, and experience of cycles of calls of proposals for the entrusted measures, dealing with issues such as decommitment risk and human resources management in the IPARD Agencies (Paying Agencies) and thereby contributing to the preparation for management of the EARDF. Indeed, as stated in interviews with the national institutions, the experience of IPARD and support from DG AGRI in programme implementation is considered a good example of how IPA should be implemented in general. By **giving responsibilities to the countries consistently, following the logic of a multi-annual programme, capacities were built** over the period and, most significantly, **understanding reached on how to take responsibility for decommitment risk and identify appropriate actions as regards planning for calls and the management of human resources** in the IPARD Agencies<sup>255</sup>. For example, in Albania the IPARD allocation was nearly twice the whole IMBC allocation 2014-2020 in the national annual programmes; as stated in the 2021 Country Report “IPARD implementation in Albania continued in a satisfactory manner in terms of number of contracts signed as well as their corresponding contracted value. Albania made use of the short-term actions made available by the Commission in order to counter the negative effects of the COVID-19 crisis and ultimately increase the number of IPARD-funded investment projects finalised and paid. Supported by a one-year funds validity extension granted by the Commission and through national capacity mobilisation, loss of IPARD II programme funding was avoided at the end of 2020. However, further efforts are still needed as a risk of de-commitment remains for 2021.”

**Key Takeaway n. 4.13:** Building on IPARD experience, **multi-annual operational programmes should be seen as a learning experience, with the support of relevant cohesion policy DGs, to encourage National Authorities to take responsibility for programme management, including the decommitment risk, in order to prioritise national capacity mobilisation and efficient planning.**

#### 4.1.2. Participation in Territorial Cooperation programmes

##### Shared management cooperation programmes: hands-on experience in Cohesion Policy

The participation of IPA countries (except Kosovo\*) in European Territorial Cooperation (Interreg) programmes with Member States under shared management<sup>256</sup> provides **the only experience of IPA Countries with multi-annual programmes managed according to cohesion policy principles and rules**<sup>257</sup> albeit not as the Managing Authority; however, given the specificity of Interreg programmes this still allows for them to gain both **insight and experience** into the **partnership principle** and consultations, **e-cohesion principles, transparency**, communication and visibility rules, participation of the design of **the management and control system according to ERDF rules, management verifications through controllers designated in IPA countries** in relation to beneficiaries on their

<sup>255</sup> As reported in the 2021 Country Report for Serbia “Serbia is now implementing four measures under the IPARD II Programme. There are still 111 vacant positions from the 235 posts dedicated to IPARD within the Directorate of Agrarian Payments (IPARD Agency). The filling of vacant posts is a pre-condition for the speeding-up of the processing of IPARD applications to avoid risk of de-commitment of EU funds.”

<sup>256</sup> ERDF transnational cooperation and IPA cross-border cooperation between Member States and IPA countries.

<sup>257</sup> As established in Chapter II *Cross-border cooperation between Member States and IPA II beneficiaries* of the IPA Implementing Regulation 447/2014 concerning programming, implementation mode and designation of programme authorities, Functions of the programme authorities, the functions of the Joint Monitoring Committee, evaluation, Reporting, information and communication, Financial management, decommitment, examination and acceptance of accounts, closure and financial corrections and Management and control systems and audit.



territory, participation in the **design of selection criteria** and **preparation of calls for proposals** and implementation documentation, **selection of operations** (which is a responsibility of the Monitoring Committee in Interreg), **monitoring of operations** at IPA beneficiary level, experience in the **use of electronic monitoring systems**, full participation in monitoring and participation of the programme and participation in audits as part of the programme Group of Auditors; there is also some practice in the **use of Simplified Cost Options** or potentially Integrated Territorial Investments if foreseen by the specific programme. IPA countries are also supported by the interregional programme INTERACT for the exchange of experience, information and innovation to promote best practice and make cooperation easier, including support specifically geared for IPA cross-border cooperation shared management programmes, under the responsibility of DG REGIO.

However, **this valuable experience is not being sufficiently capitalised for the management of EU Funds**. The system set up for the management of shared management programmes is seen for the most part as completely separate from the indirect management system, with very few exceptions, meaning that the opportunities for learning from valuable experience within the country are lost; whether because different institutions are entrusted with the tasks or because even within the same institution<sup>258</sup>, ETC is managed in separate units without any systematic approach for exchange of information or experience which represents a significant loss in opportunities for building on acquired experience based on cohesion policy rules<sup>259</sup>. As perhaps the most illuminating example, in North Macedonia, current indirect management structures are not involved in any way in territorial cooperation which is the responsibility of the Ministry of Local Self-government<sup>260</sup>; as regards First Level Control (FLC) in shared management programmes, uniquely in the WB6, a decentralised system for FLC is in place in North Macedonia, whereby the Ministry of Local Self Government has established a list of external controllers based on an approved internal methodology<sup>261</sup>. Significantly, no assessment of IPA countries' performance in ETC shared management programmes is included in the annual Country Progress Reports.

A significant novelty introduced for the 2021-2027 perspective is the potential for IPA countries to participate in INTERREG C programmes (interregional cooperation) and it is understood that the proposal to include IPA countries in the programme area<sup>262</sup> for URBACT has been confirmed by the Commission. The draft programme for INTERREG EUROPE<sup>263</sup> does not include IPA countries, although as in the past Norway and Switzerland are included). Although the ESPON 2021-2027 programme document is not available, given the scope of the programme to provide applied research, place-based analyses and specific tools to support the formulation of territorial development policies in Europe with evidence, systematic data, maps, policy advice and pan-European comparative analysis which in many cases includes the Western Balkans, it would be extremely useful for IPA countries to participate more formally in the programme, bearing in mind that under the 2014-2020 Programme, representatives from EU Candidate Countries may participate in ESPON Monitoring Committee meetings as observers.

### Territorial Cooperation between IPA countries: a missed opportunity

<sup>258</sup> In Serbia and Montenegro, FLC is conducted by the CFCU as in Albania in the case of transnational programmes. However, there is no systematic approach for the sharing of information or experience mainly limited to potential staff shifts or sharing due to workload.

<sup>259</sup> This is by no means a unique experience, and was seen also in the case of Croatia.

<sup>260</sup> As stated by the NAO representatives; it is noted that North Macedonia has not been conferred with management powers for the IPA-IPA programme with Serbia under indirect management and controls for the beneficiaries from North Macedonia are done by the DEU.

<sup>261</sup> Pursuant to Article 23 (4) of Regulation (EU) No 1299/2013.

<sup>262</sup> Draft Programme document – July 2021 [https://urbact.eu/sites/default/files/1-urbact\\_iv\\_cp\\_final\\_draft.pdf](https://urbact.eu/sites/default/files/1-urbact_iv_cp_final_draft.pdf)

<sup>263</sup> [https://www.interregeurope.eu/fileadmin/user\\_upload/documents/Programming\\_Committee/Interreg\\_Europe\\_2021-2027\\_CP\\_final\\_version\\_September\\_2021\\_.pdf](https://www.interregeurope.eu/fileadmin/user_upload/documents/Programming_Committee/Interreg_Europe_2021-2027_CP_final_version_September_2021_.pdf)



A **second group of territorial cooperation programmes regard cross-border cooperation between IPA countries themselves.** These programmes are implemented either through direct or indirect management and managed by DG NEAR. Unlike in the case of shared management programmes, some significant changes as regards implementation were introduced in the transition from IPA I to IPA II. Under IPA I, IPA I separate implementation arrangements were in place for each of the participating IPA countries (responsible for contracting, payments, accounting and financial reporting of grants) while IPA II moved to a more consistent logic with a single contracting authority, whether under direct or indirect management. However, the role of the JMC was diminished: **under IPA I, the JMC was responsible for final selection of operations, in IPA II it became the responsibility of the single contracting authority, a significant difference compared to shared management ERC programmes. Only Serbia and Montenegro are contracting authorities for IPA-IPA programmes;** the CFCU in Albania is carrying out the verification of reports and control checks of the Albanian grant beneficiaries under the IPA CBC Montenegro-Albania programme where the contracting authority is the CFCU in Montenegro; however, shortcomings and a lack of capacities have been noted in the Albanian FLC system. As regards the IPA-IPA Serbia-North Macedonia programme, controls for North Macedonian beneficiaries are carried out by the Delegation.

CBC between IPA countries does not benefit from the experience under ETC shared management programmes nor mirror Cohesion policy implementation for ETC; this is particularly true as regards the partnership principle, the composition and role of the Monitoring Committee, the design of the management and control system, monitoring and evaluation and transparency and communication in particular. The Technical Secretariats and Antennas have far weaker capacities than in shared management programmes, even though the implementation of IPA-IPA CBC programmes is supported by a regional level assistance for capacity-building and coordination (CBIB+).

The recent mid-term evaluation of IPA-IPA CBC programmes<sup>264</sup> finds “limited evidence on the effectiveness of the IPA CBC Programme for improving EU Integration. Central authorities in some programmes are enhancing their capacity for managing EU funds, especially in some countries under indirect management, but **administrative capacity issues at all levels question whether capacity has been built as a result of implementing IPA CBC Programmes**”. Furthermore, the evaluation points out one of the weaknesses of the CBIB+ assistance is that in some cases it is seen as an external contractor rather than as an institutional partner to the process, unlike INTERACT which performs a similar advisory function for ETC programmes under shared management.

The table below provides a snapshot of the different implementing modalities and institutions involved. The differences in implementation modes for these programmes has resulted in different and parallel institutional set ups and rules being applied, leading to significant burdens on the participating states. Thus, as one example, in Albania the CFCU is the control body for transnational cooperation under shared management and the IPA-IPA CBC programme with Montenegro under indirect management and the Ministry for Europe and Foreign Affairs for IPA CBC programmes with Member States.

<sup>264</sup> <https://ec.europa.eu/neighbourhood-enlargement/system/files/2021-09/IPA%20CBC%20mid-term%20evaluation%20final.pdf>

**Table 4. 2 Overview of IPA Beneficiaries participation in Territorial Cooperation by management modality 2014-2020**

Programme	National Authority/Operating Structures <sup>265</sup>	Managing Authority/ Contracting Authority	National First level Control (FLC)/Control Body
<b>ALBANIA</b>			
<b>Shared Management (Transnational Interreg Programmes and IPA Interreg CBC)</b>			
TN INTERREG MED	Ministry for Europe and Foreign Affairs	PACA Region - France	CFCU
TN ADRION	Ministry for Europe and Foreign Affairs	Emilia-Romagna Region - Italy	CFCU
TN BALKANS MED	Ministry for Europe and Foreign Affairs	Managing Authority of European Territorial Cooperation Programmes - Greece	CFCU
IPA CBC Greece - Albania	Ministry for Europe and Foreign Affairs	Managing Authority of European Territorial Cooperation Programmes - Greece	Ministry for Europe and Foreign Affairs
IPA CBC Italy-Albania-Montenegro	Ministry for Europe and Foreign Affairs	Puglia Region - Italy	Ministry for Europe and Foreign Affairs
<b>IPA- IPA Programmes under Indirect Management</b>			
IPA-IPA CBC Montenegro - Albania	Ministry for Europe and Foreign Affairs (CBC Body and Head of Operating Structure)	CFCU - Montenegro	CFCU (Control Body)
<b>IPA- IPA Programmes under Direct Management</b>			
IPA-IPA CBC Albania-Kosovo*	Ministry for Europe and Foreign Affairs	DEU – Albania	n/a
IPA-IPA CBC North Macedonia - Albania	Ministry for Europe and Foreign Affairs	DEU - North Macedonia	n/a
<b>BOSNIA AND HERZEGOVINA</b>			
<b>Shared Management (Transnational Interreg Programmes and IPA Interreg CBC)</b>			
TN INTERREG MED	The Directorate for European Integration of Bosnia and Herzegovina	PACA Region - France	Ministry of Finance - CFCU
TN ADRION	The Directorate for European Integration of Bosnia and Herzegovina	Emilia-Romagna Region - Italy	Ministry of Finance - CFCU
TN DANUBE	The Directorate for European Integration of Bosnia and Herzegovina	Ministry of Finance - Hungary	Ministry of Finance - CFCU
IPA CBC Croatia-Bosnia and Herzegovina-Montenegro	The Directorate for European Integration of Bosnia and Herzegovina	Ministry of Regional Development and EU Funds – Croatia	Ministry of Finance - CFCU

<sup>265</sup> National Authority (shared management), Head of Operating Structure and CBC Body in IPA-IPA CBC.

IPA- IPA Programmes under Indirect Management			
IPA-IPA CBC Serbia – Bosnia and Herzegovina	The Directorate for European Integration of Bosnia and Herzegovina	Ministry of Finance- Serbia	Ministry of Finance - CFCU
IPA- IPA Programmes under Direct Management			
IPA-IPA CBC Bosnia and Herzegovina - Montenegro	The Directorate for European Integration of Bosnia and Herzegovina	DEU - Bosnia and Herzegovina	n/a
KOSOVO*			
IPA- IPA Programmes under Indirect Management			
IPA-IPA CBC Montenegro – Kosovo*	Ministry of Local Government	Ministry of Finance - Montenegro	Ministry of Local Government
IPA- IPA Programmes under Direct Management			
IPA-IPA CBC Albania – Kosovo*	Ministry of Local Government	DEU - Albania	n/a
IPA-IPA CBC Kosovo*– North Macedonia	Ministry of Local Government	DEU North Macedonia	n/a
MONTENEGRO			
Shared Management (Transnational Interreg Programmes and IPA Interreg CBC)			
TN INTERREG MED	Ministry for Europe and Foreign Affairs	PACA Region - France	Ministry of Finance - CFCU
TN DANUBE	Ministry for Europe and Foreign Affairs	Ministry of Finance - Hungary	Ministry of Finance - CFCU
TN ADRION	Ministry for Europe and Foreign Affairs	Emilia-Romagna Region - Italy	Ministry of Finance - CFCU
IPA CBC Croatia- Bosnia and Herzegovina- Montenegro	The Directorate for European Integration of Bosnia and Herzegovina	Ministry of Regional Development and EU Funds – Croatia	Ministry of Finance - CFCU
IPA CBC Italy- Albania- Montenegro	Ministry for Europe and Foreign Affairs	Puglia Region - Italy	Ministry of Finance - CFCU
IPA- IPA Programmes under Indirect Management			
IPA-IPA CBC Montenegro - Albania	European Integration Office (CBC Body) Ministry of European Affairs (Head of Operating Structure)	Ministry of Finance - Montenegro	Ministry of Finance - CFCU
IPA-IPA CBC Montenegro – Kosovo*	European Integration Office (CBC Body) Ministry of European Affairs (Head of Operating Structure)	Ministry of Finance - Montenegro	Ministry of Finance - CFCU
IPA-IPA Serbia - Montenegro	European Integration Office (CBC Body) Ministry of European Affairs (Head of Operating Structure)	Ministry of Finance - Serbia	Ministry of Finance - CFCU
IPA- IPA Programmes under Direct Management			

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IPA-IPA CBC Bosnia and Herzegovina - Montenegro	The Directorate for European Integration of Bosnia and Herzegovina	DEU - Bosnia and Herzegovina	n/a
<b>NORTH MACEDONIA</b>			
<b>Shared Management (Transnational Interreg Programmes and IPA Interreg CBC)</b>			
TN BALKANS MED	Ministry of Local Self-Government	Managing Authority of European Territorial Cooperation Programmes - Greece	Ministry of Local Self-Government (approbation body) – decentralised system
IPA CBC Bulgaria – North Macedonia	Ministry of Local Self-Government	Ministry of Regional Development and Public Works - Bulgaria	Ministry of Local Self-Government (approbation body) – decentralised system
IPA CBC Greece – North Macedonia	Ministry of Local Self-Government	Managing Authority of European Territorial Cooperation Programmes - Greece	Ministry of Local Self-Government (approbation body) – decentralised system
<b>IPA- IPA Programmes under Direct Management</b>			
IPA-IPA CBC North Macedonia - Albania	Ministry of Local-Self Government	DEU – North Macedonia	n/a
<b>Serbia</b>			
<b>Shared Management (Transnational Interreg Programmes and IPA Interreg CBC)</b>			
TN INTERREG MED	Ministry of European Integration	PACA Region - France	Ministry of Finance - CFCU
TN DANUBE	Ministry of European Integration	Ministry of Finance - Hungary	Ministry of Finance - CFCU
TN ADRION	Ministry of European Integration	Emilia-Romagna Region - Italy	Ministry of Finance - CFCU
IPA CBC Croatia-Serbia	Ministry of European Integration	Ministry of Regional Development and EU Funds - Croatia	Ministry of Finance - CFCU
IPA CBC Hungary-Serbia	Ministry of European Integration	National Development Agency - Hungary	Ministry of Finance - CFCU
IPA CBC Bulgaria - Serbia	Ministry of European Integration	Ministry of Regional Development and Public Works - Bulgaria	Ministry of Finance - CFCU
IPA CBC Romania-Serbia	Ministry of European Integration	Ministry of Development, Public Works and Administration - Romania	Ministry of Finance - CFCU
<b>IPA- IPA Programmes under Indirect Management</b>			
IPA-IPA CBC Serbia – Bosnia and Herzegovina	Ministry of European Integration	Ministry of Finance - Serbia	Ministry of Finance - CFCU
IPA-IPA CBC Serbia - Montenegro	Ministry of European Integration	Ministry of Finance - Serbia	Ministry of Finance - CFCU
IPA-IPA CBC Serbia – North Macedonia	Ministry of European Integration	Ministry of Finance - Serbia	Ministry of Finance - CFCU
<b>TURKEY</b>			
<b>Shared Management (ENI Programmes and IPA Interreg CBC)</b>			
ENI CBC Black Sea Basin	Ministry of Foreign Affairs	Ministry of Public Works, Development and Administration - Romania	Ministry of Foreign Affairs - Public officers with the

			support of external controllers
IPA CBC Bulgaria - Turkey	Ministry of Foreign Affairs	Ministry of Regional Development and Public Works - Bulgaria	Decentralised control system

Furthermore, there are differences in requirements in shared management programmes depending on the specific set up by the respective Managing Authority in the Member State. To some extent, the 2021-2027 regulatory framework aims at a simplification and harmonisation, but in practice it remains to be seen to what extent this will be possible. The alignment of rules and procedures and streamlining of institutional responsibilities as well as exchange of experience in programme management would be beneficial.

In the case of **Albania and Serbia, solely in ETC** has any **experience been acquired in multi-annual programmes for convergence objectives**. Moreover, the participation of **Bosnia and Herzegovina in ETC programmes** is considered particularly significant as this has resulted some – albeit specific – **experience in shared and indirect management of EU Funds and the establishment of an internal system for management and control**<sup>266</sup> which is not the case for nationally-allocated IPA funds.

**Key Takeaway n. 4.14: Rules and practices in ETC are not fully aligned leading to parallel structures and an unnecessary administrative burden, and institutional responsibilities are not streamlined. There is no capitalisation of acquired cohesion policy experience in ETC programme preparation and implementation to the benefit of the whole EU Funds system. The composition and role of Monitoring Committees in IPA-IPA cooperation programmes is not aligned with shared management programmes, in particular regarding the design of calls, the selection of operations and monitoring regardless of the management modality and transparency principles are not fully respected.**

### 4.1.3. Challenges in building capacities for the management of EU Funds

As shown in the recent waves of accession to the EU, **preparing for the management of EU structural funds is a challenging process** which requires **hands-on direct experience of the competent institutions through the implementation of at least one programming cycle**. This needs to cover all aspects, from programming, implementation, monitoring, management and control and evaluation and should **mirror as far as possible the processes for shared management programmes for Cohesion Policy objectives in Member States**. The learning process does not stop with accession; through successive cycles of implementation, lessons have been learnt for implementation that have been introduced into the regulatory framework as applicable or into national practice. Indeed, many of the challenges that IPA countries face are also faced by Member States, and mechanisms identified or solutions found that are equally valid for IPA countries.

A common challenge identified in the WB 6 is **the lack of qualified resources to manage EU Funds**; this is exacerbated by a **high turnover of staff** mostly due to **uncompetitive salaries in the public sector**<sup>267</sup>, **a lack of retention policy**, especially for positions with responsibilities and **the lack of a merit-based approach to civil service employment, performance appraisal and career advancement**. In some cases, there is a strong

<sup>266</sup> There is no Audit Agency for EU Funds in BiH; the National Fund participates in the Group of Auditors.

<sup>267</sup> As SIGMA reports in its 2021 Monitoring Report for Albania on The Principles of Public Administration, despite a relatively strong performance, “the implementation of salary reform to strengthen the attractiveness of the public sector has been slow, and management of senior civil servants has deteriorated.” [Monitoring-Report-2021-Albania \(sigmaweb.org\)](https://www.sigmaweb.org)



political influence on senior civil servants<sup>268</sup> or continuous recourse to nominating acting directors in top management positions<sup>269</sup>, which undermine the ambition for a professional civil service. There is an urgent need to address this long-standing issue by either strictly implementing the legislation or a revision of the current recruitment system and appointment of top managers. Whilst such human resource management regulations may be place, such as for performance appraisal and career progression, in practice they are often implemented only formally, or advancement (and salary increments) limited by imposed budgetary limits.

Although public administration reform is ongoing and, in some cases, has made some notable achievements, also with IPA support, this does not seem reflected in practice **as regards the implementation of EU funds, where additional complexities and responsibilities** have been identified, **turnover is very high and key positions** often left **unfilled, or filled with temporary or contract staff** employed without transparent procedures. Furthermore, lack of progress in the accession process may slow down efforts for public administration reform; as SIGMA notes for Montenegro in the 2021 Monitoring Report on The Principles of Public Administration: “The limited progress compared to the 2017 assessment mirrors the situation in accession negotiations, where Montenegro has opened negotiations on all chapters of the EU acquis but has not closed any for more than four years”<sup>270</sup>.

Consequently, there is **a loss of institutional memory** and a risk that capacity-building actions are by definition unsustainable as **trained staff with hands-on experience leave the public administration system**, also for more lucrative employment in the private sector, international organisations, IFIs, etc. Furthermore, **the shift from IMBC to other implementation modalities in IPA II**, combined with uncertainties on staff needs due to annual programming rather than multi-annual programming has **hampered efforts to attract and retain staff in the contracting authorities, since the IMBC responsibilities are increasingly reduced, in a vicious and self-perpetuating cycle**; as more-qualified staff realise future prospects are limited, there is no incentive to remain in the EU funds system. This is coupled with a generally insufficient level of workload analysis<sup>271</sup>; generally carried out as a formal exercise based on actual staff rather than needs. Finally, there is **a lack of motivation among the civil service** affected by a genuine sense of frustration concerning accession prospects; there is a sense that the efforts made are not recognised since an accession date has not been set, and that, in fact, their work does not make any difference<sup>272</sup>. 44% of respondents to the pan-IPA survey identified **challenges for staff retention** mostly because of the **level of salary remuneration** (75%) or **lack of career advancement possibilities** (50%), closely followed by the **lack of merit-based recruitment or career advancement** (44%). Other significant reasons were related to workload (38%) and lack of motivation (31%). Only 6% did not have a problem with turnover.

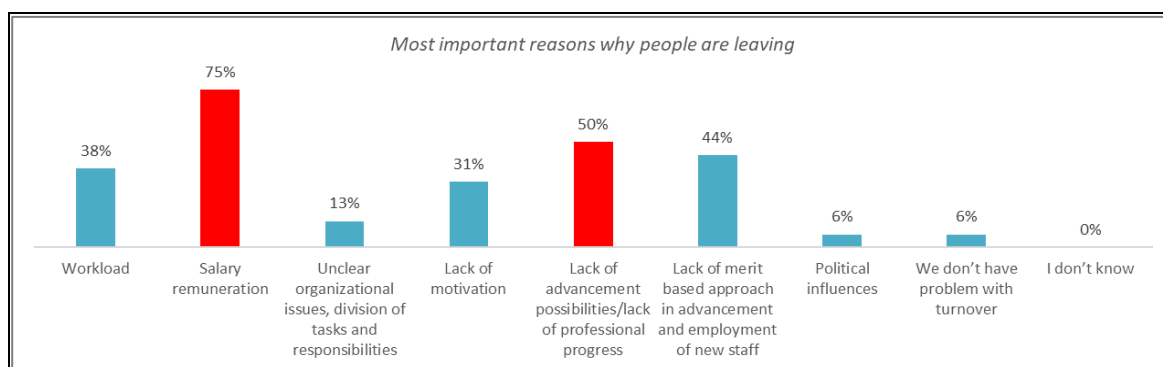
<sup>268</sup> Noted by SIGMA in several 2021 Monitoring Reports on The Principles of Public Administration for the WB 6: [Monitoring-Report-2021-Montenegro \(sigmaweb.org\)](#); [Monitoring-Report-2021-Republic-of-North-Macedonia \(sigmaweb.org\)](#)

<sup>269</sup> Noted by SIGMA in the 2021 Monitoring Report on The Principles of Public Administration for Serbia [Monitoring-Report-2021-Serbia \(sigmaweb.org\)](#)

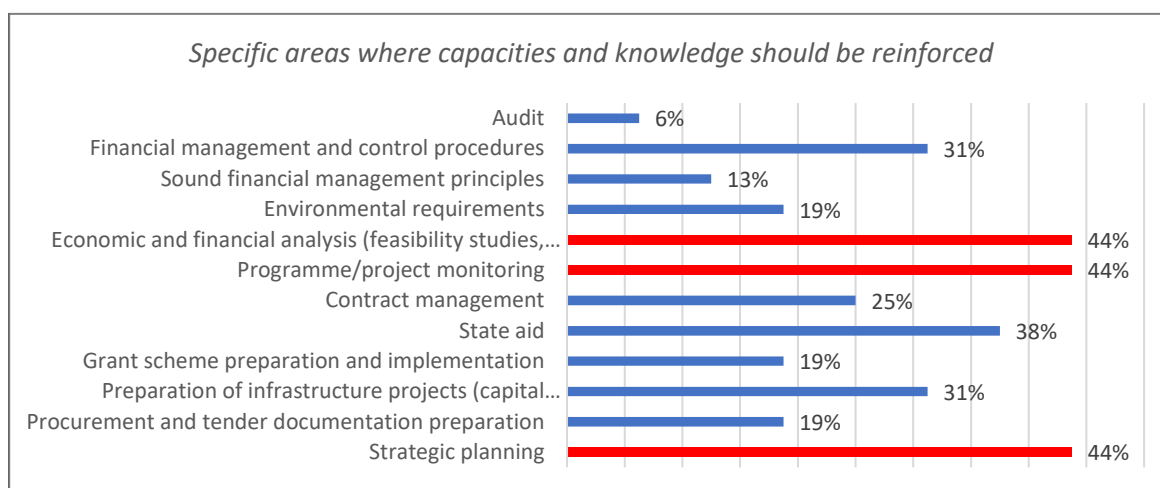
<sup>270</sup> [Monitoring-Report-2021-Montenegro \(sigmaweb.org\)](#)

<sup>271</sup> According to respondents from the pan-IPA Survey, under a third of institutions undertake some kind of workload analysis for staff planning.

<sup>272</sup> As expressed in the interview with the Albanian CFCU.

**Figure 4. 13 Poor staff retention: survey results on why staff are leaving**

When asked on the specific areas where **capacities and knowledge should be reinforced**, key areas include **strategic planning, economic and financial analysis**<sup>273</sup> and **programme/project monitoring**, closely followed by **state aid and preparation of infrastructure projects**. Interestingly, only 19% identified environmental requirements, indicating that awareness-raising will be needed on the EU taxonomy for 2021-2027.

**Figure 4. 14 Areas where staff capacities and knowledge need to be reinforced**

As far as building capacities for EU funds management is concerned, it is important that there is **a clear timeframe for accession**, which would allow proper assumptions to be made about the volume of funds available and the number and scope of future Cohesion Policy programmes, which will determine decisions on the institutional architecture, so that capacity-building can focus on those institutions. Through **IPA sector operational programmes including grant schemes and capital infrastructure projects, learning curve advances in institutions with sectoral competences can be achieved**, allowing for a better understanding of the causes of bottlenecks and absorption risks.

<sup>273</sup> Even though there is no longer a procedure for the approval of major projects by the Commission foreseen for 2021-2027, the economic appraisal of projects funded by public funds is an essential principle. Several analytical methods including cost-benefit analysis, cost-effectiveness, least-cost and multicriteria analysis, can be used to verify whether projects achieve relevant objectives of our programmes in an effective and efficient manner. To this end, the Commission has published the Economic Appraisal Vademecum 2021-2027 General Principles and Sector Applications, [https://ec.europa.eu/regional\\_policy/sources/docgener/guides/vademecum\\_2127/vademecum\\_2127\\_en.pdf](https://ec.europa.eu/regional_policy/sources/docgener/guides/vademecum_2127/vademecum_2127_en.pdf). This provides a more flexible, yet rigorous, analytical framework for project EA is proposed for the 2021–2027 programming period, for voluntary use and reflects the principle of delegation of approval to the national authorities to better take into account specific and national project contexts. For ease and in line with common practice in 2014-2020 and understanding in an IPA context, the general term cost-benefit analysis is used in this Study.

**Key Takeaway n. 4.15:** The implementation of IPA Funds is hampered by **the lack of qualified resources in the system; unattractive salary structures and lack of merit-based recruitment, performance assessment and career advancement prospects**, exacerbated by **a lack of motivation**, lead to **understaffing** and a **gradual loss of qualified staff**, with significant **repercussions on IPA performance** and resulting in a **loss of institutional memory** as well as a lack of sustainability of capacity-building actions supported by IPA Funds. Furthermore, there is **a lack of economists and engineers** leading to recourse to external expertise for programmes and projects in key convergence sectors. Coupled with **poor human resource management and low capacities in workload analysis**, **IPA performance will continue to suffer unless specific actions are taken.**

The experiences of other (new) Member States as regards EU fund management capacities – particularly those with similar public administration backgrounds – can provide some interesting examples that could be considered. As mentioned in Chapter 1, **to address the problem of staffing and staff retention, the majority of Member States use Technical Assistance to finance salaries for staff working on the programmes** (on the basis of Human Resources Action Plans/Capacity Building Programmes or specific regulations put in place for EU Funds) **and some provide for salary top-ups or bonuses for staff working on EU Funds, based on clear criteria** as part of the retention policy. **Similarly, IPA Technical Assistance could be used to implement an IPA retention policy through additional performance-linked bonuses, or to enable additional employment of staff for the institutions that will have the function of managing authorities or intermediate bodies**, despite public budget restrictions. The allocation of budget funds to target challenges faced by IPA structures, as well as further a general improvement of the HRM system in the public administrations of IPA II Beneficiaries, could also make a positive contribution to retaining qualified and skilled staff in IPA systems. Such a retention policy should be based on a thorough analysis with conclusions and recommendations that would unequivocally indicate the need for the separation of the structures dealing with EU funds from the rest of the public administration. Financial incentives, in particular, could make positive contribution to employees' motivation and possibly reduce the outflow of staff to the private sector, international organisations and IFIs. Nevertheless, resistance and challenges can be expected in terms of cooperation and coordination with parts of the public administration that are not covered by such IPA retention policy measures.

If the status quo is maintained and IPA structures are not supported through concrete retention policy measures financed by IPA TA and/or budget funds, further staff outflow is inevitable, leading to negative consequences for the structure itself, both in terms of lack of institutional memory and maintaining continuity in the system, and in terms of attracting and retain new quality staff. This may have a negative impact on the absorption of IPA funds and at later stage Structural Funds.

In order to address the **competences** that are **currently missing**, early action to **attract recent graduates from the needed profiles through TA-funded schemes for paid internships<sup>274</sup> including work experience in the relevant Commission units or Member States** within the schemes, would provide **a young and motivated workforce to work on the sector operational programmes** and potentially join the civil service<sup>275</sup>. Equally, **mid-career staff could be sponsored for relevant Masters degrees or**

<sup>274</sup> In Italy, for the period 2000-2006, intern schemes (*stage formative*) for specific area of competence were supported for the Objective 1 regions by the National Technical Assistance Operational Programme PON ATAS 2000-2006.

<sup>275</sup> As an example, government-supported paid internships for new graduates were introduced in Croatia, which the public administration could also access; 2 interns were employed for the Rural Development Programme 2014-2020 and both later applied to join the civil service and are currently employed.

**specialisations**, subject to guaranteeing to remain in the civil service for a certain period of time<sup>276</sup>.

In terms of training carried for IPA Funds management, **all the IPA countries carry out training needs analysis for the IMBC system** and for the most part trainings are carried out either through national public administration academies (for example in Albania and Serbia) or through specific IPA-funded projects. However, very often **training is not carried out at different levels** and there is **rarely an independent quality evaluation of the training programme/cycles**, aside from the trainees' feedback. In general, **compulsory induction training is lacking**, and overworked staff often do not get the opportunity to attend the training they need. This could be addressed through the development of **Administrative Capacity Building Roadmaps, financed by a specific Technical Assistance measure, with payments linked to the achievement of milestones and targets**.

**Key Takeaway n. 4.16:** The use of **Technical Assistance to support retention policy and finance salaries/bonuses**, as for Member States, **should be allowed subject to specific internal regulations or Human Resource Action Plans/ Administrative Capacity Building roadmaps being in place**; their implementation could be supported through **IPA Technical Assistance with support linked to milestones and targets**. Innovative schemes to attract young professionals to the civil service or support the further qualification of mid-career civil servants could be envisaged.

#### 4.1.4. Public Finance Management, financial control and audit

While the scope of this Study is not to examine the **public finance management internal control and audit systems** in place in IPA Beneficiary Countries in detail, the **integrity and functioning** of the systems in place are **essential** not only for the conferral of management powers but **the correct management of EU funds in practice**, especially in critical areas such as **risk management** and **the treatment of irregularities**. Furthermore, mid-term strategic planning practice and the integration between strategic and budgetary planning are critical elements for the implementation of public funds, including EU Funds, which need to be reinforced. Progress as regards Chapter 32 – Financial Control is monitored by the Commission as part of the Fundamentals of the Accession Process. **IPA support** is provided to improve **managerial accountability, sound financial management** of income and expenditure and **external audit** of public funds. In the pan-IPA survey, only 13% of respondents assessed the financial management and control procedures in their organisations as very good, and 31% equally as adequate or moderate.

Given the orientation for IPA III towards multi-annual operational programmes in convergence sectors under the responsibility of the sectoral competent institutions, the overall integrity of the public internal financial control system is of fundamental importance for the conferral of management powers.

A brief country-specific overview is provided below, with particular reference to the development of public internal financial control (PIFC) and audit capacities.

##### Albania<sup>277</sup>:

The Albanian authorities have established a **fairly complete legal and operational framework for internal control (IC) and internal audit (IA)** supported by the policy document on PIFC 2021-2022. However, as reported in the EC 2021 Country Report,

<sup>276</sup> In Croatia, the costs of accredited Masters and Ph.D courses are paid and time allowed for study, subject to the civil servant agreeing to remain in the public administration for a certain period of time; otherwise, the costs have to be reimbursed.

<sup>277</sup> Information Sources: EC 2021 Country Report; SIGMA 2021 Monitoring Report.

**“Managerial accountability is not yet fully enshrined in the legislation and administrative practice.** The adopted instructions on the delegation of financial responsibilities need to be implemented and accompanied with a wider reform on delegation of operational and administrative responsibilities in order to have a comprehensive approach on managerial accountability.” A further area of concern regards **risk management which is at an early stage at all levels** and needs to be better incorporated in the management of financial and operational processes.

In practice, the SIGMA 2021 Monitoring Report confirms “that the implementation of IC and IA at the institutional level still lags behind the progress made in the overall legislative framework ... there are still outstanding concerns in a number of areas, including the management of arrears, the procedures to address potential irregularities and the arrangements for managerial accountability between ministries and subordinated bodies.”

The legislation on internal audit practice is in line with international standards but **internal audit quality control procedures still need to become generally compliant with the standards and fully operational.** Monitoring of the effectiveness of audit units and implementation of audit recommendations needs reinforcement and heads of institutions do not systematically use audit work to improve their processes. SIGMA noted a downward trend in the proportion of systematised IA posts filled and the proportion of IA staff who hold a certificate and **the need for a general improvement in IA quality.** The central harmonisation unit (CHU) provides methodological guidance and monitors the performance of internal control and internal audit in the public sector on the basis of quality reviews and self-assessment reports from institutions. **The capacity of the CHU needs to be strengthened.**

The framework for the State Supreme Audit Institution (SSAI) is closely aligned with international standards and is respected in practice. Audit methodologies and quality assurance procedures are in conformity with international standards. However, **the limited extent to which external audit recommendations are implemented by auditees and followed-up** by the SSAI seems to represent **a shortcoming** in the system<sup>278</sup>. Further, as reported by SIGMA, “much work remains to be done, however, to embed these methodologies in working practice and to improve audit quality. While resources are being switched to financial and performance audit, the bulk of the work remains focused on compliance audit. The absence of sustained and structured engagement by Parliament to support the work of the SSAI is a significant limitation on the overall effectiveness of the external audit system.”

The national anti-fraud coordination service (AFCOS) is a unit within the Directorate of Financial Inspection in the Ministry of Finance and Economy. An AFCOS network, involving other relevant authorities, has been set up and it meets regularly. Albania cooperates with the Commission during investigations and reports to the Commission on irregularities and suspected fraud cases. In 2020, Albania reported four cases via the online irregularity management system out of which one as suspected fraud. The system for managing irregularities has been established for EU funds; however, the irregularities system for the national budget still requires full alignment with the *acquis* and would benefit from the development of a multi-sectoral anti-fraud strategy.

Bosnia and Herzegovina<sup>279</sup>:

**A comprehensive strategic framework for PIFC for all levels of government is now in place** together with individual 2020-2025 PIFC strategies and action plans adopted in 2020. PIFC reform is coordinated by the Coordination Board of the Central Harmonisation Units,

<sup>278</sup> *Albanian Public Finance Management Sectorial Strategy 2019-2022, p.47*

<sup>279</sup> Information sources: CHU Reports; EC 2021 Country Report; SIGMA 2021 Monitoring Report [Monitoring-Report-2021-Bosnia-and-Herzegovina \(sigmaweb.org\)](#)



which need to be strengthened. Although annual PIFC reports are adopted by each government, there is no systematic follow up on the reports' recommendations. **The enabling conditions for implementing managerial accountability are not yet in place**, as there is no countrywide strategic framework on public administration reform.

As the EC 2021 Country Report states: "Managerial accountability is not yet embedded in the administrative culture of the public sector. Across levels of government, basic accountability mechanisms between ministries and subordinated agencies are not in place, and effective management of subordinate bodies is not ensured. While there are rules of procedure at each government level ensuring legal and financial scrutiny of policies, coordination of policy content with government priorities is lacking throughout the public administration. Public entities have no strategic plans with clear objectives and performance indicators against which managers and staff members performance is assessed. The highly centralised systems of decision-making hinder efficient implementation of the principle of managerial accountability, with no clear role for managers at the lower level."

The legal framework for the functioning of internal control is in place at all levels of government<sup>280</sup> and a **countrywide management information system for risk management, internal control and monitoring and reporting of the financial management and control activities** is in an **advanced stage of development** (PIFC application) which will cover all levels and all public sector organisations in Bosnia and Herzegovina **allowing for consolidation and monitoring of information** on major risks, internal control actions and their impact. **Risk management is the most critical aspect**, still in the initial phase of implementation, with the need to establish risk registers and define adequate risk mitigation measures, integrated in the management decision-making cycle.

**Internal audit practice** is regulated in line with international audit standards but remains **inefficient** due to the fragmentation of the public sector. Internal audit units suffer from **understaffing**; although nearly all appointed internal auditors in the public sector are certified, **capacities remain weak** and professional development of audit staff, especially on risk assessment, using IT and work with analytical tools is needed. According to the consolidated report from the CHU of the B&H Federation, published in June 2020, the internal audit function is not recognised in practice as a tool for managers to improve the functioning of their organisations. CHUs have been established at state, entity levels and Brčko District. The three CHUs, except in Brčko District, prepare yearly consolidated reports to their respective governments on PIFC implementation which are adopted by each government with decisions requiring further action for implementing the PIFC strategies in each individual public sector organisation, focusing mostly on monitoring the trends on number of financial management and control self-assessment reports, establishment of internal audit units, their staffing and execution of annual audit plans. **The quality of the PIFC reports needs to be strengthened, by including risk management, and their impact on internal control remains weak, as recommendations are not properly implemented** across public entities at all levels. The CHUs do not have sufficient staff and administrative capacity to provide methodological guidance, and promote and monitor PIFC reforms in a conventional way.

**The Supreme Audit Institutions (SAIs) are not anchored in the constitutional framework.** Their functional, operational and financial independence of the SAIs is regulated in specific SAI laws broadly in line with international standards. However, the requirements of the SAI laws with respect to **financial independence need to be better respected** by the executive and **effectively implemented**. The **institutional capacity** of SAIs needs to be **strengthened** across levels of government. The Coordination Board of State Audit Institutions needs to be further strengthened in effectively following up with audit offices on how the legal framework and related procedures on external audit can be implemented across levels and establish a better monitoring system on progress

<sup>280</sup> In Brčko District, the framework is less developed.

undertaken by the various audit offices. The SAIs have a broad mandate covering financial, compliance and performance audit; however, **the impact of their audit work is limited**. Audit recommendations predominantly focus on formal compliance targeting outputs, and do not address the causes of the weaknesses or the likelihood of implementation. This leads to **high number of recommendations and low rate of implementation across levels of government**, which, according to the EC 2021 Country Report, remains on average across levels between 25% to 60% fully implemented or in the process of being implemented. The quality of the audit findings needs to be improved. The results should be presented in terms of value added by the SAIs and communicated in a more efficient manner in the audit reports and in the media.

As regards the protection of the EU's financial interests, an anti-fraud coordination service to facilitate effective cooperation and exchange of information with the Commission is not yet in place and there is no corresponding AFCOS network of authorities involved in the protection of the EU's financial interest. The State Investigation and Protection Agency and the Ministry of Finance and Treasury ensure cooperation with the Commission during investigations on an ad-hoc basis. Bosnia and Herzegovina does not report on irregularities to the Commission through the Irregularity Management System.

#### Kosovo\*:

The **strategic framework for PIFC needs updating** as the PIFC Strategy expired at the end of December 2019; PIFC elements will be integrated into the public finance management strategy 2022-2026, which is still in the drafting stage, focusing in particular on definition and implementation of managerial accountability. Kosovo\* needs to **include managerial accountability in an articulated manner within its administrative culture** at central and local level. Although the Regulation on financial management and control spelled out the rules for delegating responsibilities, in practice its implementation is incomplete and managerial accountability focuses mainly on compliance rather than performance. The Law on the organisation and functioning of the administration and independent agencies adopted in 2019 has clarified the lines of accountability within and between institutions and agencies and needs to be implemented to allow decentralised delegation of authorities and responsibilities. The legal framework on internal control is largely harmonised with international standards and the financial control manual updated in 2020, but internal control functions need revision in line with the Commission of Sponsoring Organizations of the Treadway Commission (COSO) principles. **Risk management needs to be included in management and governance processes and reinforced**. The SIGMA assessment in the 2021 Monitoring Report confirms “risk management and reporting on irregularities need further development, and basic accountability mechanisms between ministries and subordinated bodies are not operating effectively.”

The regulatory and operational framework for internal audit (IA) is largely complete, broadly in line with the requirements of international standards, and there has been progress in its application. However, while the establishment of IA units has improved, not all are staffed in line with the legal requirements, and there are a number of single-person units. The **capacities of internal audit units** at central and local level are still **limited** and the internal audit practice focuses mostly on the fulfilment of formal requirement and compliance with rules and procedures. Given that they are **compliance-oriented** and less focused on performance and systems audits, IA does not have an advisory role nor represent a mechanism for preventing and remedy of the control weaknesses, shortcomings and systematic irregularities. Challenges remain with the effective establishment of internal audit committees in all budget entities, including at municipal level. The CHU prepares an annual report on the implementation of PIFC on the basis of replies to self-assessment questionnaires and its own quality reviews. However, there is a need for more evidence-based recommendations more systematically implemented. In terms of professional

capacities of the internal auditors, a certification scheme f is in place, but needs to be improved and **internal auditors need to be professionally trained**.

The functional, organisational and financial independence of the National Audit Office is established by constitution, in line with international standards. However, **audits are not selected based on risk assessment**, given the legal obligation to audit all budget institutions annually. There has been an increase in performance audits. The Office works with civil society organisations, especially at local level, to improve the impact of audit work; municipality-level public debates on the audit recommendations took place. **The percentage of fully implemented recommendations** rose slightly from 40% in the previous year to 45% but **remains low**. A better follow-up and review of performance audits should be ensured by the government, and the parliamentary committees of the Assembly.

Cooperation on protection of the EU's financial interests is governed by an administrative agreement between the Kosovo\*Police and the European Anti-Fraud Office (OLAF).

#### Montenegro<sup>281</sup>:

The **strategic framework for PIFC is partially in place**. Reforms for governance and internal controls are embedded in the public financial management (PFM) and public administration reform (PAR) strategies, with new strategies elaborated for the period 2022-2026, but still pending adoption. The legislative and operational framework for internal control and internal audit is in place, covering also local government entities and state-owned enterprises. The government adopts annual reports on the implementation of the PFM and PAR strategies, as well as annual consolidated reports on governance and internal controls in the public sector of Montenegro. In August 2020, Montenegro adopted a decree on the transfer of tasks of financial management and internal controls in the public sector, followed by a methodology for the transfer of tasks published in October 2020 which was piloted in a number of institutions; these represent the **starting point for establishing a system of managerial accountability in the public sector**. However, as the EC 2021 Country Report indicates, "While there are no longer limitations in the legal framework preventing delegation of authority, managerial culture within public institutions continues to be highly centralised, with a low percentage of ministries that formally delegate responsibilities to line managers." During interviews, it was stressed that the segment of managerial accountability which remains particularly underdeveloped regards management of financial resources. Capacities for risk identification and risk assessment have increased, as has the number of budget users who have adopted risk registers. However, interviewees stated that risk management concentrates on operational rather than strategic risks; there is a lack of understanding of risk management as a tool to improve the functioning of the institution and achieve the expected goals.

The legal and operational framework for internal control and financial management is largely in place, in line with international standards. A rulebook on the management of irregularities has been adopted. The development of the centralised budget inspection function in the Ministry of Finance still needs to set up clear rules for taking action upon detection of irregularities.

Internal audit rules, standards and practice are in line with international standards and the vast majority of institutions at central and local level have established an internal audit unit<sup>282</sup>. The methodology for internal audit quality review has been developed and almost all institutions have quality assurance programmes in place. Most **auditors have either a national and/or international certificate** and can benefit from a national internal audit training and certification system and a long-term professional development programme for certified internal auditors. The percentage of **implemented and partially implemented**

<sup>281</sup> Information sources: EC 2021 Country Report; SIGMA 2021 Monitoring Report.

<sup>282</sup> Those who have no separate internal audit unit, in accordance with the Law on governance and internal controls in the public sector, benefit from supervision by other units, so that full budget coverage is ensured.

**recommendations given by internal auditors is considered high, although follow-up should be improved.** However, insufficient staffing of IA units limits the impact of the audit activity and the share of performance audits in the overall IA envelope is very low.

The CHU is responsible for developing and disseminating methodological guidance on PIFC, as well as for monitoring and reporting on implementation of internal financial control. It has recently increased its capacities to ensure quality review of financial management, internal control and internal audit activities. Its annual reports contain recommendations and propose activities to improve the effectiveness of the internal control systems in the public sector.

**The functional, operational and financial independence of the State Audit Institution (SAI) is protected by the Constitution and established legal framework**, in line with the international standards. Most of its **auditors are certified and have access to internal and international training, including quality control and assurance, ethics and integrity**, according to an adopted training catalogue. The rulebook on the procedures for taking the exam of state auditor was amended in September 2020 and the manuals for preparing the exam were updated. The SAI human resources management strategy and action plan 2021-2025 is adopted. As reported in the EC 2021 Country Report, the SAI adopted guidelines for the selection of financial audits and regularity audits for its annual audit plan, thus ensuring that **planning is based on risk assessment and on clearly defined criteria**. The annual audit plan for 2021 contains, among others, financial and regularity audit and performance audit of expenses related to COVID-19 pandemic. The SAI adopted the **mid-term plan for performance audits for the period 2020-2024, which focuses on sustainable development goals**. To increase the impact of its audit work, in June 2020 the SAI adopted the guidelines for the development, monitoring and control of the implementation of its recommendations. In this respect, follow-up of the audit findings remains moderate. The SAI has adopted a communication strategy aiming to improve openness, transparency and communication with the Parliament and with citizens. All SAI reports are publicly accessible.

The national Anti-Fraud Coordination Service (AFCOS) ensures the implementation of a 2019-2021 national anti-fraud strategy, which provides a basis for improving the capacity of the national anti-fraud coordination service and the functioning of the AFCOS network. Montenegro continues to ensure cooperation and exchange of information with the Commission during investigations. Irregularities are managed and reported via the online irregularity management system, with five cases reported in 2020, but capacities need to be further improved.

#### North Macedonia<sup>283</sup>:

The **PIFC strategic framework** covers priorities defined by the 2018-2021 Public Finance Reform programme and by the 2019-2021 PIFC policy paper and the 2019-2021 action plan but due to COVID-19 and limited resources, there have been **delays in implementation**. The adoption of the new PIFC law is pending. As noted by SIGMA in the 2021 Monitoring Report, “implementation of the PIFC concept is lagging. Not all budget organisations follow the legal obligations for putting in place internal procedures for the delegation of tasks, risk management and the definition and monitoring of performance indicators. The PIFC-related manuals are not applied consistently by budget organisations, and the requirements are perceived as an administrative burden rather than as useful management tools”. As confirmed in the EC 2021 Country Report, “The efficient implementation of managerial accountability remains a challenge for budget users at central and local level. Coherent application of the manual on managerial accountability is yet to be ensured together with enhanced delegation of powers by the management level in public entities.” **Risk management** strategies and risk registries are being adopted at central and local levels but

<sup>283</sup> Information sources: EC 2021 Country Report; SIGMA 2021 Monitoring Report.



their incorporation in main financial control and management processes remains insufficient; it is seen **principally as a formal exercise**.

With regard to internal audit practice, although the legal framework for establishing IA is in place and implemented, **the effectiveness of IA suffers from the fragmentation** of budget organisations and the consequently small IA units, often staffed by only one person which negatively affects staff competences, planning and quality control procedures. **IA capacities** to implement internal audit standards efficiently **remain limited** and a national **certification system** for internal auditors is **not yet in place**. The CHU provides methodological guidance and coordinates the development of financial management and control and internal audit in the public sector. However, its capacities remain insufficient especially concerning monitoring and reporting on the functioning of the overall internal control system.

The State Audit Office (SAO) law is largely harmonised with the international standards; further harmonisation of the legal framework is currently on-going in order to ensure improved external audit function in public sector as well as enhanced financial and operational independence of SAO: however, **the SAO's independence is not yet anchored in the Constitution**. The institutional capacities have improved with improvements in its organisation and 30% more employees than in 2019. Progress has been made in raising public awareness of SAO's activities and increase the interest of the media. During recent years, the SAO has further improved the institutional framework to produce ISSAI-compliant audit reports. The audit procedures increasingly emphasise quality control and assurance. **Most (84%) audit recommendations are accepted by the auditee and their implementation is in progress**. However, with the exception of the SAO's annual report, the audit reports are not used by the Parliament, which limits the impact of the SAO.

As regards the protection of the EU's financial interests, the capacities of the AFCOS unit at the Ministry of Finance have been enhanced and the legal basis for the establishment of AFCOS networks has been elaborated and is expected to be adopted following the adoption of the Organic Budget Law. The national anti-fraud strategy (2019-2022) and action plan are being implemented successfully. Cooperation with the European Commission continued in 2020, with the national authorities reporting 16 cases of irregularities through the irregularity management system out of which 13 cases were qualified as irregularities and 3 cases as suspected fraud.

#### Serbia<sup>284</sup>:

The **strategic framework for the PIFC is in place** and the legal framework for internal control is broadly in line with the internal control framework of the Committee of Sponsoring Organisations of the Treadway Commission (COSO). However, as reported by SIGMA in the 2021 Monitoring Report "the effective functioning of IC in practice is lagging behind, with managerial accountability and delegation of decision making, reporting on irregularities, management of arrears and alignment of management and budget structures needing improvement". There are **differences in the quality of public internal control at the national and local level**, especially when it comes to fulfilling the obligatory reporting requirements; not all towns and municipalities report on the FMC systems. **Managerial accountability is not fully incorporated in the administrative culture of the public sector and control is centralised at high management level**. Weaknesses in performance management and lines of accountability between independent bodies and their parent institutions persist. As stated in the EC 2021 Country Report "the capacities to implement internal control standards, including risk management, have to be further

<sup>284</sup> Information sources: 2020 Report on the Implementation of the Public Finance Management Reform Programme: the latest available (2019) consolidated report on internal audit of the Central Harmonisation Unit of the Ministry of Finance; EC 2021 Country Report; SIGMA 2021 Monitoring Report.



enhanced at both central and local government and be better accepted in the administrative culture of the public sector.”

Internal audit practice is broadly in line with international standards and **IA units have been established and operational in 80% of public funds users**; however, there are notable difficulties in attracting and retaining internal audit experts, and **minimum staff requirements cannot always be met**; senior management do not prioritise the employment of internal auditors and sufficient positions are not envisaged in the system for the needed workload. In the interview with the central harmonisation unit (CHU), the lack of internal auditors was singled out as the most significant problem in the internal audit system especially problematic in some ministries (e.g. the Ministry of Environment Protection) who might have a significant role in implementing Cohesion Funds. **The quality of internal audit is weak**; as assessed by SIGMA, “most audits appear not to address systemic weaknesses and add only limited value regarding improving the management of public funds”. The CHU implements training for internal auditors, but more capacity is needed to cover professional training on FMC. The certification scheme for internal auditors is place and almost 500 auditors have been certified; nevertheless, capacities should be enhanced, especially in the CHU which has the coordinating and monitoring function.

The EC 2021 Country Report concludes: “Overall, **additional efforts are needed to embed managerial accountability in the administrative culture and to strengthen the functioning of internal control and internal audit. High-level political support** remains critical for the required **shift to performance management and implementation of PIFC reforms in entire public sectors** [our bolding].”

**External audit is performed well, with the independence of the State Audit Institution (SAI) respected**; as reported by SIGMA, “The effectiveness of the external audit system has improved significantly, particularly because the SAI is ensuring better audit coverage through performance audits and an improved audit quality control and review system. The increased transparency of the SAI’s work through its website and engagement with civil society has also contributed. Parliament’s recent interest in the SAI’s reports is vital to the system’s overall effectiveness and needs to develop and continue.”

As regards the protection of the EU’s financial interests, the anti-fraud coordination service (AFCOS) in the Ministry of Finance is still not fully staffed. Serbia continued its good cooperation with the European Commission during investigations including the follow-up of recommendations. Serbia reported four irregularities via the irregularity management system in 2020, out of which one concerns suspected fraud. The EC 2021 Country Report recommends that “Serbia should keep up its efforts in further developing a solid track record on cooperation in investigations and reporting of irregularities.”

#### Turkey<sup>285</sup>:

The **strategic framework for public internal financial control is partially in place** as the PIFC strategy dates back to 2012. According to the 2021 Progress Report, Turkey lacks a comprehensive strategic framework for public finance management and PFM objectives are elaborated in different planning documents and strategies. There is **no mechanism in place to coordinate the implementation of reforms and ensure regular monitoring and reporting**. State institutions are required to submit annual accountability reports on the use of resources, but a systematic follow-up mechanism by the executive was not put in place.

The Turkish administration has a uniform management structure that combines elements of managerial accountability and delegation with a results-oriented performance management system. However, due to the changes in the administrative system and centralisation of decision-making authority in the office of the Turkish President, **further**

<sup>285</sup> Information sources: EC 2020 Country Report; EC 2021 Country Report

**efforts are needed to embed the principle of managerial accountability and reporting**, as well as to **reinforce the functioning of the internal control** in the state administration bodies. Efforts are also needed in as regards risk identification, monitoring and management. The **application of risk management is still at an early stage**, and **monitoring and reporting of irregularities is yet to be further developed**.

Two Central Harmonisation Units (CHUs) are tasked with setting standards, monitoring and reporting on PIFC implementation. The CHU for financial management and control defines standards and methodology, provides guidance, training and overall coordination to public administrations in this field, and does not perform internal control quality reviews.

Internal audit is regulated by the Public Financial Management and Control Law but the manuals in place have not been updated since 2013. There is no legal requirement for ministries to have an internal audit unit, just internal auditors, and there is no formal status for heads of internal audit as a Unit Head. According to the data from the 2019 Public Internal Audit Report, as of the end of 2019, only 67% of institutions has at least one IA employed. **Auditors report directly to their senior managers which could compromise auditors' independence** in planning and performing their work. There is generally a **lack of data on internal audit planning and implementation of recommendations**. There is no systematic follow-up of the implementation of internal audit recommendations. The existing lack of clarity in the legislation and in the practice between the internal audit and inspection organisations compromise the effectiveness of the internal audit function. Consequently, **internal audit organisation and practice are not fully in line with international standards**, and **capacities remain insufficient**, which compromises the effectiveness of the internal audit work.

The Internal Audit Coordination Board is the CHU for internal audit, which notably monitors the internal audit systems of the public administrations, develops internal audit standards and publishes manuals. The Internal Audit Coordination Board consists of seven members appointed by the President for a period of four years and is fully attached to the Ministry of Finance and Treasury. Efforts should be made to ensure its independence and to strengthen its capacity, organisational structure and adequate resources to fulfil its mandate.

**The Turkish Court of Accounts (TCA)** is constitutionally and legally granted with independence in performance of external audit tasks, and it is deemed that it **possesses sufficient institutional capacity**. However, **some institutions remain outside of the scope of TCA audit**, which raises some concerns<sup>286</sup>. The TCA has improved the quality of its audit work and now carries out “value for money” performance audits in line with international standards (7 started in 2019 and 3 started in 2020). The TCA annually submits four audit reports to the Parliament (External Audit General Evaluation Report, Accountability General Evaluation Report, Financial Statistics Evaluation Report, and Report on State-owned Economic Enterprises) in addition to the statement of general conformity. The reports of the TCA are considered by the Parliament during its sessions on the budget. Regarding the impact of audit work, the TCA assesses the internal control environment of audited entities as part of its audit work, and thus contributes to PIFC development. The TCA reports are published online every year, with the exception of those on state-owned economic enterprises. **Increased parliamentary scrutiny on TCA audit findings and recommendations is needed**.

As regards the protection of the EU's financial interests, the State Supervisory Council (SSC) was designated as the anti-fraud coordination service (AFCOS), but the AFCOS

<sup>286</sup> For example, the Turkey Wealth Fund (TWF), chaired by the President of the Republic, is not fully subject to the direct audit by the TCA. The TWF is audited by an independent audit firm and by auditors appointed by the President. Audit reports of the TWF are submitted to the Plan and Budget Committee of the Parliament and published on the TWF website. There are no notes accompanying the financial statements, which may raise concerns in terms of full transparency.

network, involving other relevant authorities, has to be re-established. Turkey reported 672 cases to the Commission via the online irregularity management system from 2012 to 2020, of which 72 cases in 2020. Turkey needs to continue to develop a solid track record on cooperation on investigations and reporting of irregularities and suspected fraud cases.

### General Findings

Even where the strategic framework for PIFC is in place, **key critical issues which impact on the management and control of EU funds** remain with significant shortcomings throughout the region, namely regards **managerial accountability, risk management** and the **treatment of irregularities**. Cooperation on investigations and reporting of irregularities and suspected fraud needs to be enhanced. Regarding audit capacities, significant efforts are being made as regards the capacities and quality of work of State Audit Institutions, also supported through IPA Assistance, but **internal audit capacities are weak** and focused for the most part on compliance. Furthermore, internal auditors lack capacities as regards IPA, also due to different procedures in place and lack of experience, and recommendations tend to be of low quality and risk inconsistencies with audits carried out by the established EU Audit Agencies or DG NEAR. The opportunities for increasing internal audit capacities through IPA-related training should be taken into consideration.

Further support on PIFC and Internal audit in institutions hosting managing authorities of IPA III multi-annual programmes should be provided, potentially through a pilot action to be proposed before the approval of the programmes which could be coordinated through respective CHUs. This would enhance opportunities for mainstreaming good practices under IPA throughout the national PIFC system.

**Key Takeaway n. 4.17:** There is a general need to enhance **managerial accountability** which is not embedded in the administrative cultures and **develop understanding and capacities for risk management**. **Internal Audit control needs to be strengthened** and move its focus away from mere compliance audits and become a tool to support the achievement of institutional goals. **Internal audit units** are general **understaffed** and, in most cases, more training is needed. Generally speaking, **State Audit Institutions** carry out their tasks **in line with international standards** but **more focus on performance audits is needed** as well as closer cooperation with Parliament and improved communication with the public and media to increase confidence in SAIs independence.

The **reporting of irregularities and suspected fraud cases needs continued development**; with awareness-raising also at the highest levels.

#### 4.1.5. How can IPA III support progress in Regional Policy and prepare for the management of Cohesion Policy Funds?

IPA III introduces **significant novelties** compared to the preceding cycles, and these **provide potential opportunities for enhancing readiness for regional policy and capacities for managing Cohesion Policy Funds post accession**. According to the Commission's Working Programme Statement Pre-Accession Assistance (IPA III)<sup>287</sup>, "The revised enlargement methodology, endorsed by the Council in March 2020, builds on the four key principles of making the enlargement process more credible, subject to stronger political steer, more dynamic and predictable. The changes introduced in the programming process for IPA III are part and parcel of this revised enlargement methodology, which aim to increase the performance-based approach of the instrument and increase its efficiency in terms of delivery."

<sup>287</sup> [https://ec.europa.eu/info/sites/default/files/about\\_the\\_european\\_commission/eu\\_budget/programme\\_statement\\_-\\_ipa.pdf](https://ec.europa.eu/info/sites/default/files/about_the_european_commission/eu_budget/programme_statement_-_ipa.pdf)

The challenge from the perspective of this Study is how to incorporate the lessons learnt from previous IPA cycles and ensure that as far as possible IPA III mirrors the approach and mechanisms in place for the implementation of Cohesion Policy by Member States. As regards the programming approach, this is discussed in section 2.2.1.

### IMBC under IPA III

Early indications show that the use of **IMBC** has **not** been **prioritised** in the programming of **IPA 2021 and 2022**, largely due to the **delay in the establishment of the regulatory framework for IPA III**, as concerns the Financial Framework Partnership Agreement (FFPA) which in draft form (dated 07.7.2021) was shared with the IPA Beneficiaries. It is understood the FFPA is envisaged to be finalised in Q1 2022, when the adoption process in the IPA countries can begin. The FFPA contains quite significant changes in the organisation of IMBC compared to the IPA II period, and the **timeframe is quite short for the proper set up of the management structures and accreditation packages**. However, the set-up envisaged so far does not fully reflect the management and control system for structural funds, in particular as regards the responsibilities of the Managing Authority. Furthermore, the coordination role of the NIPAC should be clarified, potentially reflecting some Member State coordination responsibilities under cohesion policy.

The envisaged direction towards **SOPs with ex-post control, implemented by the responsible policy institutions**, is an opportunity to become fully responsible Managing Authorities and accelerate preparations for membership, providing that the future MAs are given appropriate overall responsibility and the needed **nexus between programming and implementation is envisaged**; however, experience acquired in IPA II should anyway be capitalised. This will bring several challenges, namely, the **need to define as quickly as possible the number and scope of the SOPs to be prepared and indicative allocations**, and **agree on the institutional set up for implementation** of each of the SOPs so that their **management and control systems can be set up**. There will be inevitably a transition from the current management and control systems (which shall remain in place for annual action programmes and could be streamlined also for territorial cooperation) to new arrangements for implementing the SOPs, with systems working in parallel for some time. Concerning the process of entrustment, where structures have already been accredited for IPA II, for the same functions and no deficiencies detected, the use of ex-ante assessment could be considered for accreditation. **Preparation of the accreditation packages will require technical assistance which should be in place as soon as possible** (potentially under EUIF allocations) as the SOPs will not have access to their own Technical Assistance prior to approval. Each SOP should include its own Technical Assistance measure capped as a percentage of the programme, duly adjusted if the volume of funds is low.

**Key Takeaway n. 4.18: Clear and timely agreement on the number and scope of sector operational programmes** would allow for the **designation of the programme bodies** (with new, apposite legal acts in IPA countries), that then need to **plan their resources, build capacities in advance** and **prepare operational procedures** for accreditation packages for IMBC with ex-post control; **efficient coordination mechanisms with the NIPACs** will also need to be set up. Dedicated technical assistance needs to be made available as soon as possible to avoid a late start to entrustment and implementation.

### The simplification agenda

The **drive towards administrative simplification should be prioritised in IPA** as in Cohesion Policy; where possible simplification provisions adopted in the CPR 2021-2027<sup>288</sup> could be mirrored or adapted to the IPA regulatory framework. Taking inspiration from these measures, the following recommendations are made.

<sup>288</sup> [https://ec.europa.eu/regional\\_policy/sources/docgener/factsheet/new\\_cp/simplification\\_handbook\\_en.df](https://ec.europa.eu/regional_policy/sources/docgener/factsheet/new_cp/simplification_handbook_en.df)



- A **unified legal framework providing certainty from the start which is clear and rationalised**, avoiding unnecessary repetition and overlaps and prioritising clarity. Similar arrangements should be adopted for all sectoral agreements as far as possible to maximise alignment.
- **Common templates and guidance** need to be **available upfront**, to avoid an unnecessary burden on the IPA beneficiary administrations.
- The **use of simplified cost options** should be encouraged from the start, and **applicable for all actions/programmes**, with **special templates, methodological guidance and instructions** including for audit authorities. Ideally, programme authorities would need to justify why SCOs are not used, rather than justifying their use, particularly for low-value grants. Flat-rates should be used for staff costs and overheads as a default option if standard unit costs or lump sums are not used. **Technical assistance** should be provided **for the use of SCOs**, at multi-country level to ensure a consistent approach.
- Introducing the **“Seal of Excellence” concept** as for 2021-2027 cohesion policy funds: projects which **meet the quality thresholds under a centrally managed instrument** (notably Horizon Europe<sup>289</sup>, LIFE+ or ERASMUS+), but due to lack of available funding cannot be supported **may be picked up by the SOPs** and funded without the need to organise another call for proposals or a new selection process (in derogation to PRAG rules). SCO rules in place for these programmes should be applied.
- A **more proportionate approach to audit**, also to avoid successive over-auditing of bodies in the system which does not lead to any added value. As one example, CFCUs are submitted to constant audits from internal audit, the Audit Authorities for EU Funds, SSAIs and NAO checks which represent a significant administrative burden.
- Flexible provisions to allow **combinations of FIs and grants**.
- **Provisions for electronic systems** to reduce the administrative burden linked to **monitoring and reporting** accessible for all programme bodies with specific user rights (as in IPA shared management programmes which use the INTERACT-developed e-Ms system in 2014-2020).
- **Applications for grant funding** should be **made electronically only** (as envisaged in IPARD III in Serbia for example) and all communications with final beneficiaries electronic according to **e-cohesion principles** and, as possible, the once-only encoding approach phased in. Physical documentation should not be required at the application stage and electronic documents and (certified) signatures valid for contracting.
- **Grant schemes** should be **in local languages and simplified** and harmonized **procurement rules** applied at country level.
- **Discontinuation of the Annual Implementation Report could be envisaged**, as for Cohesion Policy 2021-2027 as monitoring information for the SOP Monitoring Committees and the NIPAC should be available from the MIS, but **transparent information provided on programme websites on implementation**, including potential “open data type” information.
- **Enhanced policy dialogue** in the SOP/sectoral monitoring committees and IPA Monitoring Committee, with **detailed and real-time information on implementation** provided. Committee meetings should be **more structured, more transparent and focused on resolving any implementation issues**. **Membership** should be **public** and **based on ECCP principles**, and **key decisions published**, as for IPA ETC shared management programmes.

<sup>289</sup> In Member States, one of the difficulties in funding such projects in 2014-2020 was related to state aid; however, new state aid rules for exemptions for research and innovation including for Seal of Excellence projects have been adopted [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_21\\_3804](https://ec.europa.eu/commission/presscorner/detail/en/ip_21_3804)



**Key Takeaway n. 4.19: Simplification measures should be adopted based on lessons learnt from IPA implementation and Cohesion Policy approaches.** This includes the harmonisation of rules and procedures, the use of electronic systems for applications, monitoring and reporting, Simplified Costs Options, simplified grant schemes in terms of language and secondary procurement, the Seal of Excellence concept and enhanced policy dialogue and transparency in Monitoring Committees.

## 4.2. Capacities of beneficiaries to prepare and implement convergence operations

Key to the success of EU regional policy funding is **the capacity of beneficiaries to prepare and implement operations that will achieve the established goals and strengthen economic, social and territorial cohesion and contribute to the Union’s political priorities set out in the green and digital agendas.** Upon accession, the former IPA countries will be able to **benefit from Cohesion Policy funds that are likely to be more than sixfold the amounts available under IPA instruments**<sup>290</sup> and far more mature project pipelines and enhanced project management capacities will be needed. For the purposes of the analysis in this section, the term “beneficiaries” is used to indicate recipients of EU Funds as in EU Cohesion Policy, not the IPA Beneficiary Country or institutions responsible for sectoral programming and monitoring.

In the IPA II framework, broadly speaking, in the context of annual action Programmes (as opposed to multi-annual operational programmes which are sectoral), a series of disparate actions are financed in different sectors; in most cases, these actions consist of individual projects with central institutions identified as having formal implementation responsibilities (IPA units) in the case of IMBC. These projects are identified through consultations between the DEUs and NIPACs, who coordinate with national-level institutions and in some cases wider consultations for project proposals (such as through Sector Working Groups as illustrated in Chapter 2); however, no transparent or harmonized criteria are in place for their prioritisation or selection. Only exceptionally, as discussed above, are grant schemes envisaged in annual action programmes. In a few cases, funds are allocated as a direct grant to national institutions implementing national grant schemes<sup>291</sup>. In short, the annual action Programmes only partially reflect Cohesion Policy programmes, but rather provide insights as regards the readiness of potential Cohesion Policy beneficiaries to prepare and implement projects i.e. operations financed by structural funds.

The challenge will be to have high-quality operations that are selected according to transparent criteria ready for funding so that the absorption of funds can be assured. Mention has already been made of the length of time needed to prepare project documentation for capital investments and their poor quality, as well as a general lack of capacity regarding the quality of Feasibility Studies and Cost Benefit Analysis. **The lack of experience of many beneficiaries in preparing grant scheme applications under IPA II, given the relative paucity of grant schemes in the WB6 means that consistent capacities have not yet been built up. The limited scope of IPA assistance in terms of implementing institutions and grant beneficiaries and typology of expenditure also do not adequately prepare many categories of future Cohesion Policy Beneficiaries for convergence operations** in specific intervention fields. As a few examples, according

<sup>290</sup> Just to give one example, the indicative allocation for Serbia under IPA II 2014-2020 including IPARD was established as 1.53 billion EUR. In terms of population and GDP, the Republic of Serbia is broadly comparable to Bulgaria; Bulgaria received 8.7 billion EUR in Cohesion Policy Funds 2014-2020.

<sup>291</sup> 2 direct grants were awarded to Innovation fund of the Republic of Serbia (4.4 mil EUR) and the National Employment Service (5 mil EUR) for measures already implemented in the national system with the same mandate.

to Open Data figures for 2014-2020, **ERDF** funds support has been contracted for **more than a million enterprises, including 139,664 new enterprises**, under **ESF 82,826 projects** implemented by **social partners or NGOs** and over **1 million SMEs supported**, while **53,029 projects** were implemented targeting **public administrations or public services** at **national, regional or local level**.

Even in territorial cooperation – delivered solely through grant schemes - **capacities are not evenly developed either in territorial terms or in typology of beneficiaries**. In general terms, the capacity of applicants and beneficiaries under shared management programmes is higher than under IPA-IPA cooperation programmes; as the border regions with Member States tend to be more developed than the border regions with non-member states, this further aggravates territorial disparities from the perspective of local stakeholders. Furthermore, **capacities of NGOs tend to be higher than local administrations**, many hampered by lack of language capacities, internal project management expertise and financial constraints.

This sub-section will examine both the quality of existing project pipelines for capital investment in convergence sectors and the capacities for project preparation and implementation in general, in order to make practical recommendations to prepare future beneficiaries for the opportunities under Cohesion Policy that can be rolled out through IPA III implementation.

#### 4.2.1. Project pipelines in main Cohesion Policy sectors

The **implementation progress of public infrastructure projects depends on the efficiency of the Public Investment Management (PIM) capacity**. A weak institutional framework results in misallocation of resources and side-lining of economic and financial sustainability criteria. The establishment of **an effective and efficient project development system for infrastructure projects (pipeline) is crucial to ensure the efficient withdrawal of EU funds and the planning of the public budget**.

The Western Balkans Investment Framework (WBIF) supports socio-economic development and EU accession across the Western Balkans through the provision of finance and technical assistance for strategic investments. It is a joint initiative of the EU, financial institutions, bilateral donors and the governments of the Western Balkans. The WBIF provides financing and technical assistance to strategic investments in the energy, environment, social, transport, and digital infrastructure sectors. It also supports private sector development initiatives. Based on competitive procedures, the WBIF awards grants for infrastructure project preparation activities as well as for investments. The WBIF application process follows a specific governance procedure. Priority infrastructure projects aimed at addressing the existing infrastructure gaps in the WB6 are identified through National Investment Committees<sup>292</sup>, setting up a transparent national strategic investment review and prioritisation process for Single Project Pipelines (SPPs) or extended SPPs<sup>293</sup> established in all WB6 countries<sup>294</sup>—in coordination with the relevant EU institutions. The NIPACs are responsible for submitting the prioritised project applications to the WBIF Project Financiers Group. However, **project selection criteria** for SPPs are **often not**

<sup>292</sup> Headed by or under the auspices of the Ministry of Finance or the Prime Minister's Office.

<sup>293</sup> In Serbia, there is a unified database of priority infrastructure projects for the environment, transport, energy, business related infrastructure and social sector in place for project proposals from local, provincial and central levels of government.

<sup>294</sup> In Bosnia and Herzegovina, the NIC framework has only one SSPP for the transport sector. The Republika Srpska has not participated in the NIC framework since its inception.

**applied objectively** during the prioritisation process at SPP level, with **an insufficient focus on maturity issues**.

The **Public Investment Management Assessments (PIMA) conducted by the International Monetary Fund for the countries of the Western Balkans**<sup>295</sup> have revealed **significant weaknesses** and **concerted efforts are needed to strengthen public investment management frameworks** to improve planning, allocation, and implementation capacities.

Furthermore, the Green Agenda for the Western Balkans<sup>296</sup> recognises the “need to strengthen the administrative capacity of competent authorities responsible for environmental assessments for strategic planning, programmes and projects.” In general, the EC 2021 Country Reports confirm **the need to significantly improve the preparation and implementation of Environmental Impact Assessments and Strategic Environmental Assessments for investment projects**<sup>297</sup>. As a recent Policy Brief by the Netherlands Institute of International Relations<sup>298</sup> states, “the quality of environmental impact assessment in the Western Balkan region is poor and insufficient to enhance preventive action to tackle pollution, address soil degradation and avoid health risks in the early stages of project planning”.

Concerning the quality and maturity of larger-scale capital investment projects, **major bottlenecks in the WB6** are represented by **land ownership and expropriation issues, weak project technical documentation, poor quality Feasibility Studies and Cost-Benefit Analyses, delays in permits** and licences, **lack of experience** in preparing high quality tender documentation and **implementing procurement procedures** and **limited capacities in public administrations for the preparation and implementation of infrastructure projects**, all leading to lengthy timelines for the preparation of projects (up to 5 years in some cases) and during implementation, delays and cost excesses.

All of the above have **significant impact on the readiness of beneficiaries for preparing and delivering convergence-oriented operations**.

**Key Takeaway n. 4.20: Strategic project prioritisation suffers from politicisation and insufficient consideration of maturity issues, exacerbated by a general low quality of technical documentation, e.g. Feasibility Studies, Cost Benefit Analysis, Environmental Impact Assessments.**

However, **multi-annual sectoral operational programmes can contribute to addressing these weaknesses in the project pipeline**, providing **clear and consistent prioritisation and selection criteria**, applicable to all projects in the pipeline, regardless of the eventual funding source, focusing on maturity issues and the quality of documentation, while at the same time allowing for capacities to be built in relevant sector institutions. **Support will need to be given both to beneficiaries of funds** (in particular local administrations where capacities are particularly weak) and to the **programme bodies in maturity assessment and developing consistent project pipelines**.

In terms of IPA programming, the project pipeline may also refer to the readiness of “soft” or smaller-scale projects that are not covered by SPPs, and where project proponents come

<sup>295</sup> <https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2018/02/07/Public-Infrastructure-in-the-Western-Balkans-Opportunities-and-Challenges-45547>

<sup>296</sup> [https://ec.europa.eu/neighbourhood-enlargement/system/files/2020-10/green\\_agenda\\_for\\_the\\_western\\_balkans\\_en.pdf](https://ec.europa.eu/neighbourhood-enlargement/system/files/2020-10/green_agenda_for_the_western_balkans_en.pdf)

<sup>297</sup> The lack of environmental impact of some strategic investments in the Region, particularly those financed under Chinese foreign direct investment (FDI) has been long challenged by local activists and widely reported, for example [https://chinaobservers.eu/wp-content/uploads/2021/11/CHOICE\\_policy-paper\\_Environmental-Impact\\_A4\\_07\\_web.pdf](https://chinaobservers.eu/wp-content/uploads/2021/11/CHOICE_policy-paper_Environmental-Impact_A4_07_web.pdf)

<sup>298</sup> The Green Agenda: Providing breathing space for Western Balkans citizens? July 2021 [https://www.clingendael.org/sites/default/files/2021-07/PB\\_The\\_Green\\_Agenda\\_3thproof.pdf](https://www.clingendael.org/sites/default/files/2021-07/PB_The_Green_Agenda_3thproof.pdf)

from a wide range of entities from the public and private sector. In most cases, except made for territorial cooperation, grant schemes financed by IPA are rather random and not part of a more strategic approach; consequently, often the sustainability of grant projects is not ensured in social sectors.

Transparent advance planning of grant schemes with clearly defined scope, objectives and eligible applicants based on solid financial forecasting at programme level should be in place for all multi-annual programmes, representing clear pipelines. For example, the Turkish authorities have managed to resolve some of the structural weaknesses observed in IPA II through the development of project pipelines. The EC Progress Report 2021 concluded that project pipelines were established by all IPA structures for the IPA II period 2014-2020 under multi-annual operational programmes (MAAPs).

#### 4.2.2. Capacities of future Cohesion beneficiaries in project preparation and management

This sub-section considers whether public and private entities (future Cohesion policy beneficiaries) in the Western Balkans and Turkey have the necessary capacities for project preparation and implementation. It should be noted that IPA funds also contribute to grant schemes implemented by other entities, such as UNOPS, which also allow for some experience in project preparation and management; however, funds available as a whole as well as maximum amounts per project applicant are far below those typically seen in Cohesion Policy, eligible expenditure restricted, excluding for the most part capital investments, and the typology of beneficiaries limited compared to Cohesion Policy. The assessment also takes into consideration the fact that in the Western Balkans, as illustrated above, the majority of IPA National Actions are not multi-annual sector programmes or grant schemes (envisaging project applications by potential beneficiaries) but under indirect management include projects prepared by IPA Units as part of the IPA programming structures. Consequently, the capacities of IPA Units are included in this analysis, as appropriate.

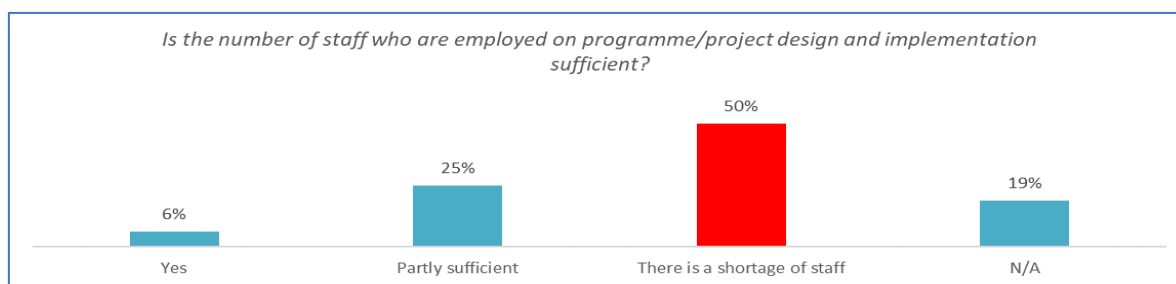
##### Strategic investment projects

Although it would be good practice for the preparation for Cohesion Policy to entrust the implementation of infrastructure projects to IPA beneficiary country especially in the sectors such as environment and transport, **national institutions are struggling with the insufficient capacities and knowledge required for the preparation and implementation of strategic investments**, and still need support. **National institutions and public entities lack qualified staff** with an adequate background and knowledge of PRAG and FIDIC rules. This results in a poor quality of technical documentation, and the lengthy time needed to prepare the documentation can result in the outdated technical specifications, required expensive changes during implementation and leading to delivery in delays; lengthy ex-ante control procedures lead to tight delivery deadlines often impacting on the technical quality of documentation or even failure to meet deadlines and decommitment. The introduction of the EU taxonomy for IPA Beneficiaries as far as possible will only create new challenges for the institutions. The WBIF Report on the NIC implementation<sup>299</sup> has confirmed the need for additional capacity building at final beneficiary level. Project management and implementation capacity at the final beneficiary level, involving Project Implementation and Project Management Units (PMU/ PIUs), remains weak with adverse effects on the efficient use of available resources. Due to the complexity

<sup>299</sup> <https://www.wbif.eu/storage/app/media/Library/7.%20NIC%20Framework/2.%20IFICO-NIC-Update-Report-2018-Oct18.pdf>

of documentation required for infrastructure projects, **investment preparation is by the rule entrusted to technical assistance projects**, such as successive Project Preparation Facility projects or JASPERS - funded by IPA, sectoral IPA actions implemented under IMEE, through grants from the WBIF or projects funded by other donors. Nevertheless, this is a **short-term solution** which secures the steady flow of documents but **masks deep-rooted problems in weak institutional performance**. Although Technical Assistance contracts almost always include a capacity building component for the local beneficiaries, in practice the trainer literally performs the tasks of the intended beneficiary.

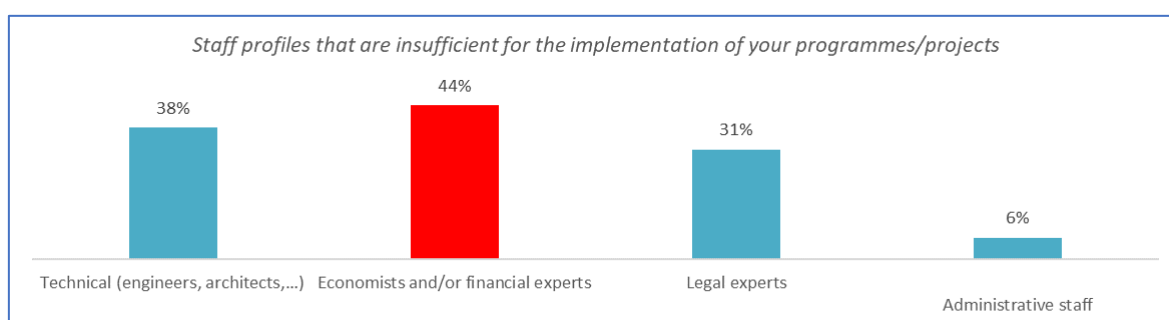
**Figure 4. 15 Available resources for programme/project design and implementation**



The lack of resources and internal capacities among beneficiaries is confirmed by the respondents to the pan-IPA survey, where half of the respondents identified a clear shortage of staff employed on programme/project design and implementation; **only 6% saw the staffing level as sufficient**.

Notably the missing staff profiles are **first economists and financial experts, closely followed by highly qualified technical staff**, such as engineers, which confirms the identified challenges for the public administrations as regards capital infrastructure or more complex projects.

**Figure 4. 16 Needed staff profiles for programme/project design and implementation**



Unsurprisingly, 75% sometimes use external expertise for planning and implementation of projects and programmes.

Even more significant is the **lack of capacities in the social sector for capital investment projects**. Although the WBIF also covers to some extent the social sector, the large sector size as such but smaller individual project size, with responsibilities split among several ministries and across several administrative levels, and a reduced high-level focus and lower priority relative to other sectors has led to less attention paid to this sector<sup>300</sup> and IPA countries have not developed social sector project pipelines. Consequently, there have been far fewer infrastructure projects prepared relevant for CPR Policy objective 4: A more social and inclusive Europe, especially as regards (smaller) local government

<sup>300</sup> Ibid.



administrations, whose capacities are particularly weak. Intervention fields under this Policy Objective include infrastructure in education (early childhood education and care, primary and secondary education, tertiary education, vocational education and training and adult learning), housing, other social infrastructure contributing to social inclusion in the community and health infrastructure). IPA III should address in particular this gap, envisaging a pipeline of grant schemes for local authorities and other local public bodies such as schools and primary healthcare and social care providers so that capacities can be built. Until now, **in the WB6, only sporadic grant schemes including infrastructure have been implemented directed at local authorities**; for example, under IPA I in Serbia, the Roma housing grant scheme (9.5 million EUR) to local authorities covered works which provided some practice in terms of building capacities at the local level for management of funds and project implementation; however, this was not followed up with consistent actions in IPA II.

**Challenges** for funds beneficiaries are further increased by the **need to address environmental and climate aspects, including climate-proofing investments**, and in a future perspective, in line with the EU taxonomy.

**Key Takeaway n. 4.21: Internal capacities are lacking for strategic investment planning and implementation and Technical Assistance risks masking the shortcomings of the institutions. Experience in the social sector is particularly lacking, and local administrations – in many cases tasked with such responsibilities - face significant challenges.**

#### Experience in national IPA project planning and implementation under indirect management and the capacities of IPA Units

Except in the case of grant schemes, in annual action programmes under IMBC, **projects are prepared by IPA Units in ministries** and other central public entities or institutions, under the coordination of the NIPAC, while the preparation of technical documentation for tenders and the later implementation of the project is carried out under the coordination of the **contracting authority (CFCU) which is in turn responsible for the overall procurement process and financial management** (according to PRAG procedures). **Tasks typically carried out by the contracting authorities under IMBC regarding project implementation, including the preparation of tender documentation, evaluation of offers and consequent contracting, are carried out by directly by beneficiaries in Member States**, either according to national public procurement law<sup>301</sup> or the respect of established procurement principles for the use of EU Funds. **IPA Units rarely have specific technical expertise** in the project field and are supported by policy or technical departments in Ministries which can lead to delays or even hamper efficient project generation and management processes. IPA Units are considered **part of the management and control system** and are subject to disproportionate procedural complexities and levels of controls, including checks by the NAO/CFCU and are audited by EU Funds Audit Agencies. IPA Units cover responsibilities for project planning and (non-financial) monitoring and reporting to the NIPAC, with these processes split into separate sub-units, according to strict manuals and procedures established by the IMBC system and **have a heavy administrative burden**. The role and value of IPA Units is not well-understood in the Ministries as they do not provide real support in project preparation and implementation but rather follow a series of formal procedural requirements that are merely seen as an administrative burden. Unsurprisingly, they are generally understaffed, and turnover is high.

<sup>301</sup> If Contracting Authorities as established by the Public Procurement Directives.

Therefore, the system of IPA units does not prepare national entities for their future project implementation tasks if they will become beneficiaries of Cohesion Policy.

**Key Takeaway n. 4.22:** Due to the excessive divisions at project level of responsibilities concerning planning, monitoring and financial implementation in the IMBC system, the system of IPA Units does not prepare national institutions to become Cohesion Policy beneficiaries in terms of EU project preparation and management.

#### Experience of beneficiaries in grant schemes including territorial cooperation

The preparation of grant applications and management of grants more closely resembles the experiences of beneficiaries under Cohesion Policy.

**Involvement in both transnational and cross-border programmes under shared management brings added value for IPA beneficiaries in terms of their readiness for EU cohesion policy.** Territorial cooperation is implemented through **grant schemes**, which involve **a wide range of beneficiaries** depending on the specific objective, including in some cases enterprises (for example in TN Danube) and partnerships are often composed of a non-homogenous mix of beneficiaries, whether public bodies (especially local or provincial administrations), universities and research bodies, local agencies, associations, CSOs, and private bodies. For example, the CINEMA<sup>302</sup> project financed under the TN DANUBE has a partnership of municipalities, enterprises, business support organisations, creatives and academia from eight countries in the Danube Region; only Serbia participates as an IPA country<sup>303</sup>, with two partners. **Through participation in Interreg transnational programmes**, which support macro-regional strategies, regional innovation systems, green growth, cultural and natural heritage, environmental resilience, sustainable transport and mobility etc., depending on the specific programme priorities, **IPA partners can gain valuable experience in applying ERDF European Territorial Cooperation (ETC) rules and procedures and cooperate with project partners from Member States.** However, **imbalanced ERDF and IPA allocations are a limiting factor for cooperation under Interreg Transnational Programmes.** Interestingly, in the INTERREG MED Programme 2014-2020, even though IPA partners represented only 6% of the total partners, 45 out of 91 projects included at least one IPA partner, thereby limiting the potential wider impact of projects in IPA countries.

Through participation in **IPA CBC programmes with Member States, IPA entities** (mainly **local administrations, CSOs or development agencies/local actors**) in border regions can participate in cooperation programmes with Member States on an equal footing, also as Lead Applicants of partnerships<sup>304</sup>; however, as they cannot act as Lead Partners in transnational cooperation programmes, they do not have the experience in more complex, multi-country partnerships. **Over successive financial perspectives, the capacities of IPA beneficiaries participating in cooperation projects with Member States have improved. Lead applicants and partners receive considerable assistance in preparing and implementing cooperation projects from programme bodies, especially Joint Secretariats**<sup>305</sup>.

**Key Takeaway n. 4.23:** Participation in territorial cooperation programmes under shared management is the only real experience that mirrors cohesion policy for

<sup>302</sup> <https://www.interreg-danube.eu/approved-projects/cinema>

<sup>303</sup> Regional Development Agency Backa; City of Sombor and City of Novi Sad as an associated partner.

<sup>304</sup> IPA entities cannot act as Lead Partners in Transnational cooperation projects.

<sup>305</sup> As one example, the Interim evaluation of the IPA CBC Bulgaria-Serbia found "the JS has high capability of capturing at an early stage various issues concerning achievement of planned project results. The various supportive measures offered to beneficiaries regarding project implementation have been adequate, timely and complementary. The content of all Programme manuals, guideline documents, and training materials reflect to a significant extent the most frequently asked questions and issues raised by beneficiaries. In addition, interviewed beneficiaries expressed very high satisfaction with the direct, ad-hoc support and assistance provided by the JS at different stages of project implementation. [http://www.ipacbc-bqrs.eu/sites/ipacbc-bqrs-105.gateway.bg/files/uploads/annual\\_reports/revised\\_bg\\_serbia\\_executive\\_summary.pdf](http://www.ipacbc-bqrs.eu/sites/ipacbc-bqrs-105.gateway.bg/files/uploads/annual_reports/revised_bg_serbia_executive_summary.pdf)

**partners from IPA countries**, also with the possibility to act as Lead Partners in IPA CBC. However, funds available for participation in Transnational programmes are limited, thereby hampering a wider impact from cooperation in IPA countries. Joint Secretariats provide consistent and valuable support to applicants and beneficiaries.

However, in the case of **cooperation programmes between IPA countries**, the **capacities for project generation and implementation are not sufficiently developed**; according to the IPA CBC mid-term evaluation<sup>306</sup>, the quality of proposals remains a significant problem despite training and review processes for unsuccessful applications and tellingly, allocated funds for each call are not always contracted.

The **different rules in place for cooperation programmes with member states and those between IPA countries represent a significant burden for beneficiaries**. Furthermore, **some beneficiaries (particularly local administrations) have problems in co-financing their project budget which can discourage participation or lead to delays in project implementation due to different rules for pre-financing under shared management compared to indirect management**. Cooperation partners under shared management are financed on a reimbursement basis after certifying costs and the process is rather lengthy while local administrations do not have sufficient budgetary capacity to make advance payment without pre-financing; this financial risk limits many from participation.

To address this issue (which is not only the case for IPA beneficiaries), **measures to support beneficiaries can be set up**, such as in Montenegro, where in February 2019, a Municipal Support Fund was established as a revolving fund to be used for pre-financing donor supported projects, giving the opportunity to municipalities to borrow the necessary funds to start the project implementation, primarily targeting EU Interreg programmes. In 2019, nearly EUR 760 million from the Municipal Support Fund were used by 5 municipalities. In addition, CSOs in Montenegro implementing EU projects have the opportunity to apply for financial support (up to 15% of the project budget) under various calls launched by line ministries.

A general trend of low active participation of local administrations and actors in the first IPA-IPA cross-border grant schemes has been noted, often due to their lack of capacities; gradually this has improved, notably in Montenegro and Serbia. However, the complex and demanding administrative procedures often discourage potential grant beneficiaries from applying to cross-border cooperation programmes.

Overall, significant efforts are needed for levelling up capacities of applicants and beneficiaries in IPA-IPA CBC programmes, which could be achieved by targeted capacity building activities and mentoring. Furthermore, Joint Technical Secretariats in IPA-IPA CBC programmes could benefit from peer-exchange with Joint Secretariats in shared management programmes.

**Key Takeaway n. 4.24: The administrative burden related to different system with different rules for shared management and IPA-IPA cross-border cooperation is high; alignment and simplification are key to encouraging project applications. The good practice of stimulation and support mechanisms to encourage participation of local administrations in ETC should be fostered.**

#### The administrative burden for beneficiaries

The **administrative burden for IPA beneficiaries is very high under IMBC or as final beneficiaries of grant schemes** (whether under direct management or IMBC) in relation

<sup>306</sup> <https://ec.europa.eu/neighbourhood-enlargement/system/files/2021-09/IPA%20CBC%20mid-term%20evaluation%20final%20version%20-%20Annexes.pdf>

to the value of the actions, and **no consistent attempts have been made to alleviate this**, through the use of electronic processes, Simplified Cost Options, simplified secondary procurement procedures or risk assessments. Very often **grants to CSOs in particular or local administrations are small** (well under 100,000 EUR) and beneficiaries struggle with the complex and time-consuming financial procedures in place and reporting obligations, as well as some issues concerning VAT exclusion or reimbursement<sup>307</sup>. This limits the reach of grant schemes, and **in a vicious circle only the larger and more experienced entities apply, thereby leading to a de facto spiral of disparity**. This is exacerbated at regional level within the IPA counties themselves, where in general it is reported that applicants from less-developed regions have less capacities than more developed regions (in particular in the case of territorial cooperation where grant beneficiaries from regions bordering Member States have higher capacities than those bordering IPA countries). A further limitation is the fact that the grant schemes under annual action programmes are in English (unlike for IPARD or in Turkey under multi-annual programmes). Furthermore, the use of PRAG procedures is also a burden for grant beneficiaries.

Indeed, in shared management IPA cooperation programmes secondary procurement rules are applied in line with the MS instructions, based on the EU Directive on public procurement. For the issues not regulated in the Directive, MS use their national procurement rules. Therefore, this would support reducing use of PRAG or relaxation of the PRAG rules for secondary procurement and procedures toward use of national procurement rules.

There are some examples of **good practice** in place in **supporting sub-national level applicants and beneficiaries of EU Funds**, initiated by Provincial Administrations or development agencies, as illustrated in the box below.

**Box 6: The Autonomous Province of Vojvodina – a best-practice example in supporting grant applicants and beneficiaries**

**The Autonomous Province of Vojvodina** supports potential applicants from the province through the European Affairs Fund<sup>308</sup> in applications for EU Funds and training programmes through Project Proposal Assessments, training courses on project management, and a Specialised Programme for “Management of Regional Development through EU Funds“, designed for employees of local self-government units, provincial administration, development agencies, public utility enterprises, educational and cultural institutions, civil society organisations, small and medium-sized enterprises and entrepreneurs, universities, research institutes and other institutions that may be beneficiaries of EU funds.

The Autonomous Province of Vojvodina also provides financial support for EU-funded projects through two main mechanisms, namely i.e. public calls providing financial support for co-financing published by the **Provincial Secretariat for Finance** and short-term loans with more favourable than in the market through the **Development fund of AP Vojvodina**.

In the case of the co-financing funds, for example, 2 calls were published in 2018; eligible applicants were (direct or indirect) **budgetary users** (i.e. local self-governments, organisations established by the Republic of Serbia, National employment service, etc.), **non-governmental organisations and other legal entities** fulfilling the eligibility criteria set in the Call. Apart from the signed contract for the EU-funded project, all applicant apart from local self-governments were required to provide bank guarantees or bills of exchange. Out of a total of 152 eligible applications, 134 were approved. The vast majority were for territorial cooperation: 99 contracts were for CBC projects and 9 contracts for

<sup>307</sup> Notably in Albania, where a rather complex reimbursement system has been set up for CSOs.

<sup>308</sup> <http://vojvodinahouse.eu/en>

transnational cooperation projects, while 11 contracts provided co-financing for social inclusion grant projects and 15 contracts for ERASMUS+ grant projects.

The **Development fund of AP Vojvodina**<sup>309</sup> publishes annual calls for loans at more favourable conditions than on the regular financial market through short-term and long-term credit lines<sup>310</sup>(loans) for legal entities and entrepreneurs, agriculture holdings as well as for all other entities to ensure pre-financing of IPA projects. The main users of these loans are public institutions or publicly-owned bodies: in 2018, 48.6% of users were local self-governments, 25.3% Institute for science and education, 4.5% Institute for health protection and 7.24% public enterprises. In addition, 7% of loans are made to non-governmental organisations, 6.36% Regional development agencies and 1% to micro-enterprises and SMEs.

The combination of financial support mechanisms and capacity-building initiatives through consistent initiatives fosters the sustainable participation of provincial actors in EU-funded programmes. Compared to other ad-hoc initiatives in Serbia<sup>311</sup> these schemes provide much wider coverage in terms of eligible projects and beneficiaries, higher amounts of funding at disposal, both in terms of total funding and per project and the continuity of funding, which provides stable and secure support for the provincial beneficiaries.

However, to be successful, **significant efforts will need to be made to support applicants and beneficiaries in preparing and delivering projects** contributing to convergence objectives and preparing them for much greater opportunities after accession. The focus should be on **reducing the administrative burden** – based on lessons learnt and good practice in Cohesion Policy - and **providing practical support**, of the sort offered by Joint Secretariats under shared management ETC programmes. In the case of less-developed regions, IPA beneficiary countries are encouraged to find mechanisms to support co-financing, like in Croatia where local administrations in less-developed regions have access to national funds for co-financing EU-funded projects.

**Key Takeaway n. 4.25: The administrative burden for IPA beneficiaries of grant schemes is disproportionate and does not exploit opportunities for simplification and better efficiency. Mechanisms to support sub-national entities in applying for EU Funds need to be rolled out throughout the region, based on good practice examples, which could also be supported by development agencies<sup>312</sup>.**

<sup>309</sup> Established through the *Law on development fund of AP Vojvodina* in Novi Sad as limited liability company. It is not a budgetary user although it is 100% publicly-owned (AP Vojvodina 78.11% and Republic of Serbia 21.89%..

<sup>310</sup> Source: [https://www.rfapv.rs/konkursni\\_dokumenti.html](https://www.rfapv.rs/konkursni_dokumenti.html)

<sup>311</sup> For example, by the Development Agency of Serbia in 2016 and the Ministry of Youth and Sports in 2018.

<sup>312</sup> In Croatia, regional development agencies are funded through ESI funds to support local authorities in project preparation and implementation; however, they had to change their status and become public/public-equivalent to qualify for the contract award.



## 5. Overall Conclusions and Recommendations

From the research carried out, it emerges that the introduction of the sector approach in IPA II did not contribute to readiness of candidate countries or potential candidates as regards regional policy in general. Where progress was made as regards convergence objectives, as in the case of innovation policy in Serbia, it was driven principally by domestic political will and ownership rather than Commission efforts or EU Action in general<sup>313</sup>. As regards the progress in preparations for the implementation of EU Cohesion Policy, this stagnated both due to the lack of a clear perspective for accession and the shift away from indirect management by the Beneficiary country in candidate countries and limited – where existing - use of multi-annual sector operational programmes for convergence objectives in IPA II in the WB6, thereby depriving their institutions of the most valuable learning-by-doing experience. In this respect, the conclusion of this Study is that the implementation of IPA II did not contribute sufficiently to the achievement of Specific Objective 3 - Strengthening of the ability of the beneficiaries listed in Annex I of the IPA II-Regulation to fulfil the obligations stemming from Union membership by supporting progressive alignment with, and adoption, implementation and enforcement of, the Union acquis, including preparation for management of Union Structural Funds, the Cohesion Fund and the European Agricultural Fund for Rural Development.

In addition, there is still **a lack of understanding among IPA Beneficiaries of the complexities of implementing Cohesion Policy, the time needed to set up the system and the importance of regional policy for economic, social and territorial cohesion;** from the more recent experience of other acceding countries, at least **one full cycle of indirect management is necessary** to fully prepare for cohesion policy; **taking into account the time required to set up the system and ensure effective public internal financial control is in place at all levels of government, indicatively 8-10 years are needed.**

Furthermore, the lack of direct support from DG REGIO and DG EMPL for national Action Programmes – unlike the case of IPARD where DG AGRI provided support and guidance – deprived the IPA Beneficiaries of valuable support and peer-learning and exchange. The experience of working with Member States on shared management Territorial Cooperation Programmes – and assistance from INTERACT – provided the only experience of cohesion policy implementation in practice for IPA Beneficiaries, but this was not mainstreamed throughout the institutions while different rules for cooperation between IPA Beneficiaries created parallel systems and an excessive administrative burden.

The following recommendations are made based on the findings of this Study and the key takeaways.

### As regards the Accession perspective:

- A **more strategic approach to the preparation for Regional Policy** needs to be fostered, through **focused training actions** to the countries **in the process of establishing or implementing Chapter 22 Action Plans**, supported by DG REGIO.
- A **clearer timeline for accession**, accompanied by political consensus among EU Member States as well as the Commission itself, would help to **renew momentum for preparations for Chapter 22** and provide the impetus to establish an institutional set-up or start programming. The establishment of **multi-annual operational programmes under indirect management in convergence sectors managed by national institutions with relevant policy responsibilities** as

<sup>313</sup> A similar finding is reported as concerns rule of law in the European Court of Auditors Special Report 01/22 EU support for the rule of law in the Western Balkans: despite efforts, fundamental problems persist.

envisaged in IPA III, would prove **valuable in preparation for Cohesion Policy Funds**, particularly if the focus is on **how** rather than **what**, and cohesion policy type requirements are mirrored in programming and monitoring for example.

- The **coordination structures for accession negotiations** and **programming of IPA** should be **streamlined** and not work independently, **through an effective coordination mechanism**. Potentially, a **cluster-based negotiation structure** may improve coordination between the negotiation process and IPA utilisation by investing more energy and motivation into joint work and focus on cluster opening. However, this also requires a strong will for **coordination between clusters** which should be fostered by the Commission.
- A **balanced and synchronised approach to IPA programming and implementation** is needed; this has been seen in the case of Montenegro over the two IPA financing perspectives which has helped the country to reach a more advanced level of progress across many of the chapters assessed in this Study. The shift to the sector approach and annual Action Documents in practice resulted in a more haphazard approach, and the undoubted need to re-programme funds to address the most pressing challenges related to the COVID-19 pandemic has only exacerbated this; IPA III should provide the opportunity, even though the competitive element introduced provides challenges for synchronised programming.
- Preparations for structural instruments needs to be more interactive and practical; **direct cooperation with policy DGs** (in particular DG REGIO and DG EMPL for chapter 22 but policy DGs for IPA III Windows III and IV) in the Commission – as was practice in IPA I - should be fostered and **candidate countries should be able to participate in networks and working groups in relevant areas**, even if as observers, which would allow them to gain greater understanding and start working with Member State peers on convergence priorities and implementation modalities. In this sense, **direct channels of peer exchange and informal peer-learning** from working together should be promoted by the Commission and become a constant practice in addition to Twinning and TAIX.
- As regards **horizontal issues related to Chapter 22** and the general capacities of the public administration, the **roll-out of multi-annual programming with strict adherence to ECCP** is the single most important element in allowing for a step change for the WB6, allowing for a sufficient period of time for learning by doing in convergence type sectors, mirroring as far as possible Cohesion Policy approaches and requirements.

In terms of the **Horizontal Enabling Conditions** for the delivery of Cohesion Policy:

- As regards the first enabling condition *Effective monitoring mechanisms of the public procurement market*, **further roll-out and training on e-procurement** is needed, which shall also lead to **increased competition and transparency**. Strategically speaking, it is essential to **build understanding of the contracting authorities**, including their senior management, on how **procurement can be used to implement the strategic goals** of an organisation. Furthermore, **technical and administrative knowledge of staff on procurement in the contracting authorities should be continuously strengthened**. As alignment with EU acquis progresses – as a key milestone - **national procurement** should be introduced for **IPA funds rather than PRAG and considered a key mil**; it would be valuable for IPA operating structures, once this is the case, to join the **expert exchange system** for Managing Authorities to share experiences and expertise in public procurement capacity. The use of **Integrity Pacts as a tool to increase transparency and accountability** could be fostered. Representatives from candidate countries could be allowed to join, as observers, the network of public procurement officers from Member States, for peer-learning and exchange.

- With reference to the enabling condition *Tools and capacity for effective application of State aid rules*, **knowledge and understanding of state aid is needed throughout the public administration. The resources and capacities of competent state aid bodies need to be significantly strengthened** and training provided for state aid experts, not only at national level. Compliance with both state aid and the Funds' rules is complex and **specific support should be place for future Managing Authorities/Implementing Bodies, other relevant public bodies and local governments and potential future beneficiaries of cohesion policy funds** so that state aid compliance is ensured; this could be rolled out during IPA III multi-annual operational programmes. In this respect, support from DG COMP would be beneficial as well as the opportunity to benefit from Member State Experience; Twinning and TAIEX support under IPA III would be usefully focused here.
- As regards the *Charter of fundamental rights and the implementation and application of the UNCRPD*, emphasis needs to be placed on **effective mainstreaming into programming documents including arrangements to ensure their implementation, monitoring and evaluation** throughout the cycle. **Bodies responsible for promoting fundamental rights and the rights of persons with disabilities** need to be involved as equal partners in the preparation and implementation of IPA programmes as preparation for Cohesion Policy. Support should be given to **mirroring Cohesion Policy requirements in this respect for IPA III multi-annual Operational Programmes**, particularly in terms of preparation of specific operations and monitoring arrangements. Member States could provide best practice examples. In the case of **physical investments**, specific attention needs to be paid to **accessibility standards and universal accessibility principles** should be the default option. In this respect, the Commission should provide clear guidance and tools for IPA Beneficiaries.

As regards the **partnership principle**:

- The **NIPACs and future Managing Authorities** need to be **supported** in the full application of the **partnership principle** during the **programming, implementation, monitoring and evaluation of IPA III in line with ECCP requirements** through the development of procedures for the selection and involvement of regional, local, urban and other public authorities, social and economic partners, civil society and other categories of partners in the work of Integrated Policy Management Groups / Thematic Groups/Monitoring Committees.
- The **implementation of the partnership principle in line with the ECCP** should be **enforced in the design and implementation of annual and multi-annual programmes under IPA III**. The NIPACs should prepare a **report on the involvement of the partnership and the consultations conducted** for each the annual or multi annual programming document to be included as part of the maturity assessment documentation, or as part of the Programme template. A summary of the involvement of the partners in implementation should be included in Annual Implementation Reports.
- **Guidance on implementing the ECCP should be provided to IPA Beneficiary countries by DG REGIO and DG EMPL** as well as **best practice examples from Member States**, and **EU candidate countries and potential candidates should participate in Commission-organised task forces, working groups and networks on partnership**. **Feedback from the Commission** with regards to the **quality of the application of the partnership principle in IPA III** should be mandatory both during the process and reported in the annual Country Progress Reports.

- Support should be provided to the NIPACs and Sector Lead Institutions in the **assessment of needs and identification of measures to strengthen the capacity of partners and other stakeholders in consultation mechanisms**, in particular as regards small local authorities, economic and social partners and non-governmental organisations, particularly in less developed regions, in order to help them so that they can **effectively participate in the preparation, implementation, monitoring and evaluation of IPA and become prepared for participating fully as partners for the delivery of Cohesion Policy upon accession**. Awareness raising and capacity building programmes on participatory approaches for institutions and bodies involved in the implementation of cohesion policy and partners should be **financed by IPA III**, eventually **as part of Administrative Capacity Building Roadmaps**, rather than through ad-hoc or project-level initiatives.
- **Transparency of the partnership and consultation processes must be enhanced** for IPA III; the selection of partners should be clearly defined, transparent and representative, including for the sub-national level and the members of all committees and groups published. IT tools should be further exploited to enable wider stakeholder consultations, feedback provided and the consultation reports published.

As regards transparency:

- Under IPA III, **transparency requirements for Cohesion Policy should be mirrored as far as possible**. A **single national level webpage/site should be hosted by NIPACs with agreed standards for minimum information to be made available on all IPA III programmes**, regardless of the form of management, with links to other websites where specific information may be found. Information on the IPA Monitoring Committee and Sectoral Monitoring Committees should be available here. In addition to transparency on NIPAC websites, transparency standards need to be introduced in all Beneficiary institutions, properly linked to the national website. **Annual Implementation Reports, Monitoring Reports and Evaluation Reports should be made available on national websites**, as well as on the DG NEAR website.
- **Information on financial progress and payments for IPA by country should be available in an easily accessible form on the DG NEAR website** (overall, by window, by country, by management modality). Financial information on IPA should be communicated regularly to the NIPAC and the NAO, who should be responsible for national publication. Possibilities for an IPA Open Data Platform could be investigated. Measures for transparency should be financed through technical assistance, eventually through a multi-regional initiative.

The following set of recommendations are intended to improve the quality of policy making and ensure capacities are in place in EU candidate countries and potential candidates in accordance with multilevel governance principles and a place-based approach to prepare for implementation of Cohesion Policy that can effectively reinforce economic, social and territorial cohesion and address internal territorial disparities in the framework of the green and digital transitions.

- **Consistent use of participatory planning, partnership and consultation** in policy-making and monitoring must be fostered; in this respect **IPA should provide examples of practical application of the partnership principle** throughout programming and implementation with the full involvement of partners in monitoring committees and appropriate capacity-building financed through EU funds, as is the

case in Member States. Equally, IPA should provide a good practice example in terms of **transparency of the partnership and consultation process**, i.e. by ensuring the transparency of selection processes for partners, including criteria for representativeness, the development and use of IT tools for consultation, the provision of feedback and the publication of consultation reports as well as the transparency of membership of monitoring committees and publication of annual implementation reports, results-oriented monitoring reports and evaluations.

- **Capacities for planning, monitoring and implementation at all levels need to be strengthened** as regards results-oriented monitoring of national policies and investment programmes: attention should be paid to **building capacities within the administration for the development of performance and assessment frameworks**, the formulation of indicators, and measurement methods.
- Further efforts are needed to build up **sector-specific statistical data for evidence-based policy planning and monitoring**. IPA should support strong engagement in developing a system of indicators based on EU Cohesion policy requirements; **common indicators** and methodologies could be proposed **similar to those in place for Cohesion Policy** to improve practice and capacities for post-accession implementation.
- As regards the **complex challenge** of territorial disparities and given that the increase in **territorial fragmentation** has also been exacerbated by the pandemic, policy responses need to adopt a **place-based approach**, embrace **stronger territorial governance** and, **envisage territorial strategies embedded in the potential of functional areas and increased cooperation** between places, sectors, and groups of society. IPA support should be directed at **strengthening the territorial dimension of sector policies at all governance levels**, providing consistent support for regional and local strategy development and implementation, through inclusive processes, and piloting and rolling out appropriate integrated investment tools such as ITIs and CLLD. DG REGIO could develop specific initiatives to support regional and local governments and promote best practice examples; IPA capacity-building support could also be envisaged for municipalities participating in networks such as the Covenant of Mayors.
- To strengthen **the bottom-up dimensions of Macro-Regional Strategies** and raise awareness among various stakeholders, **sub-national governance levels and non-governmental organisations should be involved in the MRS coordination mechanisms**. The **contribution of national and multi-country IPA Actions to Macro-Regional Strategies** should be **appropriately prioritised and monitored**.
- The **improvement of the vertical and horizontal cooperation of local governments** should be achieved through practicing the joint planning and implementation of actions. The **competences and responsibilities of local governments should be balanced with the fiscal decentralisation process and the availability of financial resources**. Further **development of intra-municipal cooperation within functional areas should be supported** – also through it is, CLLD and Smart Villages Strategies - to address regional disparities more successfully through a more evenly distributed provision of services; this could be included as selection criteria in relevant calls for proposals.
- The EC should **invest more in territorial cooperation** to address common regional cross-border challenges and **experiment new ways for sustained and sustainable cooperation** between cross-border communities, particularly for cooperation between IPA Beneficiaries, that can more adequately address the identified territorial disparities. Some **flexibility in fund allocation in transnational cooperation programmes** would **allow more participation of IPA Beneficiaries to the benefit of the whole programme area**; for example, strategic projects could include IPA beneficiaries as eligibility criteria, with an assured funding allocation outside the IPA funding source.



- However, IPA funds alone cannot address the severe territorial disparities and contribute significantly to economic and social cohesion; **more efforts should be made to blending IPA investments with other funding sources, such as financial instruments and loans from IFIs in priorities of Smarter Europe, Greener Europe and More Social Europe**, as well as better harmonised donor coordination. Further **mechanisms could be studied for increasing IPA Beneficiaries' access to other EU Funds in key areas critical for the Union, including Cohesion Policy**. For example, decommitted funds from Cohesion Policy could be made accessible for initiatives with IPA Beneficiaries or for operations with an attested benefit for both Member States and IPA Partners. The Commission should **support the uptake of financial instruments and innovative approaches to financing**, including fostering **participation in EaSI initiatives**, supported by DG EMPL as well maximising opportunities for networking and peer exchange with MS as well as between IPA Beneficiaries. While the **Economic and Investment Plan for the Western Balkans (EIP)** rightly stresses the importance of mobilising additional investments, the **centralised implementation does not contribute to building up national capacities for cohesion policy**.
- The EIP aims at reducing the development gap between Member States and the Western Balkans region. **However, the lack of transparency and partnership in defining investments for the EIP may undermine its efficacy**. The reliance on the system established for the WBIF does not address **identified shortcomings in the Single Project Pipelines** established in the Western Balkans which may hamper achievement of its ambitions.
- As regards readiness for Cohesion policy implementation, **more focus needs to be given in preparing for the specific enabling conditions linked to each policy objective** which focus essentially on ensuring effective implementation rather than the legal framework. These go beyond *acquis* harmonisation and are not sufficiently in focus in monitoring and reporting by IPA Beneficiaries or DEUs in accession process monitoring. Candidate countries and potential candidates should prepare a specific roadmap with a timetable as a tool to monitor progress in addressing the requirements set in the horizontal and thematic enabling conditions, supported by IPA through TAIEX as well as national actions. EC Country Reports should inform on these, and given the specific nature of the enabling conditions, **more focused support and monitoring is needed in conjunction with relevant line DGs. Parallel enabling conditions could be introduced for IPA III sector operational programmes to build up capacities**, focusing on development-related enabling conditions where **well-established implementation frameworks and institutional capacities are critical**, sometimes at multi-governance levels. IPA could also support funding for well-established mechanisms, such as: the Small Business Act, the Smart Specialisation Platform, the Gender Equality Index, the Employment and Social Reform Programme Dialogue and the Energy Community Secretariat.
- As regards contributing to a Greener Europe, the focus should be on **strengthening the capacities of staff at central and local levels for the preparation and management of environmental infrastructure projects**. Retaining institutional memory during staff turnover should become routine by embedding induction and capacity building activities for new personnel. Further strengthening of the Single Project Pipeline to be the sole mechanism for the **prioritisation of infrastructural projects** is necessary with additional efforts on **maturity issues and scoring homogeneity within and across sectors**, while the **do not harm principle needs to be properly respected**. IPA support should also ensure the sustainability of investments, assisting utility owners and companies with tariff-setting, fee collection and schemes to assist the poorest communities, as well as implementing penalties for non-payment.
- Further attention needs to be paid to the **proper monitoring of the IPA III contribution to the SDGs and horizontal policy objectives** such as climate

change mitigation and gender equality moving from a mere tick-box approach and formal methodologies for assessing the financial contribution.

The following recommendations are intended both to maximise the preparation of the IPA Beneficiaries for the implementation of Cohesion Policy Funds on accession, in the light of the dual challenges of the green and digital transitions.

- The **European Commission should align IPA rules, procedural and institutional requirements to the maximum extent with Cohesion Policy requirements**. This relates to the **multi-annual programming at the sector level for convergence sectors, management of sector operational programmes by the relevant ministries** as envisaged in IPA III (or the gradual transition from centralised management with CFCU to decentralised management with sector ministries); it also implies **programme management instead of annual project management to allow for multi-annual interventions with significant impact and experience in financial forecasting and planning**. A similar practice was introduced for IPA I under components III and IV, and it has proven appropriate to prepare for Cohesion Policy, as in the case of Croatia<sup>314</sup>. IPA Beneficiary Countries could be encouraged to earmark additional national budget to sector operational programmes to allow for “over-contracting”, a common practice in Member States to mitigate the decommitment risk<sup>315</sup>.
- The **responsibility** for the entire **multi-annual operational programme** should be assigned to **one institution** that already implements national investments in the same field, **mirroring the responsibilities assigned to the Managing Authorities (in Member States as in Regulation 718/2007 and for IPARD, including as applicable the establishment of Intermediate Bodies with competencies in the relevant field under the responsibility of the MA**. IPA rules imply an **unnecessary segregation of programming and implementation tasks, division of responsibilities between NIPAC and NAO, and segregation of duties in project implementation units, which considerably strains their institutional capacities, creates an administrative burden and provides no added value**. The practice of excessive and over-strict segregation of duties should be abandoned, in favour of the Financial Regulation requirements that Member States follow.
- The **role of the NIPAC in carrying out coordination activities** and the **overall monitoring and communication responsibilities for IPA** should be **strengthened** with consistent information provided by the DEUs and MAs of sector operational programmes; in this sense the NIPAC role could be more similar to that of the coordination bodies set up in some Member States.
- The Commission should establish **direct cooperation and enable regular contact between the national authorities and line DGs (DG REGIO, DG EMPL)**, as the two directorates are most knowledgeable about the Cohesion Policy requirements and able to provide **high quality of support and advice regarding the management of EU pre-accession funds in convergence sectors**<sup>316</sup>. The transfer of management responsibility from sector-specific DGs to DG NEAR under IPA II led to a loss of such support, except in the case of IPARD where DG AGRI supported IPA Beneficiaries and where improvements in absorption and achievement of results has been seen in IPA II. Cooperation should include regular consultation at the programming stage, monitoring of programme implementation performance, and ideally also programme auditing by the audit units from two EC directorates. The Commission would thus be able to provide hands on guidance and support, as well as closely monitor the progress and development of capacities for the Cohesion Policy management.

<sup>314</sup> <https://cohesiondata.ec.europa.eu/overview> accessed 09/12/2021. As regard progress in implementation of ESI Funds overall 2014-2020, 52% is spent (slightly below the EU average of 56%) and 118% committed (compared to an EU average of 101%, using the over-contracting principle as a mechanism to avoid decommitment).

- The Commission should set up a **Task Force similar to the 2014 Commission Task Force for Better Implementation (TFBI) and provide targeted support for IPA Beneficiary Countries for the preparation and implementation of Sector Operational Programmes under IPA III involving DGs with experience in structural funds.** Given the delays in the establishment of the legal framework for IPA III and the need to establish the management and control system with ex-post control, significant support should be provided to all the MA structures as part of a level playing field, outside national IPA allocations/annual action documents through workshops provided by the relevant DGs on a regular basis on key common issues that can also serve as platform for exchange of experience between IPA beneficiaries, as well as ideas on how and what to improve to increase readiness of IPA beneficiaries for management of EU structural funds. The [TAIEX REGIO PEER 2 PEER](#) tool could be extended to IPA countries for the exchange of experience on programme management, or also used to stimulate peer-exchange between IPA countries.
- The **Learning by doing approach should be applied consistently especially in the convergence sectors** relevant for the Cohesion Policy such as environment and climate change, competitiveness and innovation, transport, education, employment, and social inclusion, by **assigning them with the responsibility of indirect management including for capital investment projects and decreasing indirect management with entrusted entities** that does not build capacities of national institutions for management of EU structural funds. **National actors must be given the responsibility for EU Funds management, even at the expense of making mistakes and taking the appropriate consequences for such mistakes,** which shall also lead to increased political commitment and ownership.
- **Ex-ante control by the EU Delegation should be phased out, preparing for the gradual transition to ex-post control** to raise the level of responsibility and ownership by the IPA Beneficiaries, also through the Preparation of Roadmaps for the waiver of ex-ante control. **In the case of countries without IMBC experience, a roadmap should set out steps for entrustment and the IPA portfolio under indirect management should be gradually increased over the financial perspective** to allow newly established structures to gain experience and strengthen their capacities, enable proper resource planning and reinforce sustainability.
- **Selection criteria for EU-funded projects must be well-founded** and applied in all convergence sectors and **maturity issues** be properly **considered.**
- **Targeted support should be provided as regards capital investments** to be financed through EU Funds, JASPERS-like instrument for advice on major projects, the application of the EU Taxonomy and to build capacities of competent institutions. Capacities for preparing EIAs and SEAs need strengthening, especially as regards stakeholder consultations and follow-up of recommendations and measures. The quality of Feasibility Studies and economic analysis needs to be improved to meet consistent minimum standards for strategic investments and the capacities of institutions to assess them.
- **Significantly more possibilities through IPA IMBC to implement grants and build capacities of the relevant institutions for the management of grant schemes in convergence sectors must be ensured.** So far, the grant mechanism has been hardly used under IPA in the WB6, mostly in employment, social inclusion and to support civil society organisations except for rural development. Experience in grant schemes under de minimis and state aid conditions is particularly lacking.
- **Capacities need to be built for future Cohesion policy beneficiaries through grant schemes** in sector operational programmes that **mirror Cohesion policy grant schemes, in terms of typology of beneficiaries, eligible activities and typology of expenditure.** Specific efforts should be made to **extend the reach of grant schemes to less-experienced applicants, especially from less-**

- developed areas, including the development of **support mechanisms and national-co-financing** for participation in EU-funded projects.
- Simplification measures to **reduce the administrative burden for grant beneficiaries** should be introduced, **concerning the use of local languages, simplified secondary procurement and Simplified Cost Options (SCOs)**, and applicants and beneficiaries provided with **more support for project development and implementation**. DG REGIO and DG EMPL should provide specific guidance and models for SCOs.
  - **The switch from PRAG to the national public procurement systems in local languages for IPA implementation under IMBC could be envisaged as soon as negotiations with regards to public procurement advance and progress to the provisional closure**. This will enable timely preparation of the involved structures for the Cohesion Policy.
  - **IPA III should be used to pilot the more consistent use of Financial Instruments for competitiveness, also building the capacities of national development institutions**. The **scope of Fi-compass<sup>317</sup>** could be **extended to provide support to IPA Beneficiaries** and facilitate peer exchange with Member States.
  - **The use of the SBS mechanism** should be limited to the investments in the priority areas related to reforms in preparation for Union membership and related institutional and capacity building in Windows 1 and 2, in particular for potential candidate countries.
  - **Monitoring information systems** should be developed as a priority for SOPs to ensure consistent information is available and reduce the administrative burden for staff. E-cohesion principles should be adopted and electronic procedures introduced; national databases need to be updated and upgraded and interoperability ensured through automatic processes.
  - In order to gain more knowledge on evaluation, **IPA Beneficiaries should participate in Cohesion Policy Evaluation Networks and a functioning IPA Evaluation Network**, supported by multi-country assistance, could allow for **peer exchange to build up evaluation capacity**.
  - **Alignment between rules and practices in ETC** should be sought as far as possible, **including for IPA-IPA programmes**, while IPA Beneficiaries should strive to streamline institutional responsibilities and **capitalise on acquired cohesion policy experience in ETC** programme preparation and implementation **to the benefit of the whole EU Funds system**. Exchange of experience between ETC programme bodies and control structures and IMBC structures for national programmes should be prioritised, and JTS capacities in IPA-IPA cooperation programmes further built from peer-exchange with shared management programmes. Monitoring Committees of IPA-IPA cooperation programmes should have the same composition, role and responsibilities as other ETC programmes, including for selection of operations.
  - In general, **civil service salaries are low**, promotion is often not perceived as merit-based despite public administration reforms and there is no recognition of the additional tasks for staff working in EU Funds leading to **staffing gaps**. There is a generalised **lack** of focus on a pro-active capacity building and **retention policy**; a typical phenomenon is that young graduates gain experience in the civil service on EU Funds and then leave for more remunerative employment in the private sector. **Given the additional competencies required, and in line with practice in many Member States, salaries could be partially financed through IPA III Technical Assistance, and where appropriate salary top-ups could be envisaged for staff involved in EU Funds preparation and implementation, in relation to the additional competencies and skills**. The EC Report *Co-Financing Salaries*,

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<sup>317</sup> <https://www.fi-compass.eu/>



*Bonuses, Top-Ups from Structural Funds during the 2007-2013 period*<sup>318</sup> found the majority of Member States used TA to co-finance salaries, and in some cases top-ups and bonuses. In Croatia, during the accession period, a top-up was introduced through a salary co-efficient system, and continues today, helping to reduce staff fluctuation.

- **More structured technical assistance should be introduced**, with a fixed percentage linked to the specific sector programme and managed by the responsible institution in the sector. **The use of technical assistance should be in line with the rules in the Cohesion Policy**, including the possibility to finance salaries in line with specific Capacity Building Plans. Innovative schemes to attract graduates to the public administration for the implementation of IPA under IMBC could be envisaged, such as paid internships with including work experience in the relevant Commission units or Member States.
- Significant efforts are still needed in terms of human resource management; **Administrative Capacity Building Roadmaps** should be developed as part of sector operational programmes and **financed through Technical Assistance**.
- **Annual key performance indicators should be developed for each institution in the IPA structure with regards to the performance in IMBC**, that should be regularly monitored, assessed and reported to the high-level positions and the Commission, with appropriate Action Plans drafted where targets are not met (as has been seen in IPARD for example). This could provide the basis for retention policy measures such as performance-linked bonuses funded through Technical Assistance.
- **Awareness rising of Cohesion Policy is needed at all levels**; short and targeted training modules for high level officials in the administration would incentivise engagement and support at the political level.
- **An IPA Communication Strategy and SOP Communication Plans** should be developed and **funded through Technical Assistance** to address serious deficiencies in communication. **Transparent and publicly available information on IPA implementation progress and results, on the side of both national and EC institutions must be available**, based on open data principles. IPA Communication Coordinators and Officers could benefit from peer exchange with Member State Communication Coordinators and Officers in the perspective of accession; to this end they should be associated with the Cohesion Policy Network.
- **Tailored support should be provided in the implementation of financial management and control in those institutions that have specific competencies assigned in convergence policy areas regardless of whether they will have a specific mandate of the managing authority/intermediate body, so that a wider pool of public servants is trained and ready. Special emphasis should be placed on risk management** as the weakest segment of the internal control framework. IPA support under Window II should continue to address key issues in Public Administration Reform and Public Financial Management.
- The **NAOs**, as the only institution located in the Ministries responsible for Finance, should have **access to structured financial information on all national IPA funds** including up-to-date financial information on allocations and disbursements per programme and window in order to ensure **proper multi-annual budgeting and co-financing**.

<sup>318</sup> [https://ec.europa.eu/regional\\_policy/en/information/publications/studies/2014/co-financing-salaries-bonuses-top-ups-from-structural-funds-during-the-2007-2013-period](https://ec.europa.eu/regional_policy/en/information/publications/studies/2014/co-financing-salaries-bonuses-top-ups-from-structural-funds-during-the-2007-2013-period)



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## STUDY ON PROGRESS IN REGIONAL POLICY OF WB6 AND TURKEY

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## Annex 1 Overview of takeaways and recommendations

Takeaways	Recommendations
<b>The Accession perspective</b>	
<p><b>Key Takeaway n. 2.1:</b> A lack of coordination on Chapter 22 requirements and progress in other related chapters can be noted. No IPA Beneficiary has managed to set up an effective coordination mechanism, in part due to a lack of understanding of the requirements for the chapter and its connections with other related chapters; this illustrates the lack of understanding of the benefits that the administration working on fulfilment of various accession objectives could have from this exchange.</p> <p>The lack of a clear perspective for accession has a significant impact on preparations for Chapter 22 and has undoubtedly slowed down progress in Montenegro and Serbia on implementation of the Action Plans; the impetus to establish an institutional set-up or start programming is weak and risks being seen as an abstract exercise.</p>	<p><b>Recommendation n. 1:</b> A more strategic approach to the preparation for Regional Policy needs to be fostered, through focused training actions to the countries in the process of establishing or implementing Chapter 22 Action Plans, supported by DG REGIO.</p> <p><b>Recommendation n. 2:</b> A clearer timeline for accession, accompanied by political consensus among EU Member States as well as the Commission itself, would help to renew momentum for preparations for Chapter 22 and provide the impetus to establish an institutional set-up or start programming. The establishment of multi-annual operational programmes under indirect management in convergence sectors managed by national institutions with relevant policy responsibilities as envisaged in IPA III, would prove valuable in preparation for Cohesion Policy Funds, particularly if the focus is on how rather than what, and cohesion policy type requirements are mirrored in programming and monitoring for example.</p> <p><b>Recommendation n. 3:</b> The coordination structures for accession negotiations and programming of IPA should be streamlined and not work independently, through an effective coordination mechanism. Potentially, a cluster-based negotiation structure may improve coordination between the negotiation process and IPA utilisation by investing more energy and motivation into joint work and focus on cluster opening. However, this also requires a strong will for coordination between clusters which should be fostered by the Commission.</p> <p><b>Recommendation n. 4:</b> A balanced and synchronised approach to IPA programming and implementation is needed; this has been seen in the case of Montenegro over the two IPA financing perspectives which has helped the country to reach a more advanced level of progress across many of the chapters assessed in this Study. The shift to the sector approach and annual Action Documents in practice resulted in a more haphazard approach, and the undoubted need to re-programme funds to address the most pressing challenges related to the COVID-19 pandemic has only exacerbated this; IPA III should provide the opportunity, even though the competitive element introduced provides challenges for synchronised programming.</p> <p><b>Recommendation n. 5:</b> Preparations for structural instruments needs to be more interactive and practical; direct cooperation with policy DGs (in particular DG REGIO</p>

and DG EMPL for chapter 22 but policy DGs for IPA III Windows III and IV) in the Commission – as was practice in IPA I - should be fostered and **candidate countries should be able to participate in networks and working groups in relevant areas**, even if as observers, which would allow them to gain greater understanding and start working with Member State peers on convergence priorities and implementation modalities. In this sense, **direct channels of peer exchange and informal peer-learning** from working together should be promoted by the Commission and become a constant practice in addition to Twinning and TAIEX.

**Recommendation n. 6:** As regards **horizontal issues related to Chapter 22** and the general capacities of the public administration, the **roll-out of multi-annual programming with strict adherence to ECCP** is the single most important element in allowing for a step change for the WB6, allowing for a sufficient period of time for learning by doing in convergence type sectors, mirroring as far as possible Cohesion Policy approaches and requirements.

#### Horizontal Enabling Conditions

**Key Takeaway n. 2.2:** Specific support is needed for IPA Beneficiaries if they are to meet the requirements of the four horizontal enabling Conditions to implement Cohesion Policy.

As regards **public procurement, contracting authorities need to build knowledge and capacities**, especially with respect to green, social or innovative procurement and at local level while there is still a strong tendency in all countries to use the lowest price criterion. A further worrying trend is a widespread public perception of corruption in public procurement.

In the sphere of State Aid, capacities are woefully insufficient in general; **as regards IPA Funds**, there is **very little understanding of State Aid issues** and the Delegations have insufficient specific expertise. Where national state aid bodies are in place, their track record is generally poor, and negative or recovery decisions not taken.

As regards **respect for fundamental rights and the UNCRPD**, the priority given to fundamental rights in the Fundamentals cluster provides for a good basis for readiness but the **key factor is how they are reflected in programme preparation, implementation and monitoring**, which are the **weakest elements in IPA Beneficiaries**.

**Recommendation n. 7:** As regards the first enabling condition *Effective monitoring mechanisms of the public procurement market*, **further roll-out and training on e-procurement** is needed, which shall also lead to **increased competition and transparency**. Strategically speaking, it is essential to **build understanding of the contracting authorities**, including their senior management, on how **procurement can be used to implement the strategic goals** of an organisation. Furthermore, **technical and administrative knowledge of staff on procurement in the contracting authorities should be continuously strengthened**. As alignment with EU acquis progresses – as a key milestone - **national procurement** should be introduced for **IPA funds rather than PRAG and considered a key mil**; it would be valuable for IPA operating structures, once this is the case, to join the **expert exchange system** for Managing Authorities to share experiences and expertise in public procurement capacity. The use of **Integrity Pacts as a tool to increase transparency and accountability** could be fostered. Representatives from candidate countries could be allowed to join, as observers, the network of public procurement officers from Member States, for peer-learning and exchange.

**Recommendation n. 8:** With reference to the enabling condition *Tools and capacity for effective application of State aid rules*, **knowledge and understanding of state aid is needed throughout the public administration**. The **resources and capacities of competent state aid bodies need to be significantly strengthened** and training provided for state aid experts, not only at national level. Compliance with both state aid and the Funds' rules is complex and **specific support should be place for future Managing Authorities/Implementing Bodies, other relevant public bodies and local governments and potential future beneficiaries of cohesion policy funds** so that state aid compliance is ensured; this could be rolled out during IPA III multi-annual operational programmes. In this respect, support from DG COMP would be beneficial as

well as the opportunity to benefit from Member State Experience; Twinning and TAIEX support under IPA III would be usefully focused here.

**Recommendation n. 9:** As regards the *Charter of fundamental rights and the implementation and application of the UNCRPD*, emphasis needs to be placed on **effective mainstreaming into programming documents including arrangements to ensure their implementation, monitoring and evaluation** throughout the cycle. **Bodies responsible for promoting fundamental rights and the rights of persons with disabilities** need to be involved as equal partners in the preparation and implementation of IPA programmes as preparation for Cohesion Policy. Support should be given to **mirroring Cohesion Policy requirements in this respect for IPA III multi-annual Operational Programmes**, particularly in terms of preparation of specific operations and monitoring arrangements. Member States could provide best practice examples. In the case of **physical investments**, specific attention needs to be paid to **accessibility standards and universal accessibility principles** should be the default option. In this respect, the Commission should provide clear guidance and tools for IPA Beneficiaries.

#### The Partnership Principle

**Key Takeaway n. 2.3:** The **partnership principle for IPA programming has not been consistently applied in candidate countries and potential candidates**, exception made for ETC and IPARD and in the case of Albania the Strategic Response for IPA III. In general, the **sector approach introduced in IPA II did not significantly contribute to the promotion of the partnership** nor the greater involvement of CSOs in the work of mechanisms that are responsible for the planning and programming of IPA.

Efforts at including CSOs in programming and monitoring have not been sustained over time.

**Recommendation n. 10:** The **NIPACs and future Managing Authorities** need to be **supported** in the full application of the **partnership principle** during the **programming, implementation, monitoring and evaluation of IPA III in line with ECCP requirements** through the development of procedures for the selection and involvement of regional, local, urban and other public authorities, social and economic partners, civil society and other categories of partners in the work of Integrated Policy Management Groups / Thematic Groups/Monitoring Committees.

**Recommendation n. 11:** The **implementation of the partnership principle in line with the ECCP** should be **enforced in the design and implementation of annual and multi-annual programmes under IPA III**. The NIPACs should prepare a **report on the involvement of the partnership and the consultations conducted** for each the annual or multi annual programming document to be included as part of the maturity assessment documentation, or as part of the Programme template. A summary of the involvement of the partners in implementation should be included in Annual Implementation Reports.

**Recommendation n. 12:** **Guidance on implementing the ECCP should be provided to IPA Beneficiary countries by DG REGIO and DG EMPL** as well as **best practice examples from Member States**, and **EU candidate countries and potential candidates should participate in Commission-organised task forces, working groups and networks on partnership**. **Feedback from the Commission** with regards to the **quality of the application of the partnership principle in IPA III** should be mandatory both during the process and reported in the annual Country Progress Reports.

**Recommendation n. 13:** Support should be provided to the NIPACs and Sector Lead Institutions in the **assessment of needs and identification of measures to strengthen the capacity of partners and other stakeholders in consultation mechanisms**, in

particular as regards small local authorities, economic and social partners and non-governmental organisations, particularly in less developed regions, in order to help them so that they can **effectively participate in the preparation, implementation, monitoring and evaluation of IPA and become prepared for participating fully as partners for the delivery of Cohesion Policy upon accession**. Awareness raising and capacity building programmes on participatory approaches for institutions and bodies involved in the implementation of cohesion policy and partners should be **financed by IPA III, eventually as part of Administrative Capacity Building Roadmaps**, rather than through ad-hoc or project-level initiatives.

**Recommendation n. 14: Transparency of the partnership and consultation processes must be enhanced** for IPA III; the selection of partners should be clearly defined, transparent and representative, including for the sub-national level and the members of all committees and groups published. IT tools should be further exploited to enable wider stakeholder consultations, feedback provided and the consultation reports published.

#### Transparency

**Key Takeaway n. 2.4: The delivery of IPA assistance**, exception made for ETC programmes with Member States under shared management and to some extent IPARD, **does not sufficiently respect the principle of transparency**. The **lack of transparency on IPA Funds** – in terms of operations financed, financial contracting and absorption and the achievements – not only **undermines the overarching commitment to transparency but impedes progress towards EU Integration**.

**Recommendation n. 15: Under IPA III, transparency requirements for Cohesion Policy should be mirrored as far as possible. A single national level webpage/site should be hosted by NIPACs with agreed standards for minimum information to be made available on all IPA III programmes**, regardless of the form of management, with links to other websites where specific information may be found. Information on the IPA Monitoring Committee and Sectoral Monitoring Committees should be available here. In addition to transparency on NIPAC websites, transparency standards need to be introduced in all Beneficiary institutions, properly linked to the national website. **Annual Implementation Reports, Monitoring Reports and Evaluation Reports should be made available on national websites**, as well as on the DG NEAR website.

**Recommendation n. 16: Information on financial progress and payments for IPA by country should be available in an easily accessible form on the DG NEAR website** (overall, by window, by country, by management modality). Financial information on IPA should be communicated regularly to the NIPAC and the NAO, who should be responsible for national publication. Possibilities for an IPA Open Data Platform could be investigated. Measures for transparency should be financed through technical assistance, eventually through a multi-regional initiative.

#### The quality of policy for economic, social and territorial cohesion

**Key Takeaway n. 3.1: Regional-level statistical data are insufficient both in terms of scope and quality for the requirements of Cohesion policy**. The **lack of data hampers the development of evidence-based policy at territorial level and its monitoring and evaluation**. Capacities and resources need to be enhanced in national statistical institutes.

**Recommendation n. 17: Further efforts are needed to build up sector-specific statistical data for evidence-based policy planning and monitoring**. IPA should support strong engagement in developing a system of indicators based on EU Cohesion policy requirements; **common indicators** and methodologies could be proposed **similar to those in place for Cohesion Policy** to improve practice and capacities for post-accession implementation.



**Key Takeaway n. 3.2:** The WB6 and Turkey are marked by **persisting territorial imbalances** which have led to **significant internal migration flows to capital cities** in the main, as well as abroad. **Spatial inequalities permeate a wide range of domains** including, but not limited to: demography and society; economic performance; innovation and education; climate change and loss of biodiversity; air, soil and water quality; secure, affordable and sustainable energy; physical and digital accessibility; the circular economy; the bioeconomy; accountable and good governance; and last but not least, quality of life and well-being.

**Key Takeaway n. 3.3:** Significantly, **four of the WB6 have no regional development strategic framework in place**, hindering the effective delivery of consistent place-based interventions and the harmonised implementation of policies for territorial cohesion. **Insufficient political weight tends to be given to regional policy**, or, as it the case in Turkey policy making is highly centralised. **The lack of a regional development strategic framework impacts negatively on the coherence and effectiveness of sector policies at territorial level** and therefore **hampers territorial cohesion**. Readiness for the preparation and implementation of Cohesion Policy is consequently low.

**Key Takeaway n. 3.4:** **Decentralisation** in the WB6 **needs further efforts** in terms of **real fiscal autonomy and sufficient administrative capacities and financial resources** to perform assigned competences and deliver public services; otherwise already noted internal disparities will worsen. The autonomy of local administrations in Turkey needs to be upheld. In general, vertical coordination needs strengthening and multi-level governance mechanisms not just seen as a formality; the local governance level needs to be fully involved in policy-making within its competences. Extensive efforts to involve local government consistently in the programming and delivery of IPA III, accompanied by targeted capacity-building would underpin strategic directions for territorial cohesion and help to prepare for the delivery of cohesion policy.

**Key Takeaway n. 3.21:** **The lack of multilevel governance illustrates the persistence of centralised and top-down approaches**. There is little implementation of stakeholder platforms or initiatives to promote the stronger involvement of local communities and better coordination with other donors and relevant stakeholders. **Representative associations of local authorities are not organically and systematically involved in policy design, decision-making, implementation, monitoring and evaluation**. Consistent representation is needed in IPA monitoring committees and sectoral working groups.

**Recommendation n. 18:** As regards the **complex challenge** of territorial disparities and given that the increase in **territorial fragmentation** has also been exacerbated by the pandemic, policy responses need to adopt **a place-based approach**, embrace **stronger territorial governance** and, **envisage territorial strategies embedded in the potential of functional areas and increased cooperation** between places, sectors, and groups of society. IPA support should be directed at **strengthening the territorial dimension of sector policies at all governance levels**, providing consistent support for regional and local strategy development and implementation, through inclusive processes, and piloting and rolling out appropriate integrated investment tools such as ITIs and CLLD. DG REGIO could develop specific initiatives to support regional and local governments and promote best practice examples; IPA capacity-building support could also be envisaged for municipalities participating in networks such as the Covenant of Mayors. **Recommendation n. 19:** To strengthen **the bottom-up dimensions of Macro-Regional Strategies** and raise awareness among various stakeholders, **sub-national governance levels and non-governmental organisations should be involved in the MRS coordination mechanisms**. The **contribution of national and multi-country IPA Actions to Macro-Regional Strategies** should be **appropriately prioritised and monitored**.

**Recommendation n. 20:** The **improvement of the vertical and horizontal cooperation of local governments** should be achieved through practicing the joint planning and implementation of actions. The **competences and responsibilities of local governments should be balanced with the fiscal decentralisation process and the availability of financial resources**. Further **development of intra-municipal cooperation within functional areas should be supported** – also through it is, CLLD and Smart Villages Strategies - to address regional disparities more successfully through a more evenly distributed provision of services; this could be included as selection criteria in relevant calls for proposals.

A sustained effort is needed to introduce **a multi-level governance approach in the implementation of the Economic and investment Plan for the Western Balkans** which will be **key to ensuring ownership and sustainability**.

**Key Takeaway n. 3.5:** In general, **IPA I and IPA II programming process do not adequately reflect cohesion policy programming** or contribute to readiness through learning-by-doing, with the exception of Turkey and territorial cooperation programmes with Member States; this has been **exacerbated by the shift away from multi-annual sectoral programmes under indirect management in IPA II**. **Coordination of donor assistance** remains a **key concern** in general; in practice **mechanisms of internal coordination are weak** and donor coordination patchy, leading to **overlapping of initiatives and wasted efforts**. Furthermore, there is a lack of synergy between IPA programme and national policies.

**Key Takeaway n. 3.6:** Clear directions and timely guidance need to be provided for the post 2022 programming exercise, especially for sector operational programmes. The indicative amount of funding should be provided to allow for an effective multi-annual programming approach, as in IPARD and territorial cooperation. **Appropriate templates should be used for multi-annual programmes, broadly mirroring those in place for Member States, also to facilitate consultation processes and public understanding of IPA assistance**. The **ECCP should be followed consistently in the programming exercise**, as is the case for IPARD. Line DGs should provide specific support for programming, as is the case for IPARD. Cross-country “levelling-up” support and peer exchange would prove valuable

See Recommendations n. 4, 5

**Key Takeaway n. 3.7:** The contribution of IPA to the achievement of SDG goals is not consistently tracked or monitored. Budget allocation targets are only foreseen for climate objectives. There are no direct linkages between identified IPA indicator targets and the nationalized SDG goals and targets to which they will contribute and there are critical data gaps for both the SDGs and the EU accession agenda. Despite an increased attention to gender equality and mainstreaming in IPA III, there is no specific indicator for gender equality and no funds are allocated. Although IPA III should establish a closer link with the SDGs, there is no clarity on how this will be monitored.

**Key Takeaway n. 3.8:** On the whole, where a national strategic development framework is in place, a certain alignment of national policies with SDGs is in place; however, alignment is weaker in terms of indicators and targets, especially as in some cases there is a lack of national targets and poor statistical data. The need for harmonisation and alignment is even more compelling given the significant gaps between candidate countries and other European regions in terms of the SDG index and leaving no one behind index; reinforced efforts should be focused on convergence of both national policies and donor support towards socio-economic goals (SDG 1 and SDGs 3 to 9) and SDG 16 (Justice, peace and strong institutions) where performance is particularly poor.

**Key Takeaway n. 3.9:** Despite significant public administrative reform efforts supported by IPA and other donors, in practice consultation processes may be formalised but are still not fully mainstreamed into the public administrative culture in terms of implementation. Furthermore, partnership and participatory planning, as opposed to public consultation, is at a nascent stage, and requires much more support. The awareness and capacities of local authorities, partners and stakeholders need to be fostered. In this respect, where present, IPA-funded multi-annual operational programmes provide the best examples of practice which could be mainstreamed into the wider administrative culture. Furthermore, an enabling environment for CSOs is still lacking and their financial sustainability weak.

**Recommendation n. 21:** Further attention needs to be paid to the proper monitoring of the IPA III contribution to the SDGs and horizontal policy objectives such as climate change mitigation and gender equality moving from a mere tick-box approach and formal methodologies for assessing the financial contribution.

**Recommendation n. 22:** Consistent use of participatory planning, partnership and consultation in policy-making and monitoring must be fostered; in this respect IPA should provide examples of practical application of the partnership principle throughout programming and implementation with the full involvement of partners in monitoring committees and appropriate capacity-building financed through EU funds, as is the case in Member States. Equally, IPA should provide a good practice example in terms of transparency of the partnership and consultation process, i.e. by ensuring the transparency of selection processes for partners, including criteria for representativeness, the development and use of IT tools for consultation, the provision of feedback and the publication of consultation reports as well as the transparency of membership of monitoring committees and publication of annual implementation reports, results-oriented monitoring reports and evaluations.

**Key Takeaway n. 3.10:** Policy monitoring practices are in general inconsistent and weak across the WB6, whereas in Turkey there is no systematic approach to monitoring. The **weakest points** concern the **quality and timeliness of monitoring processes**, the **publication of monitoring reports** and the **engagement of external stakeholders** in monitoring. What emerges is that **policy monitoring processes** remain **far below the levels needed for effective results-oriented monitoring** and **do not indicate readiness for effective monitoring of regional policy**.

**Key Takeaway n. 3.11:** IPA allocations to the competitiveness and innovation sector are far lower in proportion than those allocated to the same sector under ERDF in Member States leading to an inevitable worsening of the gap in this sector. Given the low level of funds allocated, especially in Albania and Montenegro, IPA II has not given policy-makers and potential beneficiaries sufficient opportunities to develop capacities for the Smarter Europe policy objective.

**Key Takeaway n. 3.12:** A principal concern in the WB6 is the access to finance which remains the constant and most significant obstacle to the investment, innovation and internationalisation of SMEs. Other common challenges facing enterprises are the complexities of starting a business, high costs of electricity, corruption and competition from the informal sector. Generally, SMEs are not sufficiently engaged in policy-making and evaluation. The example of Turkey combining SME support measures with entrepreneurship training is good practice but support measures should be streamlined and properly evaluated to avoid overlap; Turkey's introduction of measures incompatible with EU industrial policy principles is a worrying trend.

**Key Takeaway n. 3.13:** Montenegro and Serbia are frontrunners for smart specialisation. While Albania and North Macedonia are progressing well towards finalisation of the S3 with indicative adoption by the end of 2022, with the support of the JRC Seville S3 Platform, Bosnia and Kosovo\* face more significant challenges. Turkey needs to roll out the development of the regional S3s in line with a structure methodology and above all launch the Entrepreneurial Discovery Process and ensure proper stakeholder engagement. **Major challenges remain for S3 governance and the WB6 and Turkey could benefit from peer exchange and support from Member States** as well as the JTC Seville S3 Platform.

**Key Takeaway n. 3.14:** Research and development funding in IPA Beneficiaries lags significantly behind the EU average and in some cases is not seen as a key

**Recommendation n. 23:** Capacities for planning, monitoring and implementation at all levels need to be strengthened as regards results-oriented monitoring of national policies and investment programmes: attention should be paid to **building capacities within the administration for the development of performance and assessment frameworks**, the formulation of indicators, and measurement methods.

**Recommendation n. 24:** As regards readiness for Cohesion policy implementation, **more focus needs to be given in preparing for the specific enabling conditions linked to each policy objective** which focus essentially on ensuring effective implementation rather than the legal framework. These go beyond acquis harmonisation and are not sufficiently in focus in monitoring and reporting by IPA Beneficiaries or DEUs in accession process monitoring. Candidate countries and potential candidates should prepare a specific roadmap with a timetable as a tool to monitor progress in addressing the requirements set in the horizontal and thematic enabling conditions, supported by IPA through TAIEX as well as national actions. EC Country Reports should inform on these, and given the specific nature of the enabling conditions, **more focused support and monitoring is needed in conjunction with relevant line DGs. Parallel enabling conditions could be introduced for IPA III sector operational programmes to build up capacities**, focusing on development-related enabling conditions where **well-established implementation frameworks and institutional capacities are critical**, sometimes at multi-governance levels. IPA could also support funding for well-established mechanisms, such as: the Small Business Act, the Smart Specialisation Platform, the Gender Equality Index, the Employment and Social Reform Programme Dialogue and the Energy Community Secretariat.

**Recommendation n. 25:** However, IPA funds alone cannot address the severe territorial disparities and contribute significantly to economic and social cohesion; **more efforts should be made to blending IPA investments with other funding sources, such as financial instruments and loans from IFIs in priorities of Smarter Europe, Greener Europe and More Social Europe**, as well as better harmonised donor coordination. Further **mechanisms could be studied for increasing IPA Beneficiaries' access to other EU Funds in key areas critical for the Union, including Cohesion Policy**. For example, decommitted funds from Cohesion Policy could be made accessible for initiatives with IPA Beneficiaries or for operations with an attested benefit for both Member States and IPA Partners. The Commission should **support the uptake of financial instruments and innovative approaches to financing**, including fostering

policy area; data collection needs improvement in this area. With the exception of Serbia and Turkey, systematic measures to promote innovation are weak or inexistent and business-academia collaboration needs to be fostered in general. Generally, the public research system is chronically underfunded. **Overall, public research performance is low and the WB6 and Turkey are suffering from a brain drain.** Where there is consistent investment in STI and a policy framework in place, significant progress can be seen, as in the case of Serbia, in particular thanks to the activities of the Science Fund and Innovation Fund, as well as other innovation support structures and actors in the innovation eco-system.

**Key Takeaway n. 3.17:** IPA assistance in the education, employment and social affairs sector has been limited except in the two countries with multi-annual operational programmes, and insufficient to address the gaps between IPA Beneficiaries and the EU in key indicators. Very limited attention has been paid to social inclusion and apart from a limited number of WBIF projects in the social sector, social infrastructure has not been financed. **The capacities of local administrations are very weak in the social sector**, especially as regards infrastructure; **significant capacity-building, mentoring and learning-by-doing opportunities should be the focus of IPA III investments for all levels of government and employment and social policy stakeholders.**

**Key Takeaway n. 3.23:** **The lack of access to finance of microenterprises, social enterprises and social economy is one of the main obstacles to business creation.** EU candidate countries and potential candidates should be actively encouraged to participate under the Employment and Social Innovation strand of the ESF+ and involving them in the networking and capacity building activities.

**Key Takeaway n. 3.18:** Although in general employment policies are in place, **implementation of the regulatory framework remains challenging.** Coordination and monitoring mechanisms are weak. **Rates of temporary employment and informal employment are in general high, and unemployment rates are very high**, well above the EU and OECD averages. **The education system is largely failing to produce the skills employers need**, mechanisms for transition to work are not very effective and the take up of lifelong learning initiatives is limited. Efforts to increase **female employment rates** are ongoing; however, they continue to remain **significantly below OECD and EU averages.** Even if the capacities of their **public employment services** (PESs) have improved, **caseloads are very high.** **Active labour market programmes still need to target better vulnerable and minority groups.**

**Urgent action is needed as regards NEETs to avoid long-term exclusion** for a generation of young people due to the impact of the ongoing epidemiological crisis, who

**participation in EaSI initiatives**, supported by DG EMPL as well maximising opportunities for networking and peer exchange with MS as well as between IPA Beneficiaries. While the **Economic and Investment Plan for the Western Balkans (EIP)** rightly stresses the importance of mobilising additional investments, the **centralised implementation does not contribute to building up national capacities for cohesion policy.**



now face greater challenges in getting (back) into the labour market; recovery strategies need to make **youth employment a key objective**, taking into account **intersectionality with gender** and other relevant dimensions. **Youth representative groups** should be fully involved in the **design, implementation and monitoring of Youth Guarantee schemes** and in other territorial instruments, especially in rural areas, such as smart village strategies, to address youth migration.

**Key Takeaway n. 3.19:** While policy frameworks are generally in place, **interinstitutional coordination and implementation need improvement**. **Gender mainstreaming** and **gender responsive budgeting** need to be **rolled out**, following the best practice in Serbia, in particular to avoid gender blindness. In several cases, **effective policy-making** for gender equality is hampered by **data gaps**. **The WB6 and Turkey lag significantly behind the EU overall** and in most domains **in terms of gender equality**, often due to deeply-entrenched cultural beliefs and traditions. **Gender Equality Action Plans** need **sufficient financing and improved monitoring** in order to address the identified challenges, especially in recovery initiatives due to the epidemiological crisis.

**Key Takeaway n. 3.16:** The WB6 and Turkey face **critical environmental and climate challenges**; although policy frameworks for the environment and climate change are gradually being introduced, **implementation, monitoring and enforcement remain weak**. **Water supply and sanitation systems** are generally **inadequate**; although investments are ongoing mostly financed from national funds, water service fees are too low to cover or complement the infrastructure investment costs and water supply services. Moreover, **insufficient institutional capacities** and **poor vertical and horizontal coordination impede effective** implementation of **water management** measures. More needs to be done to improve **international co-ordination of transboundary river basins** and river basin management plans need to be implemented.

**Recycling rates of municipal waste remain low in general.** Serbia has put a circular economy framework in place but implementation is at an early stage; the other WB economies need to develop circular economy frameworks. Except in Turkey, investment in waste collection and treatment infrastructure has largely been donor-supported. **Unregulated burning and illegal dumping of waste** is still **prevalent**, posing problems to the environment and public health through groundwater, soil and air pollution.

Poor implementation of Environment Impact Assessments and Strategic Environment Assessments is prevalent across the WB6 and Turkey.

From the perspective of **capacities for infrastructural investment and management**, these are **very weak and prioritisation mechanisms need strengthening**; administrative and technical capacities for project planning and management need

**Recommendation n. 26:** As regards contributing to a Greener Europe, the focus should be on **strengthening the capacities of staff at central and local levels for the preparation and management of environmental infrastructure projects**. Retaining institutional memory during staff turnover should become routine by embedding induction and capacity building activities for new personnel. Further strengthening of the Single Project Pipeline to be the sole mechanism for the **prioritisation of infrastructural projects** is necessary with additional efforts on **maturity issues and scoring homogeneity within and across sectors**, while the **do not harm principle needs to be properly respected**. IPA support should also ensure the sustainability of investments, assisting utility owners and companies with tariff-setting, fee collection and schemes to assist the poorest communities, as well as implementing penalties for non-payment.

**Recommendation n. 27:** The EIP aims at reducing the development gap between Member States and the Western Balkans region. **However, the lack of transparency and partnership in defining investments for the EIP may undermine its efficacy. Identified shortcomings in the Single Project Pipelines** established in the Western Balkans should be urgently addressed and the principles of transparency and partnership assured.

enhancing at both national and local levels to provide a solid basis for achieving the ambitions of the Green Agenda.

**Key Takeaway n. 3.22: The do no harm principle and the EU Taxonomy should be integrated into investment planning and the prioritisation mechanism for investment.** Specific support is needed as regards sustainable financing at local level, in light of the Green Agenda.

**Key Takeaway n. 3.24: The funds available for the Economic and Investment Plan for the Western Balkans (EIP) have a potential to decrease the gap convergence with the EU and reduce the development gap between Member States and the Western Balkans region.** The lack of transparency and partnership in defining investments for the EIP undermines its efficacy. The timeline envisaged appears unfeasible, given the lack of maturity of projects and past experience.

**The implementation mechanism through the WBIF does not address the identified shortcomings of the Single Project Pipeline in the Western Balkans and even more significantly allows for no learning-by-doing experience in the national institution for planning, implementing, managing and monitoring convergence-type infrastructure projects, grant schemes or financial instruments**

**Key Takeaway n. 3.20: Territorial cooperation provides the best opportunity for IPA territorial and local actors to prepare and implement projects addressed towards convergence objectives,** even though budgets are not sufficient to significantly impact on the severe regional disparities that many of these regions face, particularly in the environmental field. Moreover, the limited funds available for transnational cooperation limit the potential benefits for cooperation and integration into larger areas that share the same challenges.

**Cooperation between IPA Beneficiaries** is held back by **very modest budgets that cannot significantly address the challenges identified,** especially as these are often regions marked by the greatest disparities.

**Recommendation n. 28:** The EC should **invest more in territorial cooperation** to address common regional cross-border challenges and **experiment new ways for sustained and sustainable cooperation** between cross-border communities, particularly for cooperation between IPA Beneficiaries, that can more adequately address the identified territorial disparities. Some **flexibility in fund allocation in transnational cooperation programmes would allow more participation of IPA Beneficiaries to the benefit of the whole programme area;** for example, strategic projects could include IPA beneficiaries as eligibility criteria, with an assured funding allocation outside the IPA funding source.

#### The implementation of IPA Funds and preparation for EU Cohesion Policy implementation

**Key Takeaway n. 4.1:** Successive IPA cycles show **a shift from a focus on operations (IPA I) to a sectoral approach in IPA II and in IPA III, a focus on policy.** As **the specific objective of preparation for the management of EU Funds post-accession is no longer identified in the IPA III Regulation,** this needs to be achieved in practice through the **appropriate programming of IPA assistance and its implementation through modalities** which as far as possible those in place for the **delivery of Cohesion Policy** in Member States, including **multi-annual programmes in convergence sectors.**

**Recommendation n. 29:** The **European Commission should align IPA rules, procedural and institutional requirements to the maximum extent with Cohesion Policy requirements.** This relates to the **multi-annual programming at the sector level for convergence sectors, management of sector operational programmes by the relevant ministries** as envisaged in IPA III (or the gradual transition from centralised management with CFCU to decentralised management with sector ministries); it also implies **programme management instead of annual project management to allow for multi-annual interventions with significant impact and experience in financial forecasting and planning.** A similar practice was introduced for IPA I under components

**Key Takeaway n. 4.2** If Beneficiary countries are to be prepared to implement Cohesion Policy, it is **impelling to reverse the shift away from Indirect Management by the Beneficiary Country (IMBC) towards multi-annual operational programmes under IMBC mirroring structural funds rules as far as possible in convergence sectors**, involving the competent institutions in the country to avoid parallel systems. The **artificial split between programming and implementation should be avoided**; it does not reflect Cohesion policy practice and creates bottlenecks and impedes smooth and efficient programme management. **Learning-by-doing** must be prioritised to allow Beneficiary countries to take on responsibilities and learn from their mistakes.

**Key Takeaway n. 4.7: Recourse to Indirect Management with Entrusted Entities** as the delivery modality in convergence actions should be avoided as it **provides no learning benefits**; Sector Budget Support should be limited only to support fundamental reforms.

**Key Takeaway n. 4.8:** The **example of Turkey** shows the **value of learning-by-doing** for the institutions involved in convergence-oriented programmes as well as in terms of gradually improving performance and the achievement of results; it **confirms the need to prioritise multi-operational programmes under indirect management** that cover all convergence objectives and **delivery through grant schemes including works elements**, supported by **high-quality support from relevant DGs**.

**Key Takeaway n. 4.13:** Building on IPARD experience, **multi-annual operational programmes should be seen as a learning experience**, with the **support of relevant cohesion policy DGs**, to encourage **National Authorities to take responsibility for programme management**, including the **decommitment risk**, in order to **prioritise national capacity mobilisation and efficient planning**.

III and IV, and it has proven appropriate to prepare for Cohesion Policy, as in the case of Croatia. IPA Beneficiary Countries could be encouraged to earmark additional national budget to sector operational programmes to allow for “over-contracting”, a common practice in Member States to mitigate the decommitment risk.

**Recommendation n. 30:** The **responsibility** for the entire **multi-annual operational programme** should be assigned to **one institution** that already implements national investments in the same field, **mirroring the responsibilities assigned to the Managing Authorities (in Member States as in Regulation 718/2007 and for IPARD**, including as applicable the establishment of Intermediate Bodies with competencies in the relevant field **under the responsibility of the MA**. IPA rules imply an **unnecessary segregation of programming and implementation tasks, division of responsibilities between NIPAC and NAO, and segregation of duties in project implementation units, which considerably strains their institutional capacities, creates an administrative burden and provides no added value**. The practice of excessive and over-strict segregation of duties should be abandoned, in favour of the Financial Regulation requirements that Member States follow.

**Recommendation n. 31:** The **Learning by doing approach should be applied consistently especially in the convergence sectors** relevant for the Cohesion Policy such as environment and climate change, competitiveness and innovation, transport, education, employment, and social inclusion, by **assigning them with the responsibility of indirect management including for capital investment projects and decreasing indirect management with entrusted entities** that does not build capacities of national institutions for management of EU structural funds. **National actors must be given the responsibility for EU Funds management, even at the expense of making mistakes and taking the appropriate consequences for such mistakes**, which shall also lead to increased political commitment and ownership.

**Recommendation n. 32:** The **use of the SBS mechanism** should be limited to the investments in the priority areas related to reforms in preparation for Union membership and related institutional and capacity building in Windows 1 and 2, in particular for potential candidate countries.

**Recommendation n. 33:** The **role of the NIPAC in carrying out coordination activities** and the **overall monitoring and communication responsibilities for IPA** should be **strengthened** with consistent information provided by the DEUs and MAs of sector operational programmes; in this sense the NIPAC role could be more similar to that of the coordination bodies set up in some Member States.

**Recommendation n. 34:** The Commission should establish **direct cooperation and enable regular contact between the national authorities and line DGs (DG REGIO, DG EMPL)**, as the two directorates are most knowledgeable about the Cohesion Policy requirements and able to provide **high quality of support and advice regarding the**

**management of EU pre-accession funds in convergence sectors.** The transfer of management responsibility from sector-specific DGs to DG NEAR under IPA II led to a loss of such support, except in the case of IPARD where DG AGRI supported IPA Beneficiaries and where improvements in absorption and achievement of results has been seen in IPA II. Cooperation should include regular consultation at the programming stage, monitoring of programme implementation performance, and ideally also programme auditing by the audit units from two EC directorates. The Commission would thus be able to provide hands on guidance and support, as well as closely monitor the progress and development of capacities for the Cohesion Policy management.

**Key Takeaway n. 4.3:** A far wider use of grant schemes – the major delivery mechanism for Cohesion Policy – needs to be **prioritised as learning-by-doing practice**, extended also to private sector beneficiaries.

**Recommendation n. 35:** Significantly more possibilities through IPA IMBC to implement grants and build capacities of the relevant institutions for the management of grant schemes in convergence sectors must be ensured. So far, the grant mechanism has been hardly used under IPA in the WB6, mostly in employment, social inclusion and to support civil society organisations except for rural development. Experience in grant schemes under de minimis and state aid conditions is particularly lacking.

**Key Takeaway n. 4.4:** Once chapter 5 is provisionally closed, Managing Authorities should shift to the use of aligned national procurement systems in place of PRAG. Procurement procedures for grant scheme beneficiaries could be simplified and harmonised across programmes and the use of Simplified Cost Options (such as flat rates and unit costs) promoted to ease the administrative burden on all sides. Local languages for applications to grant schemes (as in IPARD) should be used to maximise reach and balanced uptake.

**Recommendation n. 36:** Simplification measures to reduce the administrative burden for grant beneficiaries should be introduced, concerning the use of local languages, simplified secondary procurement and Simplified Cost Options (SCOs), and applicants and beneficiaries provided with more support for project development and implementation. DG REGIO and DG EMPL should provide specific guidance and models for SCOs.

**Key Takeaway n. 4.19:** Simplification measures should be adopted based on lessons learnt from IPA implementation and Cohesion Policy approaches. This includes the harmonisation of rules and procedures, the use of electronic systems for applications, monitoring and reporting, Simplified Costs Options, simplified grant schemes in terms of language and secondary procurement, the Seal of Excellence concept and enhanced policy dialogue and transparency in Monitoring Committees.

**Recommendation n. 37:** The switch from PRAG to the national public procurement systems in local languages for IPA implementation under IMBC could be envisaged as soon as negotiations with regards to public procurement advance and progress to the provisional closure. This will enable timely preparation of the involved structures for the Cohesion Policy.

**Key Takeaway n. 4.25:** The administrative burden for IPA beneficiaries of grant schemes is disproportionate and does not exploit opportunities for simplification and better efficiency. Mechanisms to support sub-national entities in applying for EU Funds need to be rolled out throughout the region, based on good practice examples, which could also be supported by development agencies.

**Key Takeaway n. 4.5:** Institutional capacities urgently need to be built in preparing and managing capital investments to be financed through EU Funds, in line with the EU taxonomy, and provide quality support for major projects avoiding over-

**Recommendation n. 38:** Targeted support should be provided as regards capital investments to be financed through EU Funds, a JASPERS-like instrument for advice on major projects, the application of the EU Taxonomy and to build capacities of

reliance on external expertise, eventually through a JASPERS-like instrument for advice on major projects, the application of the EU Taxonomy, by empowering and transferring knowledge to competent national institutions.

**Key Takeaway n. 4.20: Strategic project prioritisation suffers from politicisation and insufficient consideration of maturity issues**, exacerbated by a general low quality of technical documentation, e.g. Feasibility Studies, Cost Benefit Analysis, Environmental Impact Assessments.

**Key Takeaway n. 4.21: Internal capacities are lacking for strategic investment planning and implementation and Technical Assistance risks masking the shortcomings** of the institutions. **Experience in the social sector is particularly lacking**, and **local administrations** – in many cases tasked with such responsibilities - face **significant challenges**.

**Key Takeaway n. 4.6:** The potential of **financial instruments** and **pilot FI schemes** for digital transition, competitiveness and energy efficiency **using national institutions for capacity-building should be exploited to enable the successful preparation and roll-out of larger-scale FIs upon accession**.

**Key Takeaway n. 4.9:** The use of **ex-ante control should be limited to IPA potential candidates that have no experience of Indirect Management** as it delays implementation and risks becomes a prop for avoiding responsibility without clear added value, in favour of more targeted and qualitative advisory support.

**Key Takeaway n. 4.10: Monitoring Committees should respect the ECCP principles and the capacities of the members built**, also through Technical Assistance. Their work should be more **transparent** and their **membership public**.

**Capacities in monitoring and reporting need to be built** but ensuring that the administrative burden is reduced by the introduction of **monitoring information systems for IPA Funds under IMBC accessible to all institutions in the system**, with potential also for the exchange of basic monitoring data (financial and indicator-related) regarding other implementation modalities so that NIPACs can have a full overview of IPA Funds in the country. The real value of Annual Implementation Reports needs to be considered and steps taken to ensure deadlines are feasible for quality reporting, the content is streamlined and the administrative burden is reduced.

competent institutions. Capacities for preparing EIAs and SEAs need strengthening, especially as regards stakeholder consultations and follow-up of recommendations and measures. The quality of Feasibility Studies and economic analysis needs to be improved to meet consistent minimum standards for strategic investments and the capacities of institutions to assess them.

**Recommendation n. 39: Selection criteria for EU-funded projects must be well-founded** and applied in all convergence sectors and **maturity issues** be properly considered.

**Recommendation n. 40: IPA III should be used to pilot the more consistent use of Financial Instruments for competitiveness, also building the capacities of national development institutions.** The **scope of Fi-compass** could be **extended to provide support to IPA Beneficiaries** and facilitate peer exchange with Member States.

**Recommendation n. 41: Ex-ante control by the EU Delegation should be phased out, preparing for the gradual transition to ex-post control** to raise the level of responsibility and ownership by the IPA Beneficiaries, also through the Preparation of Roadmaps for the waiver of ex-ante control. **In the case of countries without IMBC experience, a roadmap should set out steps for entrustment and the IPA portfolio under indirect management should be gradually increased over the financial perspective** to allow newly established structures to gain experience and strengthen their capacities, enable proper resource planning and reinforce sustainability.

**Recommendation n. 42: Monitoring information systems** should be developed as a priority for SOPs to ensure consistent information is available and reduce the administrative burden for staff. E-cohesion principles should be adopted and electronic procedures introduced; national databases need to be updated and upgraded and interoperability ensured through automatic processes.

See also **Recommendation n. 16**.



Indicator frameworks are poor and do not mirror Cohesion policy indicators for convergence objectives, thereby limiting learning potential.

**Key Takeaway n. 4.11: Experience in evaluation is limited only to IMBC actions;** in order to gain more knowledge, IPA countries could participate in Cohesion Policy Evaluation Networks and a functioning virtual IPA Evaluation Network could allow for peer exchange to build up evaluation capacity.

**Key Takeaway n. 4.12: There is no coordinated or common communication on the implementation of IPA Funds as a whole at national level, or any public understanding of what is actually funded, with consequent impact on support for EU integration.** The NIPAC IPA webpages provide only the most basic information on IPA; in most cases the websites focus on progress with accession. DG NEAR websites do not provide any consistent, systematic data or information on progress in actions or programmes, financial progress or results obtained.

**Key Takeaway n. 4.14: Rules and practices in ETC are not fully aligned leading to parallel structures and an unnecessary administrative burden, and institutional responsibilities are not streamlined. There is no capitalisation of acquired cohesion policy experience in ETC programme preparation and implementation to the benefit of the whole EU Funds system.** The composition and role of **Monitoring Committees** in IPA-IPA cooperation programmes is **not aligned with shared management programmes**, in particular regarding the design of calls, **the selection of operations and monitoring** regardless of the management modality and transparency principles are not fully respected.

**Key Takeaway n. 4.15:** The implementation of IPA Funds is hampered by **the lack of qualified resources in the system; unattractive salary structures and lack of merit-based recruitment, performance assessment and career advancement prospects**, exacerbated by **a lack of motivation**, lead to **understaffing and a gradual loss of qualified staff**, with significant **repercussions on IPA performance** and resulting in a **loss of institutional memory** as well as a lack of sustainability of capacity-building actions supported by IPA Funds. Furthermore, there is **a lack of economists and**

**Recommendation n. 43:** In order to gain more knowledge on evaluation, **IPA Beneficiaries should participate in Cohesion Policy Evaluation Networks and a functioning IPA Evaluation Network**, supported by multi-country assistance, could allow for **peer exchange to build up evaluation capacity**.

**Recommendation n. 44: An IPA Communication Strategy and SOP Communication Plans** should be developed and **funded through Technical Assistance** to address serious deficiencies in communication. **Transparent and publicly available information on IPA implementation progress and results, on the side of both national and EC institutions must be available**, based on open data principles. IPA Communication Coordinators and Officers could benefit from peer exchange with Member State Communication Coordinators and Officers in the perspective of accession; to this end they should be associated with the Cohesion Policy Network.

**Recommendation n. 45: Awareness rising of Cohesion Policy is needed at all levels;** short and targeted training modules for high level officials in the administration would incentivise engagement and support at the political level.

**Recommendation n. 46: Alignment between rules and practices in ETC** should be sought as far as possible, **including for IPA-IPA programmes**, while IPA Beneficiaries should strive to streamline institutional responsibilities and **capitalise on acquired cohesion policy experience in ETC** programme preparation and implementation **to the benefit of the whole EU Funds system**. Exchange of experience between ETC programme bodies and control structures and IMBC structures for national programmes should be prioritised, and JTS capacities in IPA-IPA cooperation programmes further built from peer-exchange with shared management programmes. Monitoring Committees of IPA-IPA cooperation programmes should have the same composition, role and responsibilities as other ETC programmes, including for selection of operations.

**Recommendation n. 47:** In general, **civil service salaries are low**, promotion is often not perceived as merit-based despite public administration reforms and there is no recognition of the additional tasks for staff working in EU Funds leading to **staffing gaps**. There is a generalised **lack of focus on a pro-active capacity building and retention policy**; a typical phenomenon is that young graduates gain experience in the civil service on EU Funds and then leave for more remunerative employment in the private sector. **Given the additional competencies required, and in line with practice in many Member States, salaries could be partially financed through IPA III Technical**

**engineers** leading to recourse to external expertise for programmes and projects in key convergence sectors. Coupled with **poor human resource management** and **low capacities in workload analysis**, **IPA performance will continue to suffer unless specific actions are taken.**

**Key Takeaway n. 4.16:** The use of **Technical Assistance to support retention policy and finance salaries/bonuses**, as for Member States, **should be allowed subject to specific internal regulations or Human Resource Action Plans/ Administrative Capacity Building roadmaps being in place**; their implementation could be supported through **IPA Technical Assistance with support linked to milestones and targets**. Innovative schemes to attract young professionals to the civil service or support the further qualification of mid-career civil servants could be envisaged.

**Key Takeaway n. 4.17:** There is a general need to enhance **managerial accountability** which is not embedded in the administrative cultures and **develop understanding and capacities for risk management**. **Internal Audit control needs to be strengthened** and move its focus away from mere compliance audits and become a tool to support the achievement of institutional goals. **Internal audit units** are general **understaffed** and in most cases more training is needed. Generally speaking, **State Audit Institutions** carry out their tasks **in line with international standards** but **more focus on performance audits is needed** as well as closer cooperation with Parliament and improved communication with the public and media to increase confidence in SAIs independence.

The **reporting of irregularities and suspected fraud cases needs continued development**; with awareness-raising also at the highest levels.

**Assistance, and where appropriate salary top-ups could be envisaged for staff involved in EU Funds preparation and implementation, in relation to the additional competencies and skills.** The EC Report *Co-Financing Salaries, Bonuses, Top-Ups from Structural Funds during the 2007-2013 period* found the majority of Member States used TA to co-finance salaries, and in some cases top-ups and bonuses. In Croatia, during the accession period, a top-up was introduced through a salary co-efficient system, and continues today, helping to reduce staff fluctuation.

**Recommendation n. 48:** **More structured technical assistance should be introduced**, with a fixed percentage linked to the specific sector programme and managed by the responsible institution in the sector. **The use of technical assistance should be in line with the rules in the Cohesion Policy**, including the possibility to finance salaries in line with specific Capacity Building Plans. Innovative schemes to attract graduates to the public administration for the implementation of IPA under IMBC could be envisaged, such as paid internships with including work experience in the relevant Commission units or Member States.

**Recommendation n. 49:** Significant efforts are still needed in terms of human resource management; **Administrative Capacity Building Roadmaps** should be developed as part of sector operational programmes and **financed through Technical Assistance**.

**Recommendation n. 50:** **Annual key performance indicators should be developed for each institution in the IPA structure with regards to the performance in IMBC**, that should be regularly monitored, assessed and reported to the high-level positions and the Commission, with appropriate Action Plans drafted where targets are not met (as has been seen in IPARD for example). This could provide the basis for retention policy measures such as performance-linked bonuses funded through Technical Assistance.

**Recommendation n. 51:** **Tailored support should be provided in the implementation of financial management and control in those institutions that have specific competencies assigned in convergence policy areas regardless of whether they will have a specific mandate of the managing authority/intermediate body, so that a wider pool of public servants is trained and ready. Special emphasis should be placed on risk management** as the weakest segment of the internal control framework. IPA support under Window II should continue to address key issues in Public Administration Reform and Public Financial Management.

**Recommendation n. 52:** The **NAOs**, as the only institution located in the Ministries responsible for Finance, should have **access to structured financial information on all national IPA funds** including up-to-date financial information on allocations and disbursements per programme and window in order to ensure **proper multi-annual budgeting and co-financing**.

**Key Takeaway n. 4.18:** Clear and timely agreement on the number and scope of sector operational programmes would allow for the designation of the programme bodies (with new, apposite legal acts in IPA countries), that then need to plan their resources, build capacities in advance and prepare operational procedures for accreditation packages for IMBC with ex-post control; efficient coordination mechanisms with the NIPACs will also need to be set up. Dedicated technical assistance needs to be made available as soon as possible to avoid a late start to entrustment and implementation.

**Recommendation n. 53:** The Commission should set up a Task Force similar to the 2014 Commission Task Force for Better Implementation (TFBI) and provide targeted support for IPA Beneficiary Countries for the preparation and implementation of Sector Operational Programmes under IPA III involving DGs with experience in structural funds. Given the delays in the establishment of the legal framework for IPA III and the need to establish the management and control system with ex-post control, significant support should be provided to all the MA structures as part of a level playing field, outside national IPA allocations/annual action documents through workshops provided by the relevant DGs on a regular basis on key common issues that can also serve as platform for exchange of experience between IPA beneficiaries, as well as ideas on how and what to improve to increase readiness of IPA beneficiaries for management of EU structural funds. The [TAIEX REGIO PEER 2 PEER](#) tool could be extended to IPA countries for the exchange of experience on programme management, or also used to stimulate peer-exchange between IPA countries.

**Key Takeaway n. 4.22:** Due to the excessive divisions at project level of responsibilities concerning planning, monitoring and financial implementation in the IMBC system, the system of IPA Units does not prepare national institutions to become Cohesion Policy beneficiaries in terms of EU project preparation and management.

**Recommendation n. 54:** Capacities need to be built for future Cohesion policy beneficiaries through grant schemes in sector operational programmes that mirror Cohesion policy grant schemes, in terms of typology of beneficiaries, eligible activities and typology of expenditure. Specific efforts should be made to extend the reach of grant schemes to less-experienced applicants, especially from less-developed areas, including the development of support mechanisms and national-co-financing for participation in EU-funded projects.

**Key Takeaway n. 4.23:** Participation in territorial cooperation programmes under shared management is the only real experience that mirrors cohesion policy for partners from IPA countries, also with the possibility to act as Lead Partners in IPA CBC. However, funds available for participation in Transnational programmes are limited, thereby hampering a wider impact from cooperation in IPA countries. Joint Secretariats provide consistent and valuable support to applicants and beneficiaries.

**Recommendation n. 55:** Alignment between rules and practices in ETC should be sought as far as possible, including for IPA-IPA programmes, while IPA Beneficiaries should strive to streamline institutional responsibilities and capitalise on acquired cohesion policy experience in ETC programme preparation and implementation to the benefit of the whole EU Funds system. Exchange of experience between ETC programme bodies and control structures and IMBC structures for national programmes should be prioritised, and JTS capacities in IPA-IPA cooperation programmes further built from peer-exchange with shared management programmes. Monitoring Committees of IPA-IPA cooperation programmes should have the same composition, role and responsibilities as other ETC programmes, including for selection of operations.

**Key Takeaway n. 4.24:** The administrative burden related to different system with different rules for shared management and IPA-IPA cross-border cooperation is high; alignment and simplification are key to encouraging project applications. The good practice of stimulation and support mechanisms to encourage participation of local administrations in ETC should be fostered.

## Annex 2 Timeline for Implementation of Prioritised Recommendations

Below is a summary of the Report recommendations that have been prioritised based on their overall relevance for preparation of IPA Beneficiaries for EU Regional Policy, taking into account their synergy effects in achieving the desired outcome. The recommendations are presented (i) to clearly demonstrate the outcome they contribute to; (ii) to identify actions needed to be taken in parallel; and (iii) illustrate an indicative timeline for setting up, fully implementing and consolidating the results of the recommended actions. The timeline has been estimated under the assumption that there is political support and commitment to their implementation; however, the different stages/progress in individual IPA Beneficiaries is not addressed which may affect the estimated time needed for specific actions per country. In general, IPA Beneficiaries would in all likelihood be fully prepared for assuming membership obligations under Chapter 22 when the setting up and implementation phases indicated in the Table for each recommendation have been completed.

Recommendations for building an eco-system for territorial cohesion	Timeline and Milestones/ Outcomes										
											Set-up Phase
											Implementation Phase
										Consolidation Phase	
<b>A. Towards reducing regional disparities: Sound regional development policy</b>											
<b>A.1. Policy responses need to adopt a place-based approach, embrace stronger territorial governance</b> and, envisage territorial strategies embedded in the potential of functional areas and increased cooperation between places, sectors, and groups of society											
A.1.1. IPA support directed at <b>strengthening the territorial dimension of sector policies at all governance levels</b> , providing consistent support for regional and local strategy development and implementation, through inclusive processes, and piloting and rolling out appropriate integrated investment tools such as ITIs and CLLD	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	
	<p><b>Milestone Y6:</b> Quality strategies in place at all levels incl. territorial dimension; Solid track record of locally- led initiatives and instruments implemented</p> <p><b>Outcome Y10:</b> Experience and capacities for territorial development in place; at least 20% of LSGs participating in ITI and CLLD like initiatives for convergence sectors</p>										
A.1.2. DG REGIO to develop specific initiatives to support regional and local governments and promote best practice examples	Y1	Y2	Y3	Y4	Y5	Y6	Y7				
	<p><b>Milestone Y2:</b> At least 5 LSGs per IPA beneficiary supported</p>										

<b>Outcome Y7:</b> Capacities of administrations at subnational level improved in planning, implementing and monitoring cohesion policy objectives											
A.1.3. Improvement of vertical and horizontal cooperation of local governments achieved through joint planning and implementation of actions	<table border="1"> <tr> <td>Y1</td><td>Y2</td><td>Y3</td><td>Y4</td><td>Y5</td><td>Y6</td><td>Y7</td><td>Y8</td><td>Y9</td><td>Y10</td> </tr> </table> <p><b>Milestone Y3:</b> Increased number of joint plans/ cooperation agreements, joint procurements and shared public service delivery</p> <p><b>Outcome Y8:</b> Track record of implementation of regional/ joint actions</p>	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10		
A.1.4. Increase in IPA share in transnational cooperation programmes (TNPs) to allow more participation of IPA beneficiaries to the benefit of the whole programme area	<table border="1"> <tr> <td>Y1</td><td>Y2</td><td>Y3</td><td>Y4</td><td>Y5</td><td>Y6</td><td>Y7</td><td>Y8</td><td>Y9</td><td>Y10</td> </tr> </table> <p><b>Milestone Y1:</b> IPA and MSs have better aligned access to funding from TNPs</p> <p><b>Outcome Y8:</b> Better knowledge, understanding and networking capacity of organisations in IPA beneficiaries to implement macroregional strategies; increased capacities to implement projects under share management rules, as well as implement grants</p>	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10		
<b>A.2. Objectives of the Greener, more Inclusive and Smarter Europe better integrated in national policies</b>											
A.2.1. Further efforts are needed to build up <b>sector-specific statistical data for evidence-based policy planning and monitoring</b> . Capacities for planning, monitoring and implementation at all levels need to be strengthened as regards <b>results-oriented monitoring of national policies and investment programmes</b> : attention should be paid to building capacities within the administration for the <b>development of performance and assessment frameworks, the formulation of indicators, and measurement methods</b> .	<table border="1"> <tr> <td>Y1</td><td>Y2</td><td>Y3</td><td>Y4</td><td>Y5</td><td>Y6</td><td>Y7</td><td>Y8</td><td>Y9</td><td>Y10</td> </tr> </table> <p><b>Milestone Y6:</b> National policy documents include objectives, targets and indicators aligned with EU Regional Policy</p> <p><b>Outcome Y10:</b> Converging of policies and evidence of a slow-down in deepening disparities between regions and/or an improvement in relevant territorial-level indicators</p>	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10		
A.2.2. The Commission should support the uptake of financial instruments and innovative approaches to financing. IPA III should be used to <b>pilot the more consistent use of Financial Instruments for competitiveness</b> , also building the capacities of national development institutions. The <b>scope of</b>	<table border="1"> <tr> <td>Y1</td><td>Y2</td><td>Y3</td><td>Y4</td><td>Y5</td><td>Y6</td><td>Y7</td><td>Y8</td> </tr> </table>	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8		
Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8				



<p><b>Fi-compass<sup>319</sup> could be extended</b> to provide support to IPA Beneficiaries and facilitate peer exchange with Member States.</p>	<p><b>Milestone Y4:</b> A number of new financial instruments and mechanisms set up</p> <p><b>Outcome Y8:</b> Capacities improved to effectively support private sector development</p>										
<p>A.2.3 Speed up development of <b>sound major projects pipeline</b></p> <ul style="list-style-type: none"> <li>Further <b>strengthening of the Single Project Pipeline</b> to be the sole mechanism for the prioritisation of infrastructural projects is necessary with additional <b>efforts on maturity</b> issues and scoring homogeneity within and across sectors</li> <li>Targeted support should be provided as regards capital investments to be financed through EU Funds, JASPERS-like instrument for advice on major projects, the application of the EU Taxonomy and to build capacities of competent institutions</li> </ul>	<table border="1"> <tr> <td>Y1</td><td>Y2</td><td>Y3</td><td>Y4</td><td>Y5</td><td>Y6</td><td>Y7</td><td>Y8</td><td>Y9</td><td>Y10</td> </tr> </table> <p><b>Milestone Y2:</b> Funds secured to support preparation of relevant infrastructure projects</p> <p><b>Milestone Y5:</b> Sound pipelines of major projects for pre-accession funds prepared</p> <p><b>Outcome Y10:</b> Pipeline of relevant and mature investment/ infrastructure projects in place allowing for the absorption of ESIF</p>	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10		
<p>A.2.4 <b>Direct cooperation of competent institutions with policy DGs</b> (in particular DG REGIO, DG EMPL, DG ENV) in the Commission should be fostered and candidate countries should be able to participate in networks and working groups in relevant areas, even if as observers; working with Member State peers on convergence priorities and implementation modalities- fostering direct channels of peer exchange and informal peer-learning</p>	<table border="1"> <tr> <td>Y1</td><td>Y2</td><td>Y3</td><td>Y4</td><td>Y5</td><td>Y6</td><td>Y7</td><td>Y8</td> </tr> </table> <p><b>Milestone Y2:</b> Arrangements made for including IPA beneficiaries' sector institutions in EU level networks/ working groups and MS peer exchange</p> <p><b>Outcome Y8:</b> Capacities of sector institutions improved to design and deliver on EU policies</p>	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8		
Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8				
<p><b>B. Ensuring structures to deliver on investment policy: Towards effective Management and Control System</b></p>											
<p><b>B.1 Under IPA III, transparency requirements for Cohesion Policy should be mirrored</b> as far as possible</p>											
<p>B.1.1 A <b>single national level webpage/site should be hosted by NIPACs</b> with agreed standards for minimum information to be made available on all IPA III programmes, regardless of the form of management, with links to other websites where specific information may be found, including</p> <ul style="list-style-type: none"> <li>Information on the IPA Monitoring Committee and Sectoral Monitoring Committees should be available, including Annual Implementation Reports, Monitoring Reports and Evaluation Reports</li> </ul>	<table border="1"> <tr> <td>Y1</td><td>Y2</td><td>Y3</td><td>Y4</td><td>Y5</td><td>Y6</td> </tr> </table> <p><b>Milestone Y2:</b> Webpage developed/ upgraded to include standard information on IPA programmes implementation</p>	Y1	Y2	Y3	Y4	Y5	Y6				
Y1	Y2	Y3	Y4	Y5	Y6						

<sup>319</sup> <https://www.fi-compass.eu/>

<ul style="list-style-type: none"> <li>• Transparency standards need to be introduced in all Beneficiary institutions</li> </ul>	<p><b>Outcome Y6:</b> Improved public awareness and understanding on EU (pre-accession) funds use, as well as partners' contribution in policies/ funds management</p>										
<p><b>B.1.2 Information on financial progress and payments for IPA by country should be available in an easily accessible form on the DG NEAR website</b> (overall, by window, by country, by management modality) as well as on results/ tracking progress in implementation</p>	<table border="1" data-bbox="1059 336 1462 379"> <tr> <td>Y1</td> <td>Y2</td> <td>Y3</td> <td>Y4</td> <td>Y5</td> <td>Y6</td> </tr> </table> <p><b>Milestone Y2:</b> Information on financial progress and payments easily accessible on DG NEAR website</p> <p><b>Outcome Y6:</b> Improved transparency and public awareness on IPA implementation and the contribution of the EU in terms of overall donor funding</p>	Y1	Y2	Y3	Y4	Y5	Y6				
Y1	Y2	Y3	Y4	Y5	Y6						
<p><b>B.2 The European Commission should align IPA rules, procedural and institutional requirements to the maximum extent with Cohesion Policy requirements</b></p>											
<p><b>B.2.1 Multi-annual programming at the sector level for convergence sectors</b>, management of sector operational programmes by the relevant ministries as envisaged in IPA III should be introduced:</p> <ul style="list-style-type: none"> <li>• The <b>responsibility for the entire multi-annual operational programme should be assigned to one institution</b> that already implements national investments in the field, <b>mirroring the responsibilities assigned to the Managing Authorities (MA)</b>,</li> <li>• The <b>Commission should set up a Task Force similar to the 2014 Commission Task Force for Better Implementation (TFBI)</b> and provide targeted support for IPA Beneficiary Countries for the preparation and implementation of Sector Operational Programmes under IPA III involving DGs with experience in structural funds.</li> </ul>	<table border="1" data-bbox="1059 676 1765 719"> <tr> <td>Y1</td> <td>Y2</td> <td>Y3</td> <td>Y4</td> <td>Y5</td> <td>Y6</td> <td>Y7</td> <td>Y8</td> <td>Y9</td> <td>Y10</td> </tr> </table> <p><b>Milestone Y3:</b> IPA III Multi-annual operational programmes for convergence sectors developed and adopted; support Task Force set up and running; MAs assigned with adequate responsibilities</p> <p><b>Outcome Y8:</b> Capacities to prepare and implement multiannual programmes improved, with practical experience gained</p>	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10		
<p><b>B.2.2 The use of the SBS mechanism should be limited to the investments in the priority areas related to reforms in preparation for Union membership and related institutional and capacity building in IPA III Windows 1 and 2</b>, in particular for potential candidate countries.</p>	<table border="1" data-bbox="1059 1227 1603 1270"> <tr> <td>Y1</td> <td>Y2</td> <td>Y3</td> <td>Y4</td> <td>Y5</td> <td>Y6</td> <td>Y7</td> <td>Y8</td> </tr> </table> <p><b>Milestone Y5:</b> IPA III programming includes SBS only in IPA III Windows 1 and 2</p>	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8		
Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8				

	<b>Outcome Y8:</b> Better capacities of national structures to implement EU funds in convergence sectors									
B.2.3 <b>Simplification measures to reduce the administrative burden for grant beneficiaries should be introduced</b> , concerning the use of local languages, simplified secondary procurement and Simplified Cost Options (SCOs), and applicants and beneficiaries provided with more support for project development and implementation. DG REGIO and DG EMPL should provide specific guidance and models for SCOs.	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
	<b>Milestone Y4:</b> Simplification measures, guidelines and capacity building support introduced									
	<b>Outcome Y10:</b> Applicants/ beneficiaries better equipped to implement grants, reduction in financial corrections and improved effectiveness and efficiency as well as EU grants outreach									
B.2.4 <b>Ex-ante control by the EU Delegation should be phased out</b> , preparing for the gradual transition to ex-post control	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
	<b>Milestone Y3:</b> Ex-ante controls under IMBC phased out									
	<b>Outcome Y7:</b> EU funds more efficiently implemented; responsibility of national authorities reinforced									
<b>B.3 Introducing proactive capacity building and retention policy measures</b> to ensure sustainable administrative capacities in institutions managing ESI funds										
B.3.1 <b>Salary top-ups and/ or performance bonuses could be envisaged for staff involved in EU Funds</b> preparation and implementation, in relation to the additional competencies and skills	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
B.3.2 The <b>use of technical assistance should be in line with the rules in the Cohesion Policy</b> , including the possibility to finance salaries in line with specific Administrative Capacity Building Roadmaps. Significant efforts are still needed in terms of human resource management	<b>Milestone Y3:</b> Administrative Capacity Building Maps in place; Annual performance indicators developed; Financial remuneration plans developed and TA planned to support costs									
B.3.3 <b>Administrative Capacity Building Roadmaps</b> should be developed as part of sector operational programmes and financed through Technical Assistance. <b>The TA IEX REGIO PEER 2 PEER tool could be extended to IPA countries</b> for the exchange of experience on programme management, or also used to stimulate peer-exchange between IPA countries.	<b>Milestone Y6:</b> Experience gained in implementing multiannual operational plans									
B.3.4 <b>Annual key performance indicators should be developed for each institution in the IPA structure</b> with regards to the performance in IMBC.	<b>Outcome Y8:</b> Core capacity to manage the ESI Funds in place, with a track record/ practical experience gained in pre-accession period									

This could provide the basis for retention policy measures such as performance-linked bonuses funded through Technical Assistance

**C. Who benefits of EU funds: Preparing potential beneficiaries and partners**

**C.1 The implementation of the partnership principle in line with the ECCP should be enforced in the design and implementation of annual and multi-annual programmes under IPA III**

**C.1.1 The NIPACs and future Managing Authorities need to be supported in the full application of the partnership principle during the programming, implementation, monitoring and evaluation of IPA III in line with ECCP requirements:**

- **Guidance on implementing the ECCP should be provided to IPA Beneficiary countries by DG REGIO and DG EMPL** as well as **best practice examples from Member States**, and EU candidate countries and potential candidates should participate in **Commission-organised task forces, working groups and networks on partnership**,
- **Awareness raising and capacity building programmes** on participatory approaches for institutions and bodies involved in the implementation of cohesion policy and partners **should be financed by IPA III**, eventually as part of Administrative Capacity Building Roadmaps, rather than through ad-hoc or project-level initiatives,
- Support should be provided to the NIPACs and Sector Lead Institutions in the assessment of needs and identification of **measures to strengthen the capacity of partners and other stakeholders** in consultation mechanisms, in particular as regards small local authorities, economic and social partners and non-governmental organisations, particularly in less developed regions, in order to help them so that they can effectively participate in the preparation, implementation, monitoring and evaluation of IPA and become prepared for participating fully as partners for the delivery of Cohesion Policy upon accession.

Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
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**Milestone Y2:** Guidance on implementing ECCP developed; capacity building programmes for national authorities and partners developed; IPA III support measures for capacity building programmed; inclusion of IPA beneficiaries in Commission task forces/ networks on partnership set up

**Milestone Y6:** Capacities of IPA structures, national authorities and partners to implement partnership principle improved

**Outcome Y10:** Track record of effective partnerships for the design and delivery of EU funded programmes

**C.1.2 Monitoring of application of the partnership principle** should be strengthened:

- The **NIPACs should prepare a report on the involvement of the partners** and the consultations conducted for each the annual or

Y1	Y2	Y3	Y4	Y5	Y6
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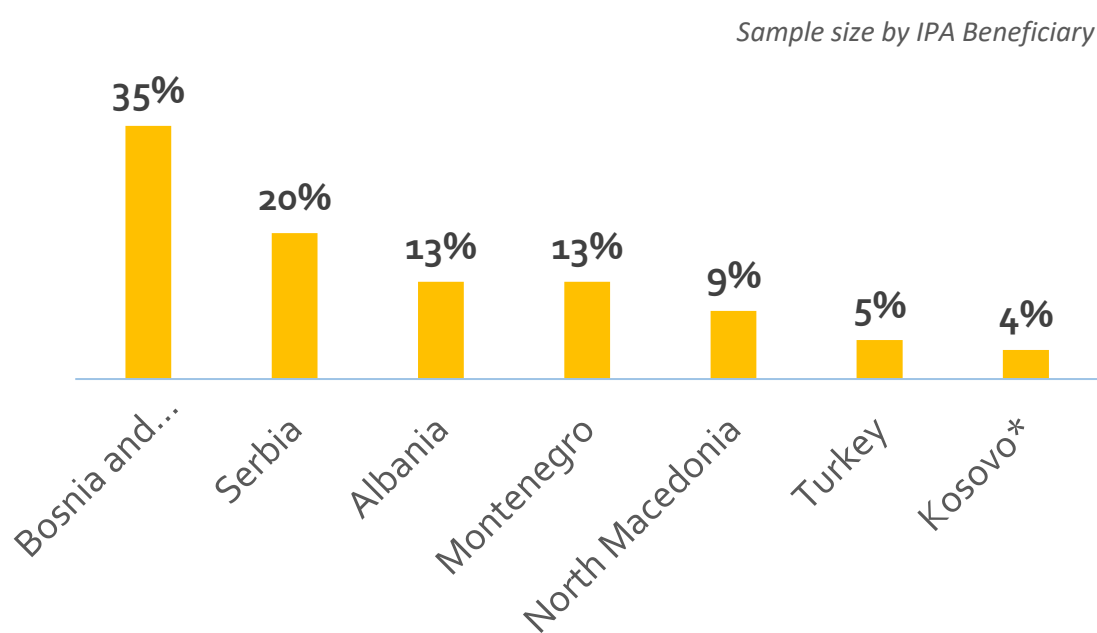
<p>multi annual programming document to be included as part of the maturity assessment documentation, or as part of the Programme template,</p> <ul style="list-style-type: none"> <li>• <b>Feedback from the Commission with regards to the quality of the application of the partnership principle</b> in IPA III should be mandatory both during the process and reported in the annual Country Progress Reports.</li> </ul>	<p style="text-align: center;"><b>Milestone Y2: Reporting standards introduced</b></p> <p><b>Outcome Y6: Monitoring of the implementation of partnership principle results in its improved effectiveness; transparency improved</b></p>										
<p><b>C.1.3 Transparency of the partnership and consultation processes must be enhanced</b> for IPA III:</p> <ul style="list-style-type: none"> <li>• The <b>selection of partners should be clearly defined, transparent and representative</b>, including for the sub-national level and the members of all committees and groups published,</li> <li>• <b>IT tools should be further exploited to enable wider stakeholder consultations</b>, feedback provided and the consultation reports published.</li> </ul>	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	<p style="text-align: center;"><b>Milestone Y4: Criteria and mechanisms for selection of partners defined; structures established; IT tools developed</b></p> <p><b>Outcome Y10: Outreach and transparency ensured, EU funds programming and implementation improved as a result of partners' involvement</b></p>
<p><b>C.2 Capacities need to be built for future Cohesion policy beneficiaries (in addition to recommendations listed under A.2.3 and B.2)</b></p>											
<p>C.2.1 Grant schemes included in sector operational programmes that mirror Cohesion policy grant schemes, in terms of typology of beneficiaries, eligible activities and typology of expenditure. Specific efforts should be made to extend the reach of grant schemes to less-experienced applicants, especially from less-developed areas, including the development of support mechanisms and national-co-financing for participation in EU-funded projects.</p>	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	<p style="text-align: center;"><b>Milestone Y3: IPA III programmed grant schemes and accompanied capacity building of potential beneficiaries; national instruments to support beneficiary co-financing planned</b></p> <p><b>Outcome Y7: Widened scope of beneficiaries in EU funded grants, capacities improved as a result of practical implementation; improved prospect of effectively absorbing ESI Funds and delivery on CP objectives</b></p>



### Annex 3 Pan-IPA Survey – Short Overview

The Pan-IPA Survey was conducted online from 29 June 2021 to 6 August 2021, including the extension of the deadline for completing the questionnaire. The Survey targeted seven candidate countries and potential candidates for the EU membership, three levels of government and five type of institution/organizations (national level authorities, sub-national level authorities, local self-governments, regional agencies and civil sector). The questionnaire included 15 to 35 questions depending on the type of institution/organization that was targeted and majority of questions provided optional answers. It was available in eight languages and distributed to over 1000 addresses using NALED and BFC SEE databases. The questionnaire was also published on various websites, including the websites of the European Commission and NALED.

Over 130 respondents participated in the online survey, out of which 75 provided complete answers and were included in a sample used in the analysis. The respondents were mainly from Bosnia and Herzegovina (35%) and Serbia (20%). The survey mostly encompassed views of local self-governments (47%) and civil society organisations (27%).



## Annex 4 List of conducted meetings

Institution	Interviewees	Date
EUD Ankara	Andre Lys	31/02/2021
Secretariat for European Affairs (NIPAC function), North Macedonia	Evgenija Kirkovski Hristina Koneska Beroska	09/03/2021
EUD Belgrade	Yngve Engstroem	18/03/2021
EUD Pristina	Luigi Bursa	23/03/2021
EUD Podgorica	Valentina di Sebastiano	24/03/2021
Office for European Integration, Montenegro	Ivana Vujosevic Bojan Vujovic	26/03/2021
EUD Skopje	Nikola Bertolini	29/03/2021
Office of the National IPA Coordinator, Bosnia and Herzegovina	Zara Halilovic Angelina Pudar	31/03/2021
EUD Sarajevo	Richard Masa	02/04/2021
EUD Tirana	Orlando Fusco	14/04/2021
Central Harmonisation Unit, Ministry of Finance and Social Welfare, Montenegro	Ms Ana Krsmanović Ms Nina Blečić Mr Miloš Baletić	25/05/2021
Ministry of Finance, Central Harmonisation Unit	Ms Spomenka Wirzburger	01/06/2021
Ministry of Finance, Central Finance and Contracting Unit	Ms Tijana Tasić Ms Ivana Urošević	10/06/2021
NIPAC Montenegro	Ivana Glisevic Djurovic	16/06/2021
NAO Office, Ministry of Finance and Social Welfare, Montenegro	Zana Jovanovic	16/07/2021
Office for European Integration, Montenegro	Miodrag Raceta	27/07/2021
Office for European Integration, Montenegro	Tatjana Djokovic      Milos Mugosa	27/07/2021
Ministry of Finance – NAO Support Office and National Fun, North Macedonia	Aleksandar Tosev Aleksandra Nikolovska	18/08/2021
Ministry of European Integration, Serbia	Mihajlo Dasic, Valentina Vidovic, Ivana Davidovic	26/08/2021
Technical Assistance Project to National IPA Coordinator, Turkey	Tomasz Kilianski	03/09/2021
Ministry of Finance and Economy, Albania	Veronica Korkaj Lindita Shijaku	07/09/2021
Ministry of Construction, Transport and Infrastructure, Serbia	Sinisa Trkulja	30/09/2021
Independent expert, IFICO	Orhideja Kaljosevska	28/09/2021

## Annex 5 Overview of organised thematic focus groups – Smarter Europe, Greener Europe, Social Europe

Focus group: Smarter Europe, date: 20/07/2021		
Country	Institution	Representative
Republic of Albania	Chamber of Crafts	Koli Sinjari; Alda Berberi
Bosnia and Herzegovina, Republika Srpska	Development Agency of Republika Srpska	Bojan Cudic
Republic of Montenegro	IDF	Vasilije Djurovic
Republic of Serbia	CEVES	Kori Udovicki; Lazar Ivanovic

Focus group: Greener Europe, date: 21/07/2021		
Country	Institution	Representative
Montenegro	European Integration Office	Bojan Vujovic
Albania	National Environment Agency	Olkida Mersini
Kosovo*	Ministry of Finance	Fatinda Gashi
Serbia	Ministry of Environmental Protection	Dragana Mehandzic

Focus group: Social Europe, date: 20/09/2021		
Country	Institution	Representative
Albania	Youth Voice Network	Andi Rabi
Montenegro	CEDEM – Centre for Democracy and Human Rights	Marko Pejovic
North Macedonia	European Policy Institute; REACTOR	Malinka Jordanova Tania Ivanova
Turkey	International Blue Crescent	Nalan Uker

### List of topics discussed on thematic focus group *Smarter Europe*:

The aim of the focus group meeting was to better understand the extent to which relevant stakeholders are involved in the design, implementation and monitoring of national policies related to enhancing research and innovation capacities, growth and competitiveness of SMEs and developing skills for smart specialisation, industrial transition and entrepreneurship. Furthermore, participants provided insight and shared their experience related to extent to which they consider that EU and national policy frameworks are supporting business development organisations and are financing priorities in the field of research and innovation, Smart Specialisation, SME and entrepreneurship development, as well as supporting the development of business environment.

### List of topics discussed during the thematic focus group *Greener Europe*:

The aim of the focus group meeting was to discuss and better understand to what extent the objectives of European Pillar of Green Europe, Cohesion policy objectives and national policies are coherent, whether they are sufficiently guiding the IPA and other sources of funding and to what extent relevant stakeholders are involved in design, implementation and monitoring of national policies in this area. The focus group discussion contributed to better understanding how coordination between national funding, EU, IFIs and other sources is ensured, and to what extent are the mechanisms for coordination of planning of interventions towards set objectives effective and how effective the are pre-accession funds in this area. Finally, the participants had the opportunity to express their views with regard to the effectiveness of the established Single Project Pipeline mechanism and National Investment Committee Framework.

The participants were asked to share their views and opinions on how they feel their countries are moving towards Green Europe in terms of national policy priorities particularly related to solid waste, waste water and water supply subsectors, and whether the EU assistance provided is sufficient for implementation of national priorities in this area. Moreover, participants discussed the extent to which they - as beneficiaries of funds - see whether the existing system is sufficiently preparing local and national capacities for implementation of EU funds.

**List of topics discussed on thematic pan-IPA focus group *Social Europe*:**

The aim of the focus group meeting was to discuss and better understand to what extent the objectives of European Pillar of Social Rights, Cohesion policy objectives and national policies are coherent, sufficiently guiding IPA and other sources of funding and to what extent relevant stakeholders are involved in the design, implementation and monitoring of national policies in this area. The focus group discussion contributed to better understanding on how coordination between national funding, EU, IFIs and other sources is ensured, and to what extent the mechanisms for coordination of planning of interventions towards set objectives are effective and how effective pre-accession funds are in this area. Finally, the participants had the opportunity to express their views with regard to the effectiveness of involvement of stakeholders (such as economic and social partners, CSOs, educational institutions, etc) in policy design, implementation and monitoring.

The participants were asked to share their views and opinions on how they feel their countries are moving towards Social Europe in terms of national policy priorities particularly related to social rights, employment, youth, social inclusion, social health, mobility and social innovation, green agenda and digital transition, and whether EU assistance provided is sufficient for implementation of national priorities in this area. Moreover, participants discussed on the extent to which they as beneficiaries of funds see whether the existing social ecosystem is sufficiently preparing capacities for the implementation of EU Structural and Cohesion funds.





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