

# IPA II: Where does Kosovo stand and how does it make the most of it?

An Analysis of Kosovo Financial Assistance under IPA II

*Umberto Cucchi*

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## **IPA II – WHERE DOES KOSOVO STAND AND HOW DOES IT MAKE THE MOST OF IT? AN ANALYSIS OF KOSOVO FINANCIAL ASSISTANCE UNDER IPA II**

*By Umberto Cucchi*

Weeks ago, the Instrument for Pre-Accession Assistance II (IPA II) for 2016 was officially ratified by the Kosovo Assembly with 98 votes in favor. As it is widely known, IPA funds are a form of financial assistance from the European Union to candidate countries (Albania, FYROM, Montenegro, Serbia and Turkey) and potential candidates (Bosnia-Herzegovina and Kosovo). Kosovo, during IPA I (2007-2013), has received over EUR 650 million. The new phase of IPA, IPA II, has started three years ago and will be in place until 2020 with an overall allocated budget close to EUR 12 billion for the 7 countries (EUR 646 million for Kosovo over the 7-year time frame). The just-ratified 2016 financial agreement will grant to Kosovo over EUR 70 million to specifically develop and finance projects in human rights, employment, social policies, economic competitiveness, education, innovation, rule of law and support to fulfill the obligations deriving from the Pristina-Belgrade dialogue. IPA II will thus continue to provide assistance to Kosovo during its journey to EU membership by supporting the alignment of Kosovo's institutions to EU members' standards.

The four key goals for IPA II are: (a) support for political reforms - (b) support for economic social and territorial development - (c) strengthening regional cooperation and integration - and (d) aligning potential members to the Union acquis. IPA II will aim to have an effect in the areas of: (a) socio-economic and regional development - (b) employment, education, HR development and gender equality - (c) regional and territorial cooperation - (d) agricultural development and - (e) institution and capacity building. The goals of the financial assistance are pre-established in the indicative Country Strategy Papers (CPS) set up by the EU Commission for the whole 7-year period. The purpose of this espresso insight is to provide a brief analysis on IPA II funds, the changes from IPA I, its current limitations and potential benefits for the future of Kosovo. Although IPA II is considered the natural successor of IPA I due to shared objectives and areas of interest, IPA II differentiate itself from its predecessor in its scope, being the former heavily focused on EU accession objectives and the latter more oriented towards socio-economic projects and objectives. It is thus assertable that IPA II, if compared to IPA I, presents an overall more favorable architecture for Kosovo. IPA II, for example, does not provide any more distinction over the candidate status in the allocation of funds. With this significant policy shift, Kosovo has been able to access all of the available funds and not the ones merely reserved to institutional building and regional cooperation. The current socio-political climate in the Union and the lack of clear accession timeline for Kosovo and the others Western Balkans have definitely influenced the final architectural framework of IPA.

It must be pointed out that so far policy sectors in the IPA documents have been vaguely defined in order to allow the inclusion of projects that do closely match that the description of a specific sector but might have a future indirect impact on improving it. What is more,

the Instrument for Pre-Accession Assistance, between the first (I) and second phase (II), has shifted towards the implementation of a second approach (i.e. sector approach), adding it to the already existent project-by-project approach of IPA I. The introduction of a sector approach finds its roots in the inabilities of the project-by-project approach to be fully match sectoral and national needs and goals of Kosovo. With this new approach, and if a clear sectoral policy has been carefully crafted by the beneficiary government, Kosovo significantly increases the chances to have a strong impact and clear benefits from the IPA II funds. Strictly linked with the sector approach, the sector budget support instrument, new addition under IPA II, represents a correct financial tool for Kosovo's needs at this point. This instrument consists in EU funds wired to a given beneficiary country in return of promises of implementation over a certain set of policy measures upon reach of pre-established benchmarks. However, it must be asserted that the two simultaneous approaches for the management of IPA II will likely presenting new challenges to an already fragile Kosovo administration. Hence, Kosovo must prove itself able to allow for a healthy coexistence between the old project-by-project approach with the newly established sectoral approach. What is more, IPA II, contrarily to IPA I, foresees performance reserve, meaning ulterior funds as a reward for positive performances and progress by an IPA II beneficiary country.

During the previous IPA I phase, funds allocated to Kosovo have been absorbed in an efficient and qualitative manner, probably due to the fact that the management has been, in a large degree, supervised by the EU Commission. Although Kosovo shared a positive track record in fund absorption, the management, strategic and administrative phases are still performing below par. During these first few years of IPA II, most of the criticisms revolved around the delays that occur between contracting and implementing the financial assistance. The EU Office in Kosovo has been the responsible unit for evaluating, contracting and managing projects. The Kosovo Government has only recently begun to strengthen its institutional framework, establishing stronger implementing platforms, in order to start managing IPA funds more efficiently. Kosovo officials are now responsible for the drafting of the Strategy papers and the elaboration of clear and cohesive sectoral planning; however, it still seems that the different apparatuses of the government have issues in coordinating and effectively cooperating between each other. The increasing role of the National IPA Coordinator, internal unit of the MoEI, in the planning of the Instrument of Pre-Accession is without a doubt an important improvement from the first IPA phase (2007-2013) where the role of the Kosovo Government was incredibly marginal. Nevertheless, the majority of the contracting and monitoring activities still remain under the competencies of the European Commission, through the EU Office in Kosovo. What is more, if both the Government and the EU Commission are not able to find an alternative solution to a quicker and more efficient process of allocation, management and implementation, IPA funds will hardly prove itself highly beneficial in the short run (especially if considering SAA budgetary pressure).

The lack of concrete and clear national strategy for the long-term social, cultural and economic development of Kosovo in favor of a copious amount of different sectoral strategies that are not overall cohesive, endangers a correct implementation and usage of

the IPA II funds. For example, the 2016 NDS Strategy, wrote with the assistance of a Latvian company, did certainly not live up to its promises. Unfortunately, most of the companies and organizations that are awarded contracts and tenders come from EU member states. In the most favorable scenario, these foreign companies partner up with local ones to form consortiums; however, the majority of the funds are channeled back to EU member states in form of compensation for expertise. Hence, stimulation of the local economy, one of the favorable aspects of IPA funds, still appears, in many instances, to be more a myth than reality. Perhaps a review of the process of the allocation of contracts and tenders could prove itself beneficial for the development of Kosovo economy.

In conclusion, IPA II approach on general socio-economic themes and far away from the technicalities related to the Union *acquis*, results in a positive turnout for the country. Kosovo, light-years away from accession negotiations and EU membership, can only benefit to focus on the strengthening of its social and economic architecture. The introduction of a more concrete sector approach in addition to project-by-project one, is set to significantly help Kosovo at this current stage of its accession process. Kosovo's administrative capacities, although the country has made progress in the program and implementation management, are still deficient, with communications between different government apparatus insufficient. What is more, a correct absorption of IPA funds must be continued also under the two structures.

Kosovo, besides facing the already known issues of program and implementation management, must find quick answers to the absorption challenges that will arise from the elaboration of clear-cut sectorial strategies. Sector budget support will prove itself as a beneficial instrument at this precise time on Kosovo's path towards EU Integration, allowing Kosovo to have more leadership on projects to both carry out its political agenda and continue with the EU integration process. The continuation of financial support on sector budget contingent on result delivered, will likely and properly stimulate Kosovo's Government to improve on their outputs. Pristina, in order to benefit more from IPA funds, needs to clearly interconnect its goals of European Integration with a correct usage of the instruments for pre-accession. More than in one instance Kosovo political class have proved that they either did not want, did not know or could not properly get involved in the decision-making phase regarding IPA funds. Unfortunately enough, the recently developed NDS did not match the high expectations, producing both disconnected strategies and governmental units. It is thus duty of the Government to quickly develop skills and capability to successfully lead the implementation and management skills in order to take an even more active role in the near future.

In order to have a more efficient usage of IPA II funds in Kosovo, it could be proving highly beneficial to provide a platform to stimulate discussion among relevant national stakeholders over long-term vision concerning administration, programming and management of all future IPA funds. By sharing a common vision, goals and plan, Kosovo key stakeholders will prove themselves more efficient in the management of funds and in a consequent achievement of results.

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