

# What Does IPA II Mean to Us?

## 2014 – The year of the perfect storm

In the context of what can surely be considered as one of the largest crisis in the political decision making process in Bosnia and Herzegovina (hereinafter: BiH), together with the worsening overall socio-economic situation, it is easy to understand why the issue of fulfilment of requirements for financing under the Instrument for Pre-accession Assistance II has not been an issue of a (wider) national interest for political decision makers in the previous mandate, i.e. it is understandable why this issue was observed primarily through the prism of protection of the vital national interest (in a narrower sense). Although there were no political statements supporting this thesis, what has been done, or more precisely what has not been done in terms of preparation of authorities in BiH for IPA II is a clear indication of such position.

General view of the EU is that IPA II is very important for the countries aspiring towards EU membership. Considering that users of pre-accession assistance are relatively young democracies which often “lack the capacity to finance by themselves the institutional reforms and public investments necessary to stabilise their societies and economies and put them onto a sustainable development path”<sup>1</sup>, the objective of IPA II is to prepare the accession countries for the negotiation process and accession itself, in order to be able to fully enjoy all the rights of EU members. IPA was designed in a way “to give countries a ‘test run’ of the obligations of membership before accession.”<sup>2</sup>

From the point of view of IPA II programming, there are two key assumptions to be fulfilled in order to secure further financing from IPA funds. First of all, it is necessary and desirable to have sector strategies, i.e. a coherent integration strategy. As second, it is necessary to establish a mechanism of coordination for IPA programming, i.e. EU integration, which is of particular importance in the context of BiH. Having in mind considerable changes in the manner of IPA programming and implementation, the year 2014 is a very important year for programming of IPA funds for the period 2014-2020. Considering the limited progress made at the beginning of 2014 and an obvious absence of political interest to resolve the issues relevant for continuation of financing from IPA II funds, there was a serious concern that the IPA II funds would not be programmed for BiH at all.

However, some steps forward were made (mainly through the initiatives undertaken by the Delegation of the European Commission in BiH), including the assessment of the readiness of BiH for the sector approach in IPA II programming and development of drafts of key strategic documents for IPA programming. Anyhow, it can be said that at this point we are witnessing culmination of the consequences of political crises and absolute negligence of the need to strengthen institutional capacities necessary for EU integration, particularly in relation to the IPA programming. This generated the circumstances for BiH “perfect storm” which will, should there be no substantial changes in the position and perception of political decision makers, hold BiH back on its European path. The objective of this analysis is to give an overview of the changes which will be introduced in IPA programming and the current circumstances under which BiH will enter this programming process.

## What is new in IPA II?

After comprehensive analyses and consultations with key actors, the European Commission made a proposal for improvement of the existing IPA instrument, which should ensure a more flexible programming process and adapt to the specific needs of individual countries. These changes should also ensure that IPA projects are strategically oriented and that they can ensure achievement of measurable results in line with the priorities under the Enlargement Strategy and priorities established in national strategies and development and EU integration policies.

In a document A Budget for Europe 2020 of June 2011, the European

Commission proposed the allocation of the amount of EUR 14.11 billion for the period 2014-2020. The indicative yearly budget commitments are presented in the table below:

**Table 1: Indicative yearly budget commitments for IPA funds in the period 2014-2020 (in million EUR)<sup>3</sup>**

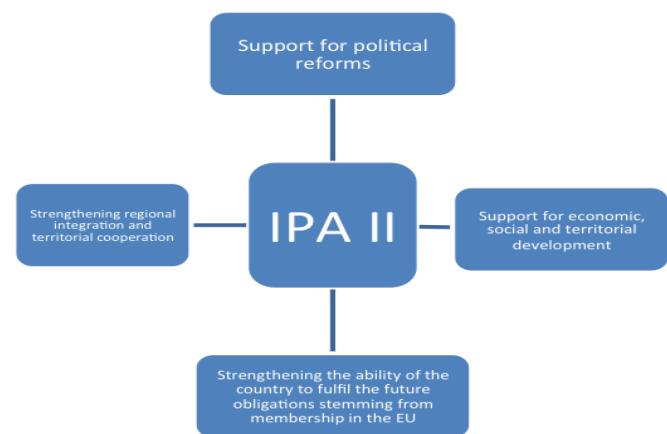
IPA (in million EUR)	2014	2015	2016	2017	2018	2019	2020	Total
	1,898.0	1,935.0	1,974.6	2,014.1	2,054.4	2,095.5	2,137.4	14,110.1

As seen in the table, the EU plans to allocate EUR 1,898,000,000 in 2014 for seven countries<sup>4</sup>: the Former Yugoslav Republic of Macedonia, Island, Montenegro and Turkey (four countries with the status of candidate country) and Albania, Serbia, Kosovo under UNSCR 1244/99 and Bosnia and Herzegovina (three countries with the status of potential candidate country).

From now on, strategic decisions on budget commitments will be made through the Common Strategic Framework for Instrument for Pre-accession Assistance. This document serves to translate “political priorities of the enlargement policy into key activities that can receive assistance”<sup>5</sup> from the IPA instrument. The Common Strategic Framework contains, inter alia, criteria to be used for allocation of funds to the beneficiary countries and multi-beneficiary territorial cooperation actions. Further on, it will define types of actions that are eligible for financing from IPA II, as well as common guidelines for management and implementation of IPA II.

Considering that the general objective of IPA II is to provide support to the beneficiary countries in implementing reforms with a view to EU membership, there are four specific objectives of financial assistance under IPA II<sup>6</sup>:

**Chart 1: IPA II objectives<sup>7</sup>**



The Common Strategic Framework served as a basis for the development of country strategy papers as well as multi-beneficiary strategies. Individual beneficiary countries are, together with the European Commission, in the stage of finalisation and/or adoption of these papers. An important characteristic of the strategic papers is that they define strategic areas which will receive IPA financial assistance, taking into consideration the needs and priorities as defined by the IPA Regulation and IPA Common Strategic Framework, as well as priorities and objectives determined by national strategies. This is an attempt to ensure that IPA financing

<sup>3</sup> Ibid.

<sup>4</sup> Croatia was granted the membership status on 01 July 2013

<sup>5</sup> Bosnia and Herzegovina Draft Country Strategy Paper (2014-2017) p. 23.

<sup>6</sup> Ibid, p. 3.

<sup>7</sup> Article 3, point 1 of the IPA Regulation.

<sup>1</sup> Proposal for a “Regulation of the European Parliament and of the Council on the Instrument for Pre-accession Assistance (IPA II) p. 8

<sup>2</sup> Ibid.

meets not only the objectives and priorities of the EU in relation to an acceding country, but also to ensure that the results achieved through this financing have effect on implementation of national strategies and policies. Simultaneously, it will ensure that the results achieved through other forms of financing are compatible with the results of IPA financing. Country Strategy Papers will also identify indicative allocations of funds per policy area, i.e. sector, and per year, taking into account specific needs of the countries and their absorption and administrative capacities.

Bosnia and Herzegovina Draft Strategy Paper for the period 2014-2017 defines the following determinants that served as the basis for programming of funds<sup>8</sup>:

- Primarily, as already concluded in the 2013 Bosnia and Herzegovina Progress Report, it was established that it is becoming increasingly difficult to justify providing pre-accession funds to a country whose political representatives are not willing to reach consensus on the most important political issues and that there is a strong risk that pre-accession assistance will not produce the expected results.
- Due to the absence of a comprehensive EU coordination mechanism, “a full-scale support is not justifiable” for further investments in sectors, such as transport and environment infrastructure, without the adoption of countrywide sector strategies.
- However, provision of assistance will continue in those areas which are fundamental for the EU integration process, as well as provision of support for civil society, vulnerable categories and private sector.

Indicative allocations of IPA funds for the period 2014-2017 for selected policy areas in BiH are the following<sup>9</sup>:

In million EUR

	2014	2015	2016	2017	Total 2014-2017	% over total	Of which climate change relevant %
a. Reforms in preparation for Union membership	17	17	18	18	70	42	
Democracy and governance			34		34	20	
Rule of law and fundamental rights			36		36	22	
b. Socio-economic and regional development	13	13	14	14	54	32	
Integrated local development			54		54	32	
c. Employment, social policies, education, promotion of gender equality, and human resources development	10	11	11	12	44	26	
Education, employment and social policies			44		44	26	
<b>Total</b>	<b>40</b>	<b>41</b>	<b>43</b>	<b>44</b>	<b>168</b>	<b>100</b>	

<sup>8</sup> Bosnia and Herzegovina IPA II Draft Country Strategy Paper for the period 2014-2017, pp. 7-8.

<sup>9</sup> Bosnia and Herzegovina IPA II Draft Country Strategy Paper for the period 2014-2017, p. 23.

Comparing the table above to the amounts of assistance provided earlier, it can be seen that BiH will receive significantly reduced IPA funds compared to earlier years. Based on the data contained in the 2012 Annual Report Financial Assistance for Enlargement<sup>10</sup>, the total amounts of IPA funds in the period from 2007 to 2012 for BiH, in line with the applicable components (taking into account the reallocations between components in 2012) were the following:

In million EUR

IPA Component	Committed	Contracted	%	Paid	%
I Assistance for transition and institution building	474.60	248.99	52.46%	159.35	33.58%
II Regional cooperation	15.2	7.5	49.6%	5.88	38.87%
<b>Total</b>	<b>489.8</b>	<b>256.49</b>	<b>52.37%</b>	<b>165.23</b>	<b>33.73%</b>

Unlike previous strategic documents used for IPA programming, the multi-annual financial framework for IPA II will have to be reviewed at mid-term between 2014 and 2020. This represents a great relief compared to the current practice in IPA programming, whereby IPA projects were defined in the process of multi-annual programming conducted each year, taking into account priorities under the Enlargement Strategy and findings of individual progress reports. This change should reduce “the administrative burden”<sup>11</sup> implicit to the annual review of multi-annual indicative documents. On the other side, this also means that the strategic indicators defined during 2014 will remain valid, to a larger or smaller degree, in the course of the entire period of application of the financial instrument.

The previous IPA was composed of five components and the fact whether a country had a candidate status or not determined which of the five IPA components it had access to. Accordingly, BiH so far had access to only two of the components: assistance for transition and institution building (component I) and regional and cross-border cooperation (component II). However, IPA II will include assistance in the areas that had not been available to some countries, such as agriculture and rural development and employment and social policy.

Further on, the intention of IPA II is to focus, as much as possible, on achieving results in relation to defined policy objectives, i.e. sector objectives and in relation to the ratio of achieved absorption of funds, reflected in its proposed “sector approach”. The fact that there is flexibility in allocation of funds between policy areas also enables better coordination between these areas, i.e. planning of projects in a way that an intervention in one area can have effect on other areas as well. As a matter of fact, IPA II enables, provided that the institutional and other requirements are fulfilled, more effective planning of interventions, i.e. planning in a manner to have effect on long-term sector problems, i.e. socio-economic problems, such as unemployment, unsatisfactory rural development, improvement of state competitiveness, etc. Countries which have managed to develop clear awareness of real problems in individual sectors in relation to the general national objectives of sustainable development and EU integration and which have indication of strategic needs and priorities for individual sectors are now actually in a better position to use funds from IPA II in a way to have major effect not only in terms of their accession to the EU, but also in terms of resolving long-term structural problems in all relevant socio-economic spheres.

## Sector approach and coordination mechanisms in BiH – a requirement or a luxury?

Unfortunately, as pointed out in the Progress Report and the BiH Draft Country Strategy Paper, BiH has not positioned itself in such a way as to make the best use of the IPA II funding. Most importantly, BiH is not ready to adopt the sector approach to IPA II funding. Concerning the concept which is applied in this context, the key factors relevant for the sector support are presented in the following chart.

<sup>10</sup> Page 27.

<sup>11</sup> Proposal for a “Regulation of the European Parliament and of the Council on the Instrument for Pre-accession Assistance (IPA II) p. 10.

**Chart 2: Criteria for assessing sector readiness for delivery of IPA by means of Sector Support Programme**



In the context of the IPA II, as it is clear from Draft IPA II Regulation and Guidance Document, sector strategies:

- should serve as documents which provide a comprehensive overview of the situation within one specific policy area, taking into account needs of citizens as well as the general socio-economic environment;
- on the basis of such detailed analysis, these strategies should precisely identify problems within the sector, across all levels of government, in order to define what improvements or changes should be made (regarding public services, investments, competitiveness, etc.);
- lastly, the most relevant component of the strategies, in the context of programming and setting the direction for reform processes across all levels, are the target indicators defined in the strategies which determine what changes and improvements will be achieved and how they will be measured (e.g. youth employment rate increased by 10% by the end of the year 2020. across all levels of government; number of corruption and organised crime convictions increased by 5 % by the end of the year 2020, etc.).

Once the sector strategies are developed and endorsed by all relevant executive and/or legislative bodies, specific activities, aimed at achieving the objectives and priorities established in the strategies are planned in line with constitutional competencies, and the administrative and budgetary options available. The interventions to be supported through IPA II are defined in the strategies, as well as the proportion of contributions from national budgets and other donors intended for the purpose of carrying out the activities identified by the institutions as necessary in order to implement a strategy.

The European Commission has assessed readiness of each sector selected for support in terms of the sector's ability to absorb the funds made available through Sector Support Programmes. In February 2014, the European Commission conducted preliminary analysis, i.e. mapped relevant sector strategies in all IPA II beneficiary countries (with the exception of Iceland and Serbia). The sector assessment was guided by the following three criteria: 1) the existence of well defined national sector strategies; 2) institutional setting and capacities for sector planning, and 3) sector coordination; the three criteria are further sub-divided into 14 sub criteria. Based on the sector assessments carried out according to the criteria, sectors are classified in four different categories: a) ready for sector approach with some improvements; b) making progress towards sector approach; c) has not started making progress towards sector approach; and d) sector is not ready. The evaluated sectors in BiH include:

- justice;
- home affairs;
- public administration reform;
- social sector development;
- transport;
- environment
- private sector and competitiveness.

Only the sectors of justice and public administration reform were assessed as ready for the sector approach with some improvements. Home affairs and transport were evaluated as sectors which have not yet started making progress towards the sector approach, while the remaining three sectors were evaluated as not ready for sector approach. Although the sector of public administration reform received the highest numeric rating compared to all the sectors assessed, including those in other countries, and the justice sector was ranked among the top five rated sectors; BiH still remains the only country in which sectors received the lowest rating

in terms of readiness. In only two other countries the sectors (Montenegro and Kosovo for sectors of security and justice, respectively) were assessed as not having started making progress towards the sector approach. This analysis shows that, on the whole, BiH in fact scored the lowest in terms of the assessment of readiness for adopting the sector approach in comparison to the other countries included in the assessment.

In addition to the Sector Support Programme, targeted budget support is also available through the IPA funding, e.g. support for hiring additional personnel or procuring current tangible and technical resources. However, this type of support will only be made available for those sectors in which clearly defined strategies already exist, including indicators developed for the purpose of addressing issues in the sector. The targeted support may be illustrated by an example of support provided to BiH which entailed releasing IPA funds in the amount upwards of 7 million Euro (over a two year period) for hiring additional judges to process outstanding war crimes cases. Yet, it was due to the fact that there was a data base which allowed for resource needs analysis that made it possible to obtain this type of support. Considering the state of play in other sectors, as well as the key weaknesses of budget planning systems, it will not be possible to receive targeted budget support in the foreseeable future.<sup>12</sup>

Naturally, in order to ensure maximum impact and (horizontal and vertical) coverage of IPA funded projects, it is necessary to establish mechanisms of coordination between different levels of government as well as within respective sectors. Thus far, the coordination mechanisms established either at the level of sectors or for the purpose of the EU Integration process, have proven largely non-functional or insufficiently effective. The main reasons why the existing coordination mechanisms remained either ineffective or failed to serve as instruments for major sector based reforms included lack of technical capacity to analyse, communicate and plan reform measures as well as lack of political capacity to make major reform decisions based on clearly identified and measurable reform objectives. These issues are addressed in the following section.

## Is the issue of institutional capacities underestimated?

Institutional weaknesses that have remained unaddressed all these years constitute the key obstacle to resolving the issues related to formulating sector strategies and developing coordination mechanisms. The institutional weaknesses pertain to lack of capacity in the institutions across all levels of government to design, implement and finance major socio-economic reforms, i.e. the reforms that would have short-term, medium-term and long-term impact on the existing socio-economic situation in the country. And this rests at the very core of the new IPA II programming approach. At the macro-level, the weaknesses entail an array of institutional issues – starting from the public finance management system, public administration reform ensuring that there are capacities and structures in place which are capable of managing reforms and changes as well as providing public services in effective and efficient manner, through to creation of horizontal and vertical partnerships between public institutions, civil society organisations and citizens. The weaknesses which exist at the micro-level pertain to system of management, planning, communicating and decision making within the institutions.

The rare examples of existing sector strategies and corresponding coordination mechanisms established for the purpose of strategy implementation and monitoring have, with almost no exception, resulted from implementation of donor-funded projects, including the IPA projects. It is often the case that even when the strategies are adopted they remain unconnected to respective budgets and there is very limited responsibility for the implementation of the planned activities or priorities. This is illustrated by the fact that the annual work programmes of the governments or respective line ministries rarely reflect any of the measures or priorities defined in the strategies or policy documents. This is where the most relevant example and the most acute consequence of the institutional weaknesses in BiH may be observed.

In the case of BiH, it is the issue of ownership that proved to be one of the most controversial issues in the context of IPA funding. The issue of the lack of ownership over the reforms does not necessarily imply lack of a single or umbrella institution charged with responsibility for implementation of project activities. Rather, it is the issue of the general inability of the institutions at any level to adopt or incorporate any changes that are either planned or that result from the activities carried

<sup>12</sup> Godišnji izvještaj o finansijskoj pomoći za proširenje za 2012.godinu (2012 Annual Report on Financial Assistance for Enlargement).

out by IPA projects into the existing administrative structures and legal frameworks. The European Commission concluded that „a number of assistance projects in BiH did not achieve the expected results because of an insufficient sense of ownership on the part of the beneficiaries“, which is why the EU now insists on the projects being integral to the country's own reform strategies.<sup>13</sup> The reasons behind the lack of ownership, which affect the quality of sector strategies and establishment of coordination mechanisms, include the following institutional weaknesses:

- There is a lack of adequate data which is needed to carry out sector level analyses, while the existing data is underused. There is a lack of harmonised sector level statistical data which would provide a clear overview of the situation and trends within a sector.
- Public administration still lack adequate capacities (in terms of knowledge and number of staff) to carry out analyses of the data in order to obtain clear insight into the trends and state of play within individual sectors; in other words, there remains the issue of the lack of capacity to develop and analyse policies or to perform legislative impact assessment or policy impact assessments.
- Public administration has not modernised the system of human resource management, which results in lack of capacity building for the purposes of planning and implementing reforms.
- Institutional planning systems are underdeveloped, and the same applies to the institutional management systems. This is reflected in the communication systems between and within the institutions, as well as in the process of institutional and political decision making.
- Very poor or almost nonexistent linkages between institutional plans, public policies and budgets.

In addition, the lower the level of government, the more pronounced are the aforementioned issues. This makes it more difficult, from the institutional point of view, for these levels to participate in an active and meaningful way in the IPA programming process. To some extent, this is the consequence of the marginal implementation of Public Administration Reform Strategy; primarily due to the fact that the issue of institutions and their respective capacities has thus far been viewed from the constitutional and legal or formal vantage point, or from the perspective of power balance between the political parties, but never from the point of view which takes into consideration the ability of the institutions and civil servants to respond to demands in the accession process, take active part in the processes and to assume institutional responsibility.

Notwithstanding some degree of progress in terms of addressing some of these issues, the changes introduced remain insufficient considering the actual needs. The capacities are missing across all sectors and most certainly it is not possible to satisfy the demands of IPA programming and adoption of sector approach without the help from donors and the EU. This is the reason why the European Commission stated, in the BiH Draft Country Strategy Paper, that the EC will continue to help BiH to develop countrywide strategies (in the sectors where strategies do not exist) and set up relevant coordination structures with the aim to arrive at a comprehensive coordinating mechanism on the matters of relevance for the EU Integration<sup>14</sup>.

The main reasons why the existing coordination mechanisms remained either ineffective or failed to serve as instruments for major sector reforms included lack of technical capacity to analyse, communicate and plan reform measures as well as lack of political capacity needed to make major reform decisions based on clearly identified and measurable reform objectives. However, the problem of ineffectiveness of the coordination mechanisms arises due to lack of political accountability, or more precisely accountability entrusted to the political decision makers. It is quite ironic that in BiH, which is a decentralised country, the political decision making is centralised to such a high degree. Considering this, the coordination mechanisms must not be designed in such a way that, while they formally allow for participation of all relevant actors and serve to ensure full consensus in decision-making, they *de facto* become tools which are used

to avoid direct political accountability and essentially serve the purpose of throwing the ball into the court of some other decision-making level.

## Conclusion

The importance of IPA funding for BiH on its pre-accession path and for its European future must not be underestimated. At the current stage in the accession process, the importance of IPA should neither be viewed solely through the prism of how the funds are spent and what impacts are achieved, without understating the importance of these aspects of funding, nor from the perspective of the targeted budget support. It is very likely that BiH will not be eligible for sector approach in the delivery of IPA funds for 2014 in a large number of sectors. In addition, should political blocking continue it is questionable whether sector approach to funding would be possible even in the sectors in which the strategies and the coordination mechanisms do exist. However, it is possible to resolve these problems, and the process of programming for IPA II must be continued and completed as soon as possible. This requires that the BiH Strategy Paper for IPA II is finalized, taking into account the constitutional competencies and administrative structures in the country. Therefore, the following recommendations are made:

- In terms of coordination mechanisms, the issue of the lack of capacities on a technical level cannot be resolved in a short period of time. However, there are some concrete measures that can neutralise negative effects of these institutional weaknesses, particularly in relation to the short-term objective of IPA II programming. It is essential to take necessary steps to determine strategic courses and concrete measures to strengthen institutional capacities on all levels.
- However, these coordination mechanisms have to be functional and they should serve as the main instrument for prompt and effective decision making by relevant executive and legislative authorities and for communicating with them and keeping them informed and not as obstruction mechanisms. Coordination mechanisms, managed and maintained by the BiH institutions themselves will ensure better utilisation of IPA funds. If such mechanisms do not exist, the significant portion of project funds has to be invested to establish, manage and maintain such mechanisms, which in practice means less project resources which directly contribute to strengthening institutions or resolving concrete sector problems. Such development of events has been seen on numerous occasions in IPA projects and projects financed by other donors. Involvement of “lower” levels, particularly cantons, has to be ensured in the context of their constitutional competences in implementation of a large number of reforms pertinent to EU integration and not in the context of securing a better position for political parties.
- The issue of the lack of accountability on a political level is a problem which requires an unconditional, unequivocal and substantial commitment of political decision makers to EU accession of BiH. Of equal importance is their readiness to undertake all necessary measures and activities on a strategic and operational level in order to achieve that.
- Sector approach required by IPA II programming cannot endanger the existing constitutional and territorial organisation of BiH. Therefore, development of sector strategies must not become a fight for protection of constitutional or administrative positions of individual levels of government, which would mean losing sight of real problems from the perspective of citizens and society as a whole.

<sup>13</sup> Godišnji izvještaj o finansijskoj pomoći za proširenje za 2012. godinu (2012 Annual Report on Financial Assistance for Enlargement).

<sup>14</sup> Nacrt IPA II Strateškog dokumenta za BiH za period 2014. – 2017. strana 23. (“Bosnia and Herzegovina Draft Country Strategy Paper (2014-2017)”).

**About FPI BH:** The Foreign Policy Initiative BH (FPI BH; [www.vpi.ba](http://www.vpi.ba)) is a BiH, nongovernmental and non-profit organization founded in Sarajevo in 2004, which is dedicated to analysing international relations and Euro-Atlantic integration processes of BiH. The goal of the FPI BH is to offer assistance to state institutions in removing weaknesses and promoting values present in those processes in order to increase the efficiency of BiH institutions in fulfilling the upcoming obligations.