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THE INDIRECT MANAGEMENT OF EU FUNDS IN ALBANIA

EU Policy Hub

Introduction

The Pre-Accession Assistance (IPA) instrument of the European Union applies to the Western Balkans¹ countries since 2007 and it aims at preparing them to successfully pursue future EU integration. IPA funds also play a key role in the development of the administrative capacities of Albania. This financial assistance aims at helping Albania to undertake necessary political, economic and administrative reforms to bring the country in line with EU standards. Preparing to profit from and manage IPA funds, allows beneficiary countries for future efficient management of the [Structural and Cohesion Funds](#). Therefore, absorption capacities for Albania are an issue of great importance. By strengthening the administrative capacities, IPA is expected to enable Albanian institutions to take over the very funds, their program management and ultimately the overall integration process.

Albania benefits financial assistance from the IPA I (period 2007-2013, which is still under way) and the IPA II (period 2014-2020). To this end, a gradual transfer or indirect management of IPA funds from the EU institutions to the national authorities of Albania is on the way. This is foreseen as a mechanism to make pre-accession assistance more effective and provide for full commitment of national authorities to undertake the necessary reforms and actions for well implementing all pre-accession funds as well as other funds after fully joining the EU.

The indirect management of EU funds has a key importance as it encourages and accelerates the process of accession to the European Union and national development policies. In this respect, the indirect management consolidates Albanian institutions in important aspects such as ownership and accountability, and therefore enhances the credibility of the European Commission for these institutions in the implementation of EU funds.

[This policy brief assesses](#) the value and complexity of such process, concluding with the efforts and challenges that Albania will face in the near future, in light of becoming a full member of the European Union. It also explains why coordination between institutions and raising the ownership of national authorities is vital for future success in managing Structural Funds. In conclusion, it provides recommendations for strengthening administrative capacities and preparing central and local institutions to plan and implement such programs.

Background

By virtue of the aspirations to join the European Union and following its status as candidate country, Albania benefits from EU funding under the Instrument for Pre-Accession Assistance.

Prior to IPA (operational as of January 2007), the EU has provided support to candidate and potential candidate countries in the framework of various assistance such as the [Phare Programme](#), and [CARDS](#).

The [major objectives of IPA funds](#) are:

- To streamline all pre-accession assistance in a single framework and to unite under the same regulation both candidate and potential candidate countries, thereby assisting the countries in progressive alignment with the standards and policies of the European Union; and
- To anticipate and prepare candidate countries to the ultimate management of structural and cohesion funds once they become member states.

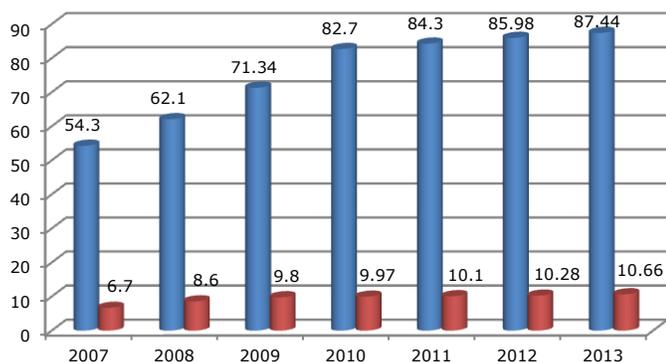
Box 1: IPA I (EU's 2007-2013 budget cycle) was designed to provide financial assistance through five components:

1. Transition Assistance and Institution Building (TAIB),
2. Cross-border Cooperation (CBC),
3. Regional Development,
4. Human Resource Development and
5. Rural Development.

As a potential candidate country, Albania has previously benefited from the first two components of IPA I. The TAIB component aimed at financing capacity-building and institution-building. Whereas the CBC component between Albania and other IPA beneficiary countries (or between Albania and EU member states) generally aimed at diversifying and improving the regional/local economy in a socially and environmentally sustainable way.

The table below illustrates the [IPA Financial Assistance \(in million EURO\) to Albania](#) for the period 2007-2013

Table 1: IPA 2007-2013 for Albania
■ TAIB Component ■ CBC Component



It is worth mentioning that the principle of ownership is clearly indicated in the new IPA II Regulation as well as in the [Framework Agreement](#) concluded between the European Commission and the Albanian Government. According to this principle, under IPA II, unlike IPA I, the ownership for programming and implementing the IPA assistance falls under the beneficiary country, in this case Albania.

IPA II: From stand-alone project-based approach to sector approach

The IPA II approach replaces IPA "components" with "policy areas". These areas mostly focus on strengthening democracy, rule of law, the judiciary, public administration, media and fundamental rights, including the rights of workers, minorities and gender equality. The indicative funding allocation for Albania for the period [2014-2020 is €649.4 million](#).

The IPA I missed the link between sector/national priorities and individual projects financed by the pre-accession assistance. In order to address this deficiency, the IPA II introduces the concept called "sector approach".

Box 2: Features that distinguish IPA II from previous IPA I

- **The instrument is much easier to be used because:** *While maintaining its general scope, it ensures that "preaccession assistance will be more closely linked to the enlargement priorities, and be based on a more results-oriented and strategic approach targeting key reforms in the enlargement countries".*
- **It is flexible in harmonizing programming and implementation with specific country needs:** *The sector approach consists of clustering EU assistance around a reduced number of strategic sectors that are identified jointly by the EU and the beneficiary, with national sectoral strategies serving as main guidance for programming.*
- **Funds are not conditioned to the status of a country, but to its performance.** *Under IPA II, the five components of the first regulation disappear, thus giving all countries – regardless their status – access to the entire IPA toolbox. IPA II gives more weight to performance measurement: indicators agreed with the beneficiaries will help assess to what extent the expected results have been achieved*

Management mode of the EU financial assistance

The European Commission uses three modalities for implementing the EU budget:

1. **Direct Management:** all EU budget implementation tasks, which are performed directly by its departments either at headquarters or in the EU delegations or through European executive agencies.
2. **Shared management²:** implementation is delegated to Member States.
3. **Indirect management:** responsibilities are transferred to the Contracting Authority of the beneficiary country. The Contracting Authority is responsible for tendering and contracting and for the financial and administrative management of projects.

2. This mode is rarely used in the implementation of external actions, but there are a few cases such as joint operational programmes on cross-border cooperation implemented by a joint managing authority

The indirect management mode in the context of pre-accession strategy is important as it improves ownership and enables the country to self-implement EU funds and prepare for managing EU cohesion and structural funds once the country becomes a member state.

The effective decentralization of IPA management requires the establishment of new structures and designation of authorities responsible for the implementation of IPA funds. These authorities and structures are already established and functional in Albania and placed within:

- The Ministry of European Integration:
 - National IPA Coordinator (The Minister); and
 - Supporting Office (NIPAC)
- The Ministry of Finance:
 - Competent Accrediting Officer (The Minister);
 - National Authorizing Officer (Deputy Minister);
 - Supporting Office (NAO Support Directorate);
 - National Fund Directorate (acting as the treasury for IPA funds); and
 - Central Finance and Contracts Unit (acting as the contracting authority for the contracts under indirect management).
- Line ministries/beneficiary institutions (know also as IPA units).

See illustrative flowchart of the functions of relevant authorities and structures at the end of this page

The European Commission has granted Albania the right to indirectly manage several projects financed under IPA Component I "Transition Assistance and Institution Building" based on the Financing Agreement 2013 (approved with Council of Ministers Decision no. 283, dated 14.05.2014) and for actions financed under IPA II based on the [Financing Agreement of IPA 2014](#) and Financing Agreement of IPA 2015³.

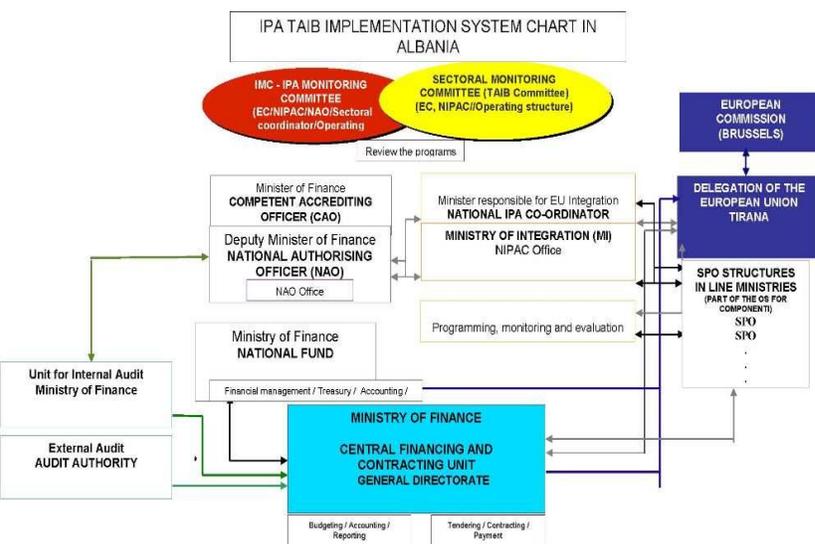
Such decision has been reached based on the Albanian Government commitment in setting up the legal and institutional framework and an overall control and management system of the IPA which meets the criteria set by the EU for the transition of financial assistance (IPA) from the centralized management to decentralized management. It consisted also in the establishment of relevant professional structures in each ministry and their preparation for the management of these funds.

Challenges

Over the years, a number of problems have limited Albania's maximum benefit from IPA funds. That is mainly related to state authorities' lack of efficiency due to several legal and bureaucratic obstacles that delay the implementation of projects:

1. Some institutions have **insufficient staff** regarding their projects preparation and implementation. For instance, in institutions which have had projects almost every year, it is crucial to increase the number of staff to manage these projects. This problem becomes more imperative especially when the Albanian institutions are managing EU fund themselves.
2. The **sustainability of projects** is a very important element which assesses the impact of a certain project. Since, at the early stage of a proposal, it is difficult to predict the potential for project sustainability, the focus should be on how effective the envisaged mechanisms will be in ensuring that the project results will eventually be sustainable
3. The **absorption capacity** to use IPA funds in due time and to perform efficiently and effectively. There is a risk of funds transfer to other sectors or countries from the region with the best performance and delivering on time. Thus, it remains as the main challenge for the Albanian be committed to timely and efficiently achieve the defined results. Furthermore, it is a crucial aspect and major reason to raise awareness among public institutions at central and local level and also private sector actors such as businesses, organizations, etc. on the importance of delivering efficient and timely services in order to maximize benefit from IPA funds.

3. Approved with Council of Ministers Decision no. 686, dated 29.09.2016.



Conclusions and recommendations

Sometimes institutions are not capable to absorb funds. This issue arises during the programming and implementation phases and therefore urges the need for increased capacity building. The Albanian School of Public Administration (ASPA), has introduced curricula on EU funds management, which are part of the national training program.

It should be also noted that the involvement of local authorities to the national IPA Programme remains still almost zero. The establishment of 'EU desks' in the municipalities, is also considered important due to the fact that the implementation of EU assistance in Albania is in some cases affected by the lack of coordination with other institutions, including local government units.

Project preparation is a complex process which requires significant time and human resources, especially in case of large infrastructure investment projects. These projects require technical expertise by all involved stakeholders. Experience has also proven that the adequate preparation of a project is of the outmost importance for the later stages. The risk of delays or failures in implementation is higher in inadequately prepared projects. The lessons learned from implementing IPA projects and from how Albania has performed so far, showed that there is a need to enhance the capacity of all relevant stakeholders in project preparation and implementation.

It is very important to provide continuous training for public administration servants as a precondition for approaching future funding mechanisms in the EU integration path. IPA rules and procedures are complex and at times difficult to interpret or apply. The insufficiency of information affects parties both at central and local government level. Thus, there is a need to disseminate the information among stakeholders (line ministries, municipalities, NGOs, bussines associations, etc.) of this process.

Public authorities in charge of managing IPA projects, such as the National IPA Coordinator and National Authorizing Officer should:

1. Assess the needs of the central and local authorities dealing with IPA projects;

2. Increase the availability of information and awareness-raising activities;
3. Cooperate via seminars and workshop between the homologue structure of the countries and/or between these structures and the representatives of EU institutions;
4. Ensure the accurate and timely internal flow of information.

Several steps that could be taken by national authorities:

Box 3:

- Contribute to the implementation of the ownership and partnership principle in the implementation of IPA funds;
- Involve in the discussion on strategic issues concerning EU funds, especially on priorities under each sectoral policy;
- Require from the national authorities in charge of IPA to regularly report on the implementation of each sectoral policy, including report on the fulfilment of success indicators;
- Increase the level of stakeholders' participation with inclusion of civil society organisations, academia, businesses, chamber of commerce, professional associations, etc.;
- Hold public hearings on IPA, including thematic ones, dedicated to each policy area/sector;
- Arrangement between bodies- Preparation of the operational agreements or memoranda of understanding between Contracting Authority, lead institutions and final beneficiaries (end recipients) in order to define the responsibilities of different entities and actors for the three levels (programme, project and contract) of implementation and monitoring;
- Increase the administrative capacities of the staff working on IPA;
- Enhance the capacities of local authorities to apply and implement projects under the CBC and Transnational Cooperation Programmes where Albania participates.

Establishing a system by taking into consideration the above mentioned issues can result on more efficient management of the European Union pre-accession funds and latter the structural funds and as well as domestic expenditure.

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