

**UNIVERSITY OF LJUBLJANA
FACULTY OF ECONOMICS**

MASTER'S THESIS

**A COMPARATIVE ANALYSIS OF THE PRE-ACCESSION FINANCIAL AID
PROGRAMS OF THE EUROPEAN UNION FOR THE WESTERN BALKAN
COUNTRIES**

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INTRODUCTION

The **European Union** (hereinafter: **EU**) is the most important political, economical and monetary alliance in Europe nowadays. Its establishment started very modestly by the end of the 1940s and the beginning of the 1950s, yet the lucid vision of its founders created it as we know it nowadays. It must not be forgotten that the European Union stands for the harmonized integration of some of the oldest countries in the world with very diverse cultures, languages and economic and political systems. The European Union is about unity within diversity (El-Agraa, 2004).

At present, it is composed of 28 member states, meaning 28 national markets all functioning under common governance of the EU institutions. Pacifism, establishing political stability and willingness to boost economical growth were the key ideas of its founders; however, it was the consistent initiative for enlargement that had made the European Union a nation of approximately half a billion inhabitants. The countries which are expecting to enter the great European family in the future are the ones of the Western Balkan region including: **Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro and Serbia**, with **Croatia** leading the way by becoming the first Western Balkan country to join the EU on 01 July 2013. The aforementioned six are still struggling to align with the accession criteria established at the Copenhagen European Council summit in 1993 and get the green light for European integration.

European Union itself plays a significant role in this process by providing constant consultancy to its candidate and potential candidate countries through its Directorate General (hereinafter: DG) Enlargement, but also by establishing pre-accession programs whose scope is to help these states to conform to the European integration criteria and conditions, as well as narrow down their transition period.

The main objective i.e. purpose of this thesis is to provide a thorough analysis of the three main structural pre-accession programs that **the sample** consisted of the seven aforementioned South-East European countries received and are still receiving on the way towards their EU integration. The first evaluated program is **Poland and Hungary: Assistance for Restructuring their Economies** (hereinafter: **PHARE**), followed by the second discussed pre-accession instrument which is the **Community Assistance for Reconstruction, Development and Stabilization** (hereinafter: **CARDS**) and the final one, that is still being implemented at present day, is the **Instrument for Pre-accession Assistance** (hereinafter: **IPA**) program.

In order to better explain the financial instruments and therefore achieve the objective, this thesis shall place its focus on several aspects. First of all, it is going to incorporate a presentation of the main distinguishing characteristics and objectives of the pre-accession instruments for the Western Balkan countries. Furthermore it is going to provide a description (by legal status, eligibility of countries, volume, structures etc.) of the PHARE, CARDS and IPA program objectives. Then it will establish a critical assessment of how the pre-accession funds under the three programs were constructed and performed in general, and in each of the recipient states. The last objective of the thesis is to provide conclusions and recommendations for better use of pre-accession funds in the Western Balkan countries in the future.

Based on the aforementioned objectives, several **research questions** will be addressed in the thesis.

The **first research question** is going to explicate what is the significance of establishing pre-accession programs and what is their implication on the overall development of the Western Balkan countries on their way to the EU.

The European Community has a long history of launching pre-accession programs as an inevitable component of EU's enlargement policy. This method was proven to be successful in the past, since the majority of the former recipient states of EU funding have all successfully accomplished their European integration mission. The pre-accession programs are considered as a tool to directly impact and boost the development of candidate and potential candidate countries. Each program is specifically designed to meet its scope and help the country accelerate the acceptance waiting time by improving its essential areas. Furthermore, it is significant to track the trends of the support consumption, so that the anticipated development can be monitored. In conclusion, this research question tends to disclose the added value the three pre-accession programs brought to the countries and which are the benefits of receiving the funds.

The **second research question** is going to provide explanations which are the priority areas of change in the sample countries and whether the pre-accession programs manage to make an improvement after their implementation.

This subject is useful in order to determine the critical issues the Western Balkan countries are facing that need to be improved or overcome before their accession to the EU. Moreover, this research question should provide an answer whether the objectives of PHARE, CARDS and IPA were met after their implementation and provide an ex post evaluation of the programs. The importance of this question is that it addresses the difference these programs have made in the specific domains which required changes in the Western Balkan countries.

The **third research question** shall try to answer what are the conclusions, critics and lessons for the future of the implementation of PHARE, CARDS and IPA in the countries of the Western Balkan region.

Finally, the aim of the last research question shall be evaluating the results, improvements and failures, if any, of IPA, CARDS and PHARE. Then, it is going to examine and compare whether the mistakes made in the previous program were resolved in the following one and which were the spheres the pre-accession programs have improved.

For the purpose of providing an insightful research of the issue, this thesis is going to be consisted of both - theoretical chapter and a quantitative research.

As far as the theoretical component is concerned, it is going to be incorporated in the first part in order to briefly explain the post-independence characteristics of the Western Balkans and their European integration aspirations, and then connect it to the European Union and its enlargement policies. An accent will be placed on the enlargement policies and perspectives, as well as on the financial instruments that provide support to the states of the Western Balkan region. It is important to start with a concise background description, so that the development of the policies can be kept on track. The theoretical part shall include materials retrieved from pertinent books. On the other hand, the major part of the thesis shall be consisted of qualitative and quantitative research, an in-depth evaluation of the aforementioned pre-accession programs and their implementation in: Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro, Kosovo and Serbia. For that purpose, the research chapters are going to apply information retrieved from: articles, journals which can be gathered from electronic sources, official governmental and EU institutions reports, previous academic research papers providing description and ex post evaluation of the programs, as well as books and other publications.

The **research methods** to be implemented for the scope of achieving the purpose of the thesis are description, critical assessment and in-depth analyses of the PHARE, CARDS and IPA programs in the seven countries of the sample.

A historical narration of the creation of the European Union and its enlargement policy will be the main focus of the **first chapter**. The beginnings of establishing the EU and its predecessors are going to be explained within the first subchapter of the thesis. It shall start with a brief overview of the creation of the European Community and its development into further integration. Furthermore, the second subchapter is going to enclose the openness and progress of the Community for promoting enlargement throughout the years, leading to the third subchapter that shall explain the significance of the concept of pre-accession assistance and its importance in the enlargement policy of EU.

Then, the **second chapter** is going to provide a summary of the pre-accession financial instruments, the timeframe and purpose of their formation, general characteristics of each and a list of the beneficiary countries. It is divided into three subchapters, each devoted to describe one of the respective programs.

The main part of the thesis is going to incorporate the third, fourth and fifth chapter. The **third chapter** shall provide a profound analysis of the PHARE program including its concept, criteria for allocation of funds, volume and structure of funds by various criteria and an assessment of program's implementation. The chapter is consisted of four subchapters created with the scope to explain the four abovementioned characteristics respectively. Subsequently, the CARDS program will be examined in the **fourth chapter**, including all its attributes. The concept of the support is going to be characterized within the first subchapter; the criteria for fund allocation shall be presented in the second subchapter, next the volume and structure of funds by various criteria will be examined within the third subchapter and ultimately an assessment of program's implementation will be presented in the last subchapter of chapter four. The next and final pre-accession program is going to be observed in the **fifth chapter**, also thematically divided in four subchapters as the previous two. Namely, the concept of IPA will be studied in the first subchapter, followed by the criteria for allocation of funds in the second one, the volume and structure of funds by various criteria in the third and finally an assessment of IPA's implementation in the fourth part of the fifth chapter.

Finally, the **sixth chapter** will provide the conclusions that can be derived from the extensive research. In fact, the presented conclusions are going to be the answers to the research questions of the thesis. This chapter shall also suggest recommendations for further implementation of the pre-accession instruments about to follow in the future, after which a list of used literature and references is going to conclude this academic paper.

1 PRE-ACCESSION ASSISTANCE AS AN INSTRUMENT FOR SUPPORTING CANDIDATE COUNTRIES' ACCESSION TO THE EUROPEAN UNION

1.1 Historical overview of the European Union

After the Second World War, Europe was facing numerous colossal and grave problems; a high death toll, hunger, devastated economies and political instability being the most critical of them all. The inhabitants and political leaders of the old continent had encountered a serious challenge to find a mean in order to prevent another dreadful scenario repeating in Europe.

That is how after several decades of strategic thinking and negotiations, the European Union was created (Gilbert, 2012. pp. 9-24).

Creating the **Organization for European Economic Cooperation** (hereinafter: **OEEC**) in 1948 and its positive implications in terms of growth of trade and income as a result of trade liberation, as well as industrial output growth at historically unprecedented rates, have made Europe's leaders realize that the notion of European integration is the most suitable economic development practice, while being the most convenient political solution at the same time.

One of the most important issues that had to be resolved before taking the integration process to the next level was the one of choosing the proper governance style of the newly created integrated community. Two options were put on the table: either federalism or intergovernmentalism (Wallace, Pollack, & Young, 2010). The federalist defenders were arguing that in order to prevent another episode of enmity and antagonism among the European countries, a supranational organization had to be established, one that would take over some of the responsibilities that were executed by national institutions. On the other hand, the intergovernmentalisms' supporters claimed that the best solution would be if power remains within the individual nation-state governance and integration would occur only as a closer economical cooperation (Dedman, 2009; Dinan, 2010; Pinder 2008).

After surpassing the polemics concerning the type of leadership to be implemented to the further and deeper integration, on 09 May 1950 the milestones of federalist Europe were set by the Schuman Declaration that led to the establishment of the **European Coal and Steel Community** (hereinafter: **ECSC**) in 1952 as a foundation for the supplementary developments of the European Union. The ECSC was founded by six countries including: France, Germany, Belgium, Netherlands, Luxemburg and Italy, and its scope was to merge Germany's and France's coal and steel sectors under the control of a supranational authority. This resolution was a radical proof that federalism had prevailed and it was the perfect strategic decision, since at that time coal and steel were considered as essential resources of an industrial economy and crucial to a nation's military and industrial strength.

Soon after the establishment of the ECSC, European leaders comprehended that their current state of integration is not enough and they should take action to unite their nation-states into a deeper economic integration. The outcome after serious negotiations led to signing the Treaty of Rome in 1957 and the establishment of the **European Atomic Energy Community** (hereinafter: **Euratom**) and the **European Economic Community** (hereinafter: **EEC**).

Economic integration was the primary reason for forming these alliances, yet the six founding countries of the ECSC¹ considered there is a need for advanced integration, so they decided to

¹ Referring to: France, Germany, Belgium, Netherlands, Luxemburg and Italy

go even further by removing all the trade barriers among them and imposing a common tariff on the imports of all the non-member nations. The result was creation of a **Customs Union** (hereinafter: **CU**) within the EEC. Seven of the outer countries including: United Kingdom, Switzerland, Austria, Denmark, Sweden, Norway and Portugal decided to respond to this discriminatory policy of the aforementioned six by forming their own community-the **European Free Trade Association** (hereinafter: **EFTA**) in 1960 established at the Stockholm Convention.

The outcome of creating the two opposition blocs (EEC and EFTA) resulted with an increased volume of trade inside the member countries within each bloc due to the diminished trade barriers among them and discriminating the other states, members of the opposition bloc. However, the development growth pace was extraordinarily different among the two. Namely, the members of the EEC had much greater Gross Domestic Product (hereinafter: **GDP**) than the ones of EFTA and therefore became more attractive for external traders. The members of EFTA realized that the opponent alliance is more successful and it created the so called domino theory of regional integration, explained by an additional pressure to the outsiders to join the trade bloc and as it gets bigger-the pressure grows (Baldwin, 1994). Still, it wasn't until 1973 that the EEC had its first enlargement.

The next highly important section into the timeline of European integration was the merger of the European Coal and Steel Committee (hereinafter: **ECSC**), the European Atomic Energy Community and the European Economic Community, creating the so called **European Communities** in 1965.

The beginnings of the formation of the European Union were tough and challenging for policymakers, since there were several issues to discuss and resolve in order to set its milestones. First of all, there was a deeper political integration breakdown which occurred as an outcome of different opinions and misunderstandings concerning unresolved governance issues i.e. unanimity versus majority voting. Furthermore, the stirring circumstances were also not very favourable for creating a monetary union, given the increasing inflation trend coming from the west², as well as the inconvenience of rising oil prices imposed from the east³. Last but not least, an additional problem that countries were encountering in their trading activities was the existence of the so called technical barriers to trade (hereinafter: **TBT**) they were imposing to each other with an explanation that their intention was to protect their consumers.

A solution to these issues came across in the mid 1980s when an initiative for creating a **Single Market Program** (or an **Internal Market Program**) was generated. The idea was

² Referring to the United States of America

³ Referring to the Middle East counties

legitimately implemented by all the member states at 1987. The Single Market Program concept was based on four main factors: free movement of goods, free movement of services, free movement of people and free movement of capital. The creation of the Single Market Program has initiated a new domino theory outcome and had made the EFTA member countries to try and become a part of it (Pinder, 2008, pp. 65-80). Their submissions were carefully revised and they were offered a membership into a newly created **European Economic Area** (hereinafter: **EEA**), where they were obliged to comply with the already existing legislations implemented by the EU members. The required obligations and criteria were hard to meet, therefore as a consequence the EFTA countries had decided to apply for a full EU membership.

After the collapse of the communist system, a new democratic era started being implemented into the countries of Central and Eastern Europe (hereinafter: CEE) in the late 1980s. This revolution in European affairs started in Poland, got accepted in Czechoslovakia and continued in Hungary which opened its border towards Austria. The democratic movement culminated in Eastern Germany where massive protests against the division of the state and its political system were organized. Finally, East and West Germany got united into the Federal Republic of Germany and the collapse of the Berlin Wall on 09 November 1989 symbolically marked it. Soviet republics Lithuania, Latvia and Estonia proclaimed their independence and the end of the communist era was marked in 1991 when the Soviet Union itself fell apart, establishing the EU as the biggest European alliance (Cini, & Perez-Solorzano Borragan, 2010; McCormick, 2007).

1.2 European Union's enlargements

First of all, it is important to clarify the fact that when a country is applying for an EU membership, there is an inevitable common initial difficulty in attaining a balance between the existing member states and their willingness to compromise with the applicants. This is a notion that is going to repeat itself before each enlargement and is usually referred to as a negotiation transitory process. Meanwhile, the European Community had its focus also placed on other policies that were in their implementation phase such as establishing the internal market, trying to establish a European Monetary Union (hereinafter: EMU) and forming the EEA as mentioned before (Staab, 2011; Dinan, 2010; Nugent, 2004; Avery, & Cameron, 1998; Schimmelfennig, & Sedelmeier, 2009).

European enlargement dates all the way back to 1973, when the United Kingdom (hereinafter: UK), Republic of Ireland and Denmark joined the six establishers of the EEC. The former EFTA member countries were facing difficult times as their opposing bloc became more economically powerful (Schneider, 2009). On one hand the UK was one of the initiators of the

EFTA creation, but on the other hand one of the first to realize that its establishment was not a substitute for having a free trade access to the six fastest growing markets of Belgium, Netherlands, Luxembourg, France, Germany and Italy. The first enlargement was slightly delayed as a consequence of French president Charles de Gaulle's two famous *non* in 1963 and later in 1967 and it finally occurred after his retirement (Schimmelfennig, & Sedelmeier, 2009; Thomassen, 2009). Norway, on the other hand opted out, since the potential EU membership was rejected in a referendum.

The expansions to include Greece in 1981 and Portugal and Spain in 1986 were not without their difficulties, but the problems of the applicants were dealt by having extended periods of transition in sensitive areas and by having explicit arrangements to assist in the structural development of disadvantaged regions, which in the case of Portugal meant the whole country (El-Agraa, 2004, pp. 495-496). Another difficulty worth mentioning was the need for CAP adjustment, since it was not balanced between the new enlargement expenditures and the initial Northern European products it was created for. With the 1986 enlargement, a new dynamism was injected into the European Community (hereinafter: EC). This occurrence created a vital reform in the financial system of the EC in the second half of the 1980s. The system which has remained conceptually unchanged ever since, is constituted of two determinants stating that the strategic course of public finance of the European Union and the financial framework for a medium-term period is determined through a medium-term financial perspective, as well as that the implementation and operative advantages of EU's financial plan in terms of the defined medium-term framework must be developed in the annual budget (Mrak, & Uzunov, 2005, p. 15).

The remaining EFTA members stayed neutral in the beginning, but they soon got to realize they have to strengthen themselves, especially the ones that were under the umbrella of the Former Soviet Union, like the case of Finland. As the implementation of the Single Market Program was approaching, there was a mutual interest of both the European Community and especially the EFTA countries to try and deepen their relationship. However, the EFTA members were obliged to accept the SMP conditions and therefore faced the threat to increase a considerable cost advantage throughout the free trade agreements with the European Community. Then the European Economic Area which involved the EC and EFTA countries was created. Switzerland refused to join the EEA in a referendum in 1992.

It seemed like the creation of EEA was a good integrating decision, since the EFTA countries could get access to the internal market without having to grasp the complex agriculture policy and the bureaucratic EU issues. Nevertheless, the EFTA members were not happy with their negotiations, since they were vastly discriminated through the one-sided negotiations with the EC. Namely, the EFTA countries had to comply with the *lat. acquis communautaire*, imply

significant parts of it in their own laws without having much chance to influence and participate in the discussions of future legislation. Essentially, they did not have the same rights as full EU members, even though they shared the same responsibilities. On the other hand, the EU was about to deepen its integration through establishing a monetary union, which was one more reason for the members of EFTA to apply for a full EU membership. On behalf of the EU, there were neither grand threats nor oppositions to this idea, since the potential members were considered to be net contributors to the budget of the EU instead of net beneficiaries. Furthermore, another benefit of their acceptance was that the internal EU market would be expanded and therefore more dynamic, prosperous and efficient. Consecutively, Austria, Finland and Sweden were the next ones to accept the complete *lat. acquis communautaire* and entered the community in January 1995 after short negotiations. Nevertheless, their enthusiasm to join was not that overwhelming, given that the popular view did not quite correspond to either the idea of clear economic benefits or that of obvious political imperatives (El-Agraa, 2004, p. 497; Schimmelfennig, & Sedelmeier, 2009). Norway refused membership yet again after another referendum.

The road of **Central and Eastern European Countries** (hereinafter: **CEEC**) towards their path of European integration had a lengthy nature, since they were at another development stage in comparison to the current member states. At the summit in Copenhagen in year 1993 the European Council has established three crucial principles as a precondition for further enlargement. These concepts have been known as the **Copenhagen criteria** and were introduced due to EU's limited capacity to absorb new members at a lower development level than the current ones. Namely, in order to be eligible to enter the EU, a new Member State had to meet the three following types of criteria:

1. **political**: stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
2. **economical**: existence of a functional market economy and the capacity to cope with competitive pressure and market forces within the Union;
3. **acceptance of the Community *acquis***: ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union (Wallace, Pollack, & Young, 2010, pp. 401-427).

The countries of the CEE bloc have initiated their European integration by signing bilateral agreements with the EU that granted them free trade with the Unions' Single Market. In order to become even more economically competent at a European level, CEEC started creating free trade unions in order to generate more convenient economic conditions among themselves. The most important of them was the **Central European Free Trade Agreement** (hereinafter: **CEFTA**) established in 1991 by: Czechoslovakia (followed by its successors The Czech

Republic and Slovakia since 1993), Hungary and Poland; later joined by Slovenia, Bulgaria and Romania. These countries have successfully accomplished their integration mission within EU's fourth enlargement when ten Central and Eastern European Countries including: Poland, Hungary, Slovakia, the Czech Republic, Slovenia, Estonia, Latvia, Lithuania, Malta and Cyprus joined the Union in 2004 (Sajdik, & Schwarzinger, 2006; Lasas, 2010). However, there was a great dose of hesitancy of the eastern enlargement acceptance in the beginning. It was an outcome of the fact that these countries were generally poor, populous and agrarian and the developed EU members considered them as net recipients of the EU budget and therefore a threat since overall 80% of the budget is devoted to the **Common Agriculture Policy** (hereinafter: **CAP**) and to the **Cohesion Policy** that promotes solidarity by redistributing funds to the countries that are well-off to the less developed ones. At the end, affirmative enlargement policy prevailed over the enlargement scepticism and most of the CEEC were accepted into the EU.

It was inevitable that the institutions procedures had to be modified in order to comply with the new enlargement. Political and governmental questions like the role of the European Parliament (hereinafter: EP), the proper number of European Commissioners, the voting rules at the Council of Ministers had to be reformed prior the enlargement, providing a precise division of power between member states. As far as EU's economy was concerned, there are four major economic facets related to enlargement that are worth exploring at this juncture (El-Agraa, 2004, p. 502):

1. the budgetary cost particularly related to encouraging structural adjustment and to implementing the Common Agricultural Policy (CAP);
2. the impact on labour mobility;
3. the manageability of economic institutions;
4. the problem of achieving convergence in the context of European Monetary Union (EMU).

After several serious governance changes and enlargement adjustments, the European Union was readily expecting its new coming members all through the years. The sixth enlargement occurred in January 2007 when Bulgaria and Romania stepped in the European Union. The last one to enter was Croatia which joined the Union in July 2013. From the EU perspective enlargement is part of its mission and vision and from the applicants point of view it is a reflection of their confidence that the EU is their future. As the EU becomes more mature, involves more member states and encompasses more aspects of public policy, it will face a complex set of decisions about how it should organize itself for the greatest benefit (El-Agraa, 2004, p. 493). It is now consisted of 28 full member states, with clear growth prospects.

The next enlargement chapter is almost guaranteed for the countries of the Western Balkan, which have shown their clear interest to join the alliance.

A new chapter in the European history certainly started with the fall of the Berlin Wall. Simultaneously, a withdrawal of the Soviet domination starts at the Balkan. The West couldn't have been happier, since this change represented a historic opportunity to establish its authority over the region and create a united converged continent. However, in 1991 the war in Yugoslavia has started and the Yugoslav values of brotherhood, unity and progress were wiped out and already forgotten putting aside the initially created euphoria of constructing a cohesive Europe. Nations sharing the same language claim they can no longer think of a common future together, throw away their federalist order and claim for their state-nations. Nationalism starts spreading among all Yugoslav countries and tears the federation apart. Parallel to the breakdown of Yugoslavia, the democratic evolution of Albania is characterized as slow and not transparent. New information channels such as newspapers, magazines, televisions; new political parties with different ideologies start being established to mark the new social order. On the contrary, the economy within most of the markets of the Western Balkan region starts shrinking as an outcome of the protectionism and restricting import measures each country is imposing in order to protect the national producers (Lory, 1996).

Ever since the post-war and post-communist reconstruction of the Western Balkan countries in the early 1990s, the European Union has been their partner, supporting them reconcile, reconstruct and fabricate democratic stabilization encouraging and helping them during the transition period. The enlargement process has begun with Croatia as the last EU Member State. Three of the Western Balkan countries hold a candidate status-Macedonia since 2005, Montenegro since 2012 and Serbia since 2012 as well; whereas the remaining three- Bosnia and Herzegovina, Albania and Kosovo are still potential candidates.

In the eyes of an external observer, the Balkan is often considered as a difficult and tricky riddle. As a geographical region populated by several dominant nations which have different languages, it was brought to the attention of the developed Western countries after becoming an arena of war and fright. The only hope for surpassing this stipulation lies in the examples of maintaining excellent relations among the European Union nations. Namely, many countries in Western and Central Europe used to have adverse relations with each other after the Second World War, but they seem to be surpassed (Uzunov, 2005, pp. 225-227). Likewise, after years of confrontation and disagreement, the Western Balkan countries are slowly starting to normalize their relations under the auspices and direction of the European Union. For the Balkan countries the internalization at all levels is essential for long-term economic growth (Stanovnik, 2011, p. 12).

There are several mutual characteristics that can be generally attributed to the Western Balkan states and they are the following ones:

- Low income rates;

- Unsatisfactory agriculture production, with a low productivity rate;
- Internal trade dominance;
- Incomplete conversion into a free market economy;
- Heavy state regulative and intervention, which enhances grey market activities;
- Declining and unprofitable sectors of the state that continue wasting big portions of economical resources;
- Stagnation of the development of the private sector;
- Increasing budgetary deficits;
- Fiscal and monetary weaknesses as a threat of the overall stability;
- State interventionism which has a negative effect on the external economic relations;
- Weak foreign trade channels;
- Low investment and saving rates;
- Unsustainable external debt and deficit;
- Bad international relations that got even worse in the 1990s;
- Poorly established state institutional structure;
- Wasted human capital in the period of conflict transition;
- Worsened social security of the population (Uzunov, 2005, pp. 230-231).

On the other hand, there are also instruments which are highly recommended to be implemented in the development strategy that can help overcoming the aforementioned impediments. They are the following ones:

- Forming stable trade connections with the EU market;
- Encouraging growth of the export oriented production;
- Inflow of foreign loans and direct investments without increasing the overall indebtedness;
- Foreign aid usage, but only on the short-term.

Enlargement is an issue in the interest of the European Union, but a carefully managed one. Politically the enlargement process helped the EU to respond to major changes such as the collapse of communism. Economically, enlargement increased prosperity and competitiveness, as well it was the right answer to the globalization question. The enlarged Union responded better to the challenges of globalization. Unity increased the significance of EU in the world and made it a better player on the global scene (Bilbilovska, & Bilbilovska, 2007, p. 142). Analyses have shown that the EU enlargement so far was determined by several factors and it still gravely impacts the Western Balkan negotiations. Namely, one of the factors of regulation is the contractual basis i.e. regulations within the EU determining the course of the enlargement process and whether the expansion decision can be brought unanimously or it is possible to pass with majority voting. Furthermore, another important circumstance is the

gap between enlargement and deepening cooperation. Expansion was determined from the very first beginning of the establishment of EEA. However, member states have not continuously pursued enlargement by all means. The explanation behind it is the fear that an increased number of member states would automatically mean greater heterogeneity, which could make cooperation more difficult to handle. Therefore, the impact of possible negative consequences is also discussed in advance, prior extension. Special interests of EU member states are also discussed within the negotiations, bearing in mind that some sectors of member states' economies may be affected, even threatened by candidate country's products. Last but not least, the biggest concern is that enlargement could affect national interests due to the possibility that newly accepted countries can greatly affect decision making (Acin, 2007).

1.3 The concept of pre-accession assistance

After each executed enlargement, the EU is intensively upgrading its new action plan of the following one. Clearly, European integration is one of the priorities of the European Community, as well as a challenge due to the increased number of members through the years and the economical and social differences between the member and candidate countries. It was mentioned before that the enlargement process has a complicated and costly nature which requires changes and adjustments on behalf of the candidate country towards the lat. *acquis communautaire*. It is not just about political will and effective negotiations. It is much more about instruments and strategies, about the Accession or European Partnerships, screening process, harmonization of the laws, the ability to manage the EU accession-related funds and technical assistance, and last, but not least, it is about improving the management capacities and building up more effective institutional structure on both sides (Gjorgjievski, 2008, p. 70). It necessitates a great amount of effort on behalf of the candidate country, yet also a grand dose of support from the EU within the overall procedure. The system of public finance of the European Community, later the EU, was concurrently developing with the institution itself. The course of European integration which has been experiencing a continuous expansion trend throughout the years was consequently stipulating financial resources for its activities. Besides the administrative issues, there were also costs addressed to the development and implementation of various policies (Mrak, & Uzunov, 2005, p. 13). Given that the European Union stands for a partnership lying on the base of cohesion and collaboration, two of its most important policy goals within the last three decades have been improving the economic and social cohesion among the current EU member states and providing support for the economic and social development of countries which are not member states including the ones that are going through the acceptance negotiation process, as well as for those who belong to other regions of the world and are never going to become a part of the Union. By promoting cohesion, the EU marks its contribution for a harmonic and sustainable development of the economic activities, increasing employment, human resource development, also for protection

of the environment. Although establishing priorities for economic and social development is entitled as a preliminary responsibility of the countries and regions within their borders, still the partial project and program financing on behalf of the European Union gives it the responsibility to participate in priority founding and aligning them to EU's economic and social dimension (Mrak, & Uzunov, 2005).

A substantial amount of financial support from the budget of EU is allocated for the scope of accomplishing the implementation of the aforementioned policy goals. The current member states are receiving their part of the financial aid through the cohesion fund of the EU. However, as far as countries outside of the EU borders are concerned, their part of the funds has to be channelized through the pre-accession financial aid programs for the countries included into the negotiation process to the Union as a mean of implementing the foreign economic and social cohesion. These instruments involve long-term planning towards narrowing the gaps and candidate country adjustment to the EU standards. Furthermore, the documentation requires grouping of the national with the Union's financial resources so that the stated purpose can be achieved. Last but not least, in order to receive financial support from the pre-accession programs the minimal standards for implementation, management and financial control over the resources have to be met. In case if these basic criteria are not fulfilled, the European Commission may diminish or even block the support distribution (Mrak, & Uzunov, 2005, p. 43).

The European Union has established several pre-accession enlargement financial aid programs with the purpose of helping its candidate countries and the potential candidates to overcome possible difficulties of their negotiation and therefore accession process. It is however important to differentiate the financial support allocated to candidates and potential candidate countries. To be precise, potential candidates have the advantage of utilizing some budgetary instruments of the EU meant for supporting economic and social development. Still, once the country starts the accession process, it attains the right of financial help from Union's budget which has a different character. The key objective of candidate country's support is not overall development, but preparation of the state for full EU membership, and in that context also for the cohesion policy of the Union (Mrak, & Uzunov, 2005, p. 21).

The main scope of these programs is to diminish the transition period of applicants by helping them develop the specific sections. This was proven to be a successful method, since many of the current EU member states have been receiving pre-accession financial aid within their negotiations, which have helped them fulfil the accession criteria and become eligible to enter the European Community. In fact, the PHARE (Poland and Hungary: Assistance for Restructuring their Economies) program was initially intended for Poland and Hungary, but then started being distributed to other candidate countries as well. Led by this notion, the

European Union has proceeded to pursue this trend of establishing financial aid programs to its future members.

The Western Balkan countries are greatly included and entitled to several financial aid programs from the EU. Nevertheless, there are three most relevant pre-accession financial programs that are going to be profoundly studied in this research. For the purpose of the master thesis, I am going to extensively examine the PHARE, CARDS and IPA programs.

2 OVERVIEW OF THE PRE-ACCESSION ASSISTANCE TO THE WESTERN BALKAN COUNTRIES

2.1 PHARE – period from 1997 to 1999

The **PHARE (Poland and Hungary: Assistance for Restructuring their Economies)** program represents the most important financial support to the Central and Eastern European countries which have applied for EU membership. Established in 1989 at the initiative of the European Community, it was originally determined for the Republic of Hungary and the Polish People's Republic as a tool for implementing the pre-accession strategy and preparation for further European integration. Moreover, the program has spread to countries that have already signed agreements with the European Union, which would later on lead them to full membership. Apart from Poland and Hungary, PHARE has also spread and assisted most of the countries of the 2004 enlargement i.e. Slovenia, Slovakia, Czech Republic, Estonia, Latvia and Lithuania, as well as both of the countries of the 2007 enlargement-Bulgaria and Romania.

This program played a major role and had direct contribution to EU enlargement. As candidate countries were improving along their accession processes, the role of PHARE also increased and it got expanded. Consequently, so did its budget and therefore the Western Balkan countries were also included in the list of beneficiaries of this financial instrument starting from 1997 until the year of 1999. A priority in the relationship among the European Union as donor and the Western Balkan countries as support beneficiaries in the period of the 1990s was particularly given to the crisis management and reconstruction as a consequence of the war and bloodshed after Yugoslavia's separation. PHARE was then substituted with the CARDS program as its successor. Characteristically, the word *phare* means lighthouse in French. (Nikolova, 2008, p. 89)

2.2 CARDS – period from 2000 to 2006

The *Western Balkans* expression itself was a creation of the European Union, only with the best intention to integrate this region. The European Community still remains the single largest financial supporter to the Balkan countries ever since the 1990s. The broader objective

of **CARDS (Community Assistance for Reconstruction, Development and Stabilization)** was to provide community assistance to each of the South-Eastern European countries i.e. Macedonia, Bosnia and Herzegovina, Croatia, Albania and the Federal Republic of Yugoslavia (now constituted of the three independent republics of Serbia, Montenegro and Kosovo), as well as the region as a whole in the Stabilization and Association process to the EU. This program was characterized by a much more structured approach than the one used before. It included bilateral cooperation tailored to the specific needs of the Western-Balkan countries, as well as regional cooperation among them (Szeplér, 2008, p. 9).

This financial instrument was launched in the year 2000 and has been the single provider of pre-accession assistance for the Western Balkan region until 2006. CARDS was initially intended for reconstruction, development and stabilization just as its name indicates. Nevertheless, its priorities switched to institution building missions in a short while, after the end of its post-war and post-communist reconstruction. Starting from 2007, the program was replaced by IPA.

2.3 IPA – period from 2007 to 2013

The **Instrument for Pre-accession Assistance (IPA)** is the most recent, still ongoing financial instrument designed by the European Union to support the South-East European region. The program was instituted at the end of 2006 and started being implemented in the beginning of 2007 in order to fully replace its predecessor.

The biggest novelty within the program is its section i.e. component division. Namely, the Instrument for Pre-Accession Assistance is segregated in five parts, each of them representing a priority area. The respective level of European integration of the Western Balkan countries corresponds to their eligibility to receive the allocated funds under each of the components.

Comparing it to its predecessors, the conclusion that can be derived is that it certainly has a more structural approach unlike the previous programs which were characteristic for their ad hoc actions. This tendency also means that the forms and conditions of support are gradually becoming much more in line with the patterns of EU support used earlier (in the case of earlier enlargements) (Szeplér, 2008, p. 9). On the other hand, the magnitudes of significance of the tasks within the scope of IPA's predecessors were additionally difficult.

This pre-accession instrument is supposed to finish at the end of 2013, when it is planned to be substituted by its extension- the IPA II program.

A detailed quantitative research of the three respective financial instruments is to follow within the next three chapters.

3 DETAILED PRESENTATION AND ASSESSMENT OF THE PHARE (POLAND AND HUNGARY ASSISTANCE FOR RESTRUCTURING THEIR ECONOMIES) PROGRAM

3.1 Concept

During the 1990s, the European Community i.e. the European Union was trying to follow the turbulent happenings on the Balkan Peninsula with great interest, yet it was still lagging behind. The outcomes of the transformation of the Western Balkan countries were enormous. On the ruins of the former Socialist Federal Republic of Yugoslavia, several small countries have emerged as its successors. In some cases the independence process was relatively swift, like the case of Slovenia. Other countries gained their autonomy in a fundamentally peaceful manner, such as the cases of Macedonia and Montenegro, whereas in other cases independence held a high price being a result of bloody wars, like the cases of Croatia, Bosnia and Herzegovina and Serbia. The European Community soon got to realize that instead of having to deal with the relatively developed and open old Yugoslavia with good chances of receiving EU membership soon, the European Union now had to build up a new system of relationships with the newly established countries. Financial assistance was meant to be a part of such a system from the very first beginning (Szemplér, 2008, p. 10).

PHARE was one of the pioneering established programs for pre-accession assistance which became available to the Western Balkan countries. Nevertheless, not all the states were its beneficiaries, since this program was only available for **Albania, Bosnia and Herzegovina, Macedonia and Croatia**. The compulsory precondition required for receiving the support, was a signed European Agreement between the Commission of the European Communities (i.e. the European Commission) and the (potential) candidate countries.

Created in 1989, this program was focused on the CEE countries' European integration preparation, as they were planned to become a part of the next EU enlargement, before it got spread to the South-East European states. The extension was an outcome of the conclusions of the European Council's summit held in Luxembourg in the year of 1997, where it was agreed to start negotiating with some of the countries about the possibility of their accession to the EU.

The roles and responsibilities of the implementation of PHARE were well distributed among several parties. Namely, the financial questions were discussed by the budgetary authorities of the European Community, consisted of the European Parliament and the Council of the EU, whereas the management issues were a concern of the European Commission as a responsible authority. The implementation of the program is a responsibility of the recipient countries and is characterized as highly decentralized.

There are six core actors in the decentralized arrangement of managing programs' implementation. First of all, there is the **National Aid Coordinator** (hereinafter: **NAC**). This person holds the responsibility to provide coordination at the level of programming with the scope of establishing a close parallel relationship between the accession process in general and the financial support utilization of the European Community. In addition, the NAC also holds the role of surveillance of the PHARE projects. He/she is most likely to be a higher level public servant appointed by the national government. Furthermore along the scale there is the **National Authorizing Officer** (hereinafter: **NAO**). The responsibility of NAO encompasses four main functions including: financial management of all the programs, addressing recipients' requests to the European Commission and accepting the financial resources provided to the country, allocating the support to the actual users and finally, providing financial reports to the Commission. This person is normally from the state ministry with central budgetary authority (e.g. Ministry of Finance). The third actor is the **National Fund**, which is in fact the sole channel that enables the arrival of the pre-accession support to its beneficiary country. In addition, there are the **Program Authorizing Officers in the respective Implementing Agencies**, which are regularly located within some ministry or administrative institution of the recipient state. The Implementing Agencies are responsible for implementing the PHARE projects under surveillance of National Authorizing Officer. Their function is to implement the tender procedures and other established program elements, whereas the ministries and/or administrative institutions that enjoy a direct benefit from the support are preserved with the right to select and monitor the projects. An example for such an agency is the Central Financing and Contracting Unit (hereinafter: CFCU). The multi-sectoral institution building programs are conducted under the supervision of CFCU, but it is also a specialized agency for administrative and financial management of related operations. The **Final Users** is a broader category incorporating all the institutions, municipal administrations, ministries and similar establishments that have the right of utilizing the provided financial support. They all represent contracting parties who hold responsibility for implementing the projects, especially if they have a financial contribution since the primary financial regulation of PHARE states that all the projects must be co-financed. Last but not least, the **Delegations of the European Commission** represent intermediary between the respective countries and the European Community and if the continuing transfer of authority and responsibility are taken into account, then the vast number of projects in the beneficiary countries are going towards an expanded Decentralized Implementation System (hereinafter: DIS) (Mrak, & Uzunov, 2005, pp. 44-45).

One of the most important issues this program had to face from the beginning of its institution was the regional EU policy and the adjustment it had to face after the upcoming enlargements, mainly due to the low GDP per capita and the centralized administrative structures of the candidate countries. Furthermore, it used to be a complicated and timely process of post-

communist decentralization, as a result of the lack of comprehensive regional development strategies (Bailey, & De Propriis, 2004, pp. 77-78). This financial assistance instrument was designed in a way to help (potential) candidates properly prepare prior they start receiving the structural funds of EU. For this purpose, there were tools intended to assist successful implementation of the objectives of PHARE such as the Twinning Instrument which was supposed to enable knowledge transfer and the Multi-Annual Programming (hereinafter: MAP). Some analysts claim the Twinning to be the key PHARE instrument. It is a common initiative that engages the candidate countries, member states and the European Commission. Twinning matches civil servants in a candidate country with civil servants in a member state to work together on a specific project within the broader scope of building institutional capacity in candidate countries (Bailey, & De Propriis, 2004, p. 86).

In the beginning of its establishment PHARE was classified as demand-driven, which meant that it fulfilled the needs and requirements for assistance of the governments by establishing projects that could be in any area determined by recipients. However, by the time the Western Balkan countries were included as beneficiaries at the Luxembourg Council meeting in 1997 it changed its character into an accession-driven program, focusing on pre-accession priorities, including their timetable and resources identified by the European Commission (Bailey, & De Propriis, 2004, p. 82). The national programs for adoption of the lat. *acquis communautaire* were then supervised and presented to the Commission through regular reports on each (potential) candidate country respectively, ascertaining PHARE as the first pre-accession program i.e. a crucial element and base of Commission's strategy for preparing candidate countries for future membership.

Although PHARE was established as a grant program, the implementation of projects in the Western Balkan countries was conducted by co-financing partnership on the behalf of the European Bank for Reconstruction and Development (hereinafter: EBRD), World Bank (hereinafter: WB), the European Investment Bank (hereinafter: EIB), limited commercial bank funding and finally, the national governments of candidate countries.

This instrument requires national co-financing, since it can cover up to 75% of the overall costs and up to 100% for institution (capacity) building projects. The financial resources of PHARE to its beneficiaries are managed in a decentralized manner i.e. on behalf of the candidate countries themselves. As discussed earlier in this section, decentralization involves transferring the responsibilities from the European Commission to recipient countries. To be exact, it means that the responsibilities for: calls for proposals, contracts, as well as for the financial and administrative implementation of the planned projects are taken over by the beneficiary and its institutions i.e. the Contracting Authorities. There are two levels of programming and completing the process of decentralization for the pre-accession

instruments. The first one is based on ex-ante approval, followed by its extension- the ex post control (Mrak, & Uzunov, 2005, p. 44)

Priorities of this program have slightly varied through time. Namely, within its initial phase the main concerns of PHARE were the following: justice and home affairs, economic and social development, democratic stabilization, technical assistance at government and ministry level in the domains of public finance, agriculture, privatization, environment and natural resources, administrative (i.e. institution) capacity building and other areas of assistance (Bailey, & De Propriis, 2004; Szemplér, 2008, p. 9). The importance of financial planning is proven by the fact that the negotiations concerning financial issues have always been most time consuming and complex among the member states, but also for the overall European Community itself. These difficult negotiations are essential for determining country's contribution to the EU budget, as well as the allocation of its costs (Mrak, & Uzunov, 2005, p. 13). There was another important issue that required assistance for preserving peace and stability in the region. For that purpose, a key priority within the scope of PHARE was also given to the regional development, supported by the cross-border cooperation programs.

Critics claimed that the scope of this instrument for pre-accession assistance is too broad and negatively affects performance; therefore two new financial programs were promoted on behalf of the EU alongside PHARE. The novelties were the Instrument for Structural Policies for Pre-Accession (hereinafter: ISPA) and the Special Accession Program for Agricultural and Rural Development (hereinafter: SAPARD). The tasks among these two were divided in a way that ISPA was supposed to assist countries in getting familiar with the Cohesion Funds and SAPARD was entitled to provide assistance with the Common Agricultural Policy, releasing PHARE of these activities. The newly created situation defined a new distribution of objectives to PHARE. Programs' scope of objectives was then segregated in three main parts, first one focusing on executing co-financed projects on institution building, second one targeted to support the lat. *acquis communautaire* implementation in candidate countries and the final remaining one was to pursue economic and social cohesion by developing mechanisms and institutions to implement the structural funds after accession (Bailey, & De Propriis, 2004, p. 83). These new structural changes did not affect the Western Balkan countries gravely, except for Croatia which became a PHARE beneficiary later than the remaining countries. The reason behind is that the Instrument for Structural Policies for Pre-Accession as well as the Special Accession Program for Agricultural and Rural Development were presented in year 2000 and were intended to be pursued in other candidate countries, whereas CARDS was introduced as the new pre-accession instrument for the Western Balkan countries and a substitute of the PHARE program.

3.2 Criteria for allocation of funds

The Poland and Hungary Assistance for Reconstructing their Economies i.e. PHARE program was the first pre-accession fund dedicated to the CEE countries. As the political situation in Central and Eastern Europe developed, PHARE's geographical coverage was gradually extended and its budget has also increased (Commission of the European Communities, 1998, p. 1). At the time of its expansion to the Western Balkan countries, they still haven't submitted their applications for EU membership, therefore in the beginning it was not accession oriented.

Apart from its geographical growth and the increase of funds, the nature of PHARE has also evolved. In the beginning the projects were principally focused on the immediate needs of transition economies for critical aid and institutional reform, although as the transition process continued improving, the scope of programs supported by PHARE widened to address longer term economic development and investment requirements (Commission of the European Communities, 1998, p. 1). Generally speaking, PHARE has two basic overriding priorities where the greater parts of funds are allocated. They are: Institution Building with an estimated 30% of PHARE funds available for this purpose and secondly, the need to support investments in order to achieve progress in addressing sectoral, regional and structural imbalances in the economies of the recipient countries (Commission of the European Communities, 1998, p. 5) incorporating approximately 70% of the distributed support. The fund allocation may be a subject of change depending on the needs and development stage of the beneficiary states.

As discussed, the PHARE program was principally demand-driven giving partnering (i.e. beneficiary) countries the authority to be the driving force and decision makers upon the nature of projects their state requires. In the beginning these countries were the main actors deciding in which spheres the funds should be allocated. Moreover, the program was initially intended to modestly provide a maximum of 15% for the co-financing of a large scale infrastructure projects, however at the meeting of the European Council in Essen, Germany, a pre-accession strategy was adopted ascertaining PHARE as the first accession driven financial instrument for (potential) candidate countries. Another important issue that the Essen council brought was a confirmation of the Multi-Annual Programming approach.

In addition to the Copenhagen European Council meeting in year 1993 and the three compulsory criteria for further EU enlargement concerning the role of institutions, free market economy and obligations for membership; PHARE was the first program to provide fund distribution for the scope of strengthening the administrative structures in the pre-accession context, so that the countries would meet the obligations for membership. The change in PHARE policy towards a prioritized accession-driven approach will be complemented by changes in the way in which PHARE is managed, aimed at improving the speed, efficiency, effectiveness and transparency of its activities (Commission of the European Communities, 1998, p. 3).

The first and fundamental precondition for a country to become an eligible beneficiary of the allocated funds is to have a signed Accession Partnership with the European Union. Furthermore, the priority areas, standards, intermediate objectives and other conditions are a decision of the European Council. All these attributes are going to be summarized in one document for each country respectively, based on the opinions and the subsequent work of the Council, and they shall evaluate the priority areas that are crucial for future European integration, as well as the manner and means of PHARE's support within the overall process.

This shall be complemented by the National Programs for the Adoption of the Acquis (hereinafter: NPAA), that are going to provide a description each country's commitments with regard to achieving the criteria adopted at the Copenhagen Council, taking on the lat. *acquis communautaire* (Commission of the European Communities, 1998, pp. 3). The Accession Partnerships have a multi-annual character and are supposed to be reviewed at regular intervals. They include the pre-accession period and then present the framework of the multi-annual programming to support the recipient countries. The ultimate scope of this practice is to prepare and enable the states and other co-financing parties to plan and develop programs ready for immediate implementation in the future. Accession Partnerships also presents the foundation for programming PHARE National Programs and Cross-Border Cooperation Programs.

As far as the national governance of the allocated funds is concerned, the main responsibilities here are divided among the National Aid Coordinator, National Authorizing Officer, National Fund, Program Authorizing Officers in the respective Implementing Agencies and the Delegations of the European Commission (see Chapter 3.1).

Although the program is based on Multi-Annual Programming, its budget is adopted on an annual basis by the Budgetary Authorities (Commission of the European Communities, 1998, p. 4). The final decisions on whether the PHARE program would provide financial assistance to certain projects within the identified priorities in the Accession Partnership is a full responsibility of the Commission of the European Communities and is contained within the Financing Memorandum for each beneficiary. Apart from categorizing the projects which are going to be implemented, the Financing Memorandum also encloses the roles, responsibilities and commitments of the recipient country.

Even though accession preparations require extensive work and have a costly nature, the PHARE program has very limited investment resources; therefore there have to be rigorous standards during the project selection and evaluation processes in order to maximize the outcomes. In such cases, the following criteria for investment support are applied:

1. **Catalytic principle:** PHARE funding must catalyze a priority accession driven action that would otherwise have not taken place or which would have taken place at a later date.

2. **Co-financing principle:** The program must use its grants to attract as much co-financing as possible from all sources to investment support projects. Large scale infrastructure projects shall always be co-financed with International Financial Institutions (hereinafter: IFI). As a rule, investment projects will be co-financed by the beneficiary.
3. **Additionality:** PHARE intervention shall not displace other financiers, especially from the private sector or IFI system.
4. **Project Readiness and Size:** Projects will only be financed by PHARE if they are ready for contracting and once all the necessary technical studies have been completed, where required.
5. **Sustainability standard:** The investment actions supported should be sustainable in the long term beyond the date of accession. As such, they must comply with EU norms and standards, be coherent with the sector policies of the EU and respect the principle of sustainable development (for instance by means of environmental appraisal), as well as be financially sustainable to cover future maintenance and operating costs.
6. **Competition criteria:** all actions financed must respect the competition provisions of the Europe Agreements (Commission of the European Communities, 1998, p. 13).

The provided PHARE support shall be contracted on the foundation of established procedures and in conformity with the Commission's Financial Regulation. Moreover, supplementary attention shall be put on European Union's visibility through the implemented projects.

3.3 Volume and structure of funds by various criteria

In June 1995, the European Council held a meeting in Cannes where the financial allocation of PHARE for the period between years 1995 and 1999 was confirmed. The Council agreed upon an amount of 6.693 billion ECU (European Currency Unit, the former monetary unit), thus providing the basis for indicative multi-annual programming. About 3 billion of the overall resources remained to be utilized within the period between 1998 and 1999 when the Western Balkan countries were eligible PHARE beneficiaries (Commission of the European Communities, 1998, p. 4). The allocation was a responsibility of the budgetary authorities within their annual budget decisions. Accordingly, from 1998 to 2000 this pre-accession support focused on institution (i.e. capacity) building (according for around 30 per cent of the budget) and investment support for infrastructure rebuilding, mainly in the areas of transport, environment and agriculture, plus border crossings (especially those that post-enlargement will become the external EU borders) (Bailey, & De Propriis, 2004, p. 82). Starting from 1990, the Western Balkan region was provided with financial support in the amount of over Euro (hereinafter: EUR) 5.5 billion, within PHARE and the other two available programs targeted for these countries in the 1990s – European Community Humanitarian Office (hereinafter: ECHO) and OBNOVA.

Albania, Macedonia, Bosnia and Herzegovina and Croatia were the eligible PHARE beneficiaries. The intended support for Croatia arrived with a slight delay⁴; therefore in this research Croatia's evaluation shall be treated separately from the remaining three states.

Before becoming officially eligible for receiving the benefits of PHARE, Albania, Bosnia and Herzegovina and Macedonia were still receiving PHARE support in times of urgency. The assistance was arriving in the first half of the 1990s through the ECHO and OBNOVA programs. ECHO provided humanitarian aid such as critical aid supplies, technical assistance and other support of a similar character, whereas OBNOVA met the needs of the region which was just recuperating from the recent conflict while keeping focus on reconstruction and repopulation of the region, promoting peace between various groups, as well as preventing a recent possible occurrence of violence. PHARE had a long-term perspective with an accent on issues concerning development, as institution building (Mrak, & Uzunov, 2005, p. 49). The fund allocation of PHARE in its Western Balkan recipients is to follow.

Table 1. Funds allocated by sector to Albania from 1990-1996 (in ECU million)

| | 1990-1993 | 1994 | 1995 | 1996 |
|--|------------------|-------------|-------------|-------------|
| Administrational reform, public institutions, approximation of laws, consumer protection | 1.1 | 4.6 | 0.0 | 8.8 |
| Agricultural restructuring | 25.0 | 5.0 | 0.0 | 1.7 |
| Civil society and democratization | 0.0 | 0.0 | 0.0 | 0.0 |
| Critical aid | 67.5 | 7.0 | 0.0 | 0.0 |
| Education, training and research | 3.7 | 2.4 | 3.5 | 4.0 |
| Environment and nuclear safety | 3.3 | 0.0 | 0.0 | 1.5 |
| Infrastructure (energy, transport, telecommunications) | 4.3 | 23.0 | 34.0 | 37.0 |
| Private sector, financial sector, integrated regional measures | 77.0 | 0.0 | 43.5 | 0.0 |
| Social development, employment and public health | 6.0 | 7.0 | 0.0 | 0.0 |
| Other (Multidisciplinary, general technical assistance etc.) | 3.8 | 0.0 | 7.0 | 0.0 |
| TOTAL | 191.8 | 49.0 | 88.0 | 53.0 |

Source: Commission of the European Communities, *The PHARE Annual Report 1997*, p. 91.

⁴ In 2005, Croatia started its EU accession negotiations and obviously it also got an access to PHARE funds that were available to EU-12 in the period 2000-2006 (at that time, these countries were eligible for three pre-accession assistance funds – PHARE, ISPA and Sapard)

Table 1 presents a detailed presentation of the total distributed support by categories in Albania within the period starting with year 1990 and terminating with 1996.

Namely, Albania was the biggest beneficiary in the region in the period between 1990 and 1996 with a total of ECU⁵ 381.8 million. The domain which received the greatest amount of allocated funds was the private and financial sector and the integrated regional measures with an overall of ECU 120.5 million. The second most financed section was infrastructure incorporating support in the amount of ECU 98.3 million. It was then followed by the critical aid donations especially in the beginning of the measurement period.

The second country on the list of recipients is Bosnia and Herzegovina. The distribution in this state equals to ECU 177.3 million and practically all the funds were used as critical support for the war in the country that lasted from 1992 to year 1995. Its support distribution by categories is to follow in Table 2.

Table 2. Funds allocated by sector to Bosnia and Herzegovina from 1990-1996 (in ECU million)

| | 1990-1993 | 1994 | 1995 | 1996 |
|--|------------------|-------------|-------------|--------------|
| Administrational reform, public institutions, approximation of laws, consumer protection | 0.0 | 0.0 | 0.0 | 9.0 |
| Agricultural restructuring | 0.0 | 0.0 | 0.0 | 0.0 |
| Civil society and democratization | 0.0 | 0.0 | 0.0 | 0.0 |
| Critical aid | 37.3 | 0.0 | 0.0 | 125.0 |
| Education, training and research | 0.0 | 0.0 | 0.0 | 1.0 |
| Environment and nuclear safety | 0.0 | 0.0 | 0.0 | 0.0 |
| Infrastructure (energy, transport, telecommunications) | 0.0 | 0.0 | 0.0 | 0.0 |
| Private sectors, financial sector, integrated regional measures | 0.0 | 0.0 | 0.0 | 3.0 |
| Social development, employment and public health | 0.0 | 0.0 | 0.0 | 0.0 |
| Other (Multidisciplinary, general technical assistance etc.) | 0.0 | 0.0 | 0.0 | 2.0 |
| TOTAL | 37.3 | 0.0 | 0.0 | 140.0 |

Source: Commission of the European Communities, *The PHARE Annual Report 1997*, p. 91.

In the cases of Bosnia and Herzegovina and Macedonia the support was distributed in a pretty uneven manner in the first half of the 1990s. Times were hard, especially for Bosnia and

⁵ ECU was replaced by the euro in 1999

Herzegovina that had to re-establish its peace after the war; therefore the aid was focused on the crucial necessities. In addition all of the countries were struggling to obtain their independence.

Thirdly there is Macedonia, whose funds were also utilized in an uneven manner. To be precise, the total support that Macedonia received within this time frame, equalled to an amount of ECU 109.4 million. Similarly to the case of Bosnia and Herzegovina, it was greatly determined for critical aid causes and a bit less for other sectors such as: administrative reform, public institutions, approximations of laws, consumer protection, agricultural restructuring, education, infrastructure and investments into the private sector, financial sector, integrated regional measures; most of which was provided in 1996. The Macedonian aid distribution by categories is explained in detail in the following Table 3.

Table 3. Funds allocated by sector to Macedonia from 1990-1996 (in ECU million)

| | 1990-1993 | 1994 | 1995 | 1996 |
|--|------------------|-------------|-------------|-------------|
| Administrational reform, public institutions, approximation of laws, consumer protection | 0.0 | 2.0 | 0.0 | 4.1 |
| Agricultural restructuring | 0.0 | 0.0 | 0.0 | 3.9 |
| Civil society and democratization | 0.0 | 0.0 | 0.0 | 0.0 |
| Critical aid | 34.6 | 22.9 | 24.9 | 0.0 |
| Education, training and research | 0.0 | 0.0 | 0.0 | 2.0 |
| Environment and nuclear safety | 0.0 | 0.0 | 0.0 | 0.0 |
| Infrastructure (energy, transport, telecommunications) | 0.0 | 0.0 | 0.0 | 10.0 |
| Private sector, financial sector, integrated regional measures | 0.0 | 0.0 | 0.0 | 4.8 |
| Social development, employment and public health | 0.0 | 0.0 | 0.0 | 0.0 |
| Other (Multidisciplinary, general technical assistance etc.) | 0.0 | 0.0 | 0.0 | 0.2 |
| TOTAL | 34.6 | 24.9 | 24.9 | 25.0 |

Source: Commission of the European Communities, *The PHARE Annual Report 1997*, p. 92.

At the period when PHARE became an accession-driven program, the countries of the Western Balkan region were already its eligible beneficiaries and there were clear priority areas with the purpose of slowly introducing them to the European integration perspective.

The financial support allocation per country within the framework of PHARE in the period between 1997 and 1999 in Albania, Bosnia and Herzegovina and Macedonia is described as follows in Table 4.

Table 4. PHARE fund allocation to Albania, Bosnia and Herzegovina and Macedonia in the period of 1997-1999

| Funds allocation by country | 1997 (million ECU) | 1998 (million ECU) | 1999 (million EUR) |
|------------------------------------|------------------------------|------------------------------|------------------------------|
| Albania | 70.4 | 42.5 | 102.5 |
| Bosnia and Herzegovina | 73.0 | 32.0 | 3.0 |
| Macedonia | 33.0 | 25.0 | 15.0 |

Source: Commission of the European Communities, The PHARE Annual Report 1997; Commission of the European Communities, The PHARE Annual report 1998; Commission of the European Communities, The PHARE Annual Report 1999.

There were four types of priority areas in **Albania** in 1997. Those were: public administration and institutional reform, local community development, large-scale infrastructure development and agriculture. The provided funds in 1997 were distributed in the following manner: public administration reform and police got ECU 6.3 million, local community development obtained ECU 5 million, transport and infrastructure activities received ECU 7 million, the agriculture and land market sector gained ECU 6 million, water and environmental sector attained 6.7 million ECU, financial sector and auditing collected ECU 0.5 million, for the causes of the Tempus education program there were ECU 2.5 million allocated, cross-border cooperation incorporated ECU 20 million, special budgetary assistance/public administration issues captured ECU 14.9 million and finally OSCE election support gained ECU 1.5 million. The total support that Albania received in 1997 was an amount of ECU 70.4 million (Commission of the European Communities, 1999).

The projects have continued in 1998 without any drastic change in the list of priorities. The overall budget of PHARE for its activities in Albania for the year 1998 was ECU 42.5 million (Commission of the European Communities, 2000).

In 1999 the Albanian funds more than doubled. The country was granted a budget of € 40.9 million to reinforce essential state institutions and to stimulate economic development through improved infrastructures (Commission of the European Communities, 2001, p. 86). Furthermore Albania was also allocated a specific budgetary support of EUR 60 million to support the additional expenditure for hosting the refugees of Kosovo and finally it received additional EUR 1.6 million for the Tempus inter-university cooperation. The sum of the three equals to EUR 102.5 million for the year 1999.

In the case of **Bosnia and Herzegovina**, the European Commission announced an intention of donating ECU 237 million for reconstruction and peace implementation in the year 1997 (Commission of the European Communities, 1999, p. 78). ECU 73 millions of these funds

were canalized through PHARE as a contribution of the European Community. There were numerous issues requiring immediate actions in Bosnia and Herzegovina and the main priorities of PHARE were democracy building and implementation of peace agreements. Within that scope, ECU 6.6 million were distributed for the purpose of return of refugees and displaced persons on a political, social and economic level. A healthcare program was also established with the objective to diminish country's dependence on emergency relief and humanitarian assistance. The allocated amount for reforming the country's healthcare structure was ECU 5.7 million. Other important domains were agriculture that gained ECU 10 million of funds and providing basic infrastructure (ECU 31 million only allocated to the water sector and ECU 7 million in telecommunications) (Commission of the European Communities, 1999).

Furthermore, in 1998 the two main European Community instruments for reconstruction in Bosnia and Herzegovina were the PHARE and OBNOVA programs which are complementary, since Bosnia is not eligible for full PHARE assistance. The activities of the two programs were segregated in a manner that the aid of PHARE was limited to projects in direct support to the peace agreements, in particular the building of cross-entity links and refugee return; whereas the OBNOVA funds were intended to underpin the reconstruction process, to encourage the return of refugees, reconciliation and regional economic cooperation and creating an economical and social conditions that will lay the foundations of development (Commission of the European Communities, 2000, p. 77). The total allocated support under both PHARE and OBNOVA was EUR 186 million in 1998. Around EUR 32 million were distributed through PHARE.

The pattern of providing support via the two complementary programs (PHARE and OBNOVA) remained unchanged in 1999. The overall fund allocation in 1999 was EUR 118 million and the greater portion of it was channelized through OBNOVA. The major part of the resources was devoted to reconstruction projects to facilitate the return of refugees and displaced persons. There were also other types of priorities such as: sustainable economic development, democratisation, institution building, civil society and social development etc (Commission of the European Communities, 2001).

In 1997, **Macedonia** was appointed a budget of ECU 33 million, separated in two focal divisions. A portion of ECU 23 million were committed as national PHARE location and the remaining ECU 10 million were intended for the scope of cross-border cooperation. The main national priorities of Macedonia in 1997 were: enterprise and financial sector, infrastructure and public investment, agriculture and natural resources, social sector and human resources and finally, reform sustainability. Within that framework, ECU 1.9 million was allocated to support the creation of an inter-banking clearing facility, ECU 1.5 million to improve Macedonian commercial banks capabilities, ECU 3 million to provide a public administration

reform, ECU 2 million as an environmental intervention, additional ECU 2 million to support the public investment program i.e. to attract intervention from other donors and ECU 1.6 million as cultural development component (Commission of the European Communities, 1999, pp. 83-84).

The PHARE support continued in 1998 as well with a budget in an amount of ECU 25 million incorporating the Macedonian national program, the Tempus higher education program and the cross-border program. The main concerns in 1998 were focused on infrastructure development, reforming the statistical system through provision of know-how, training and equipment of the State Statistical Office and strengthening the institutional capacity of the Aid Coordination Unit of PHARE (Commission of the European Communities, 2000, p.81).

A total of EUR 15 million was allocated to Macedonia under the PHARE budget at the final year of 1999 to facilitate the process of economic and social transformation towards a market economy and to strengthen the institutional and administrative capacity of the state (Commission of the European Communities, 2001, p. 100). The resources of the program were distributed within the following five sectors: small and medium enterprises (hereinafter: SME) development program, local government development, agriculture, strengthening the capacity of the newly established Ministry of Environment and support to the social sector. Alongside the PHARE support, OBNOVA and ECHO programs also started providing financial support as a result of the Kosovo crisis which negatively affected Macedonia in terms of slowing down the progress in most of the projects.

PHARE has been available for **Croatia** from budgetary year 2005. Since then 167 million Euros have been allocated within PHARE 2005 and PHARE 2006 program (Central Finance and Contracting Agency).

Table 5. PHARE fund allocation by objective to Croatia in the period of 2005-2006 (in EUR million)

| | 2005 | 2006 |
|---|-------------|-------------|
| Democracy and rule of law | 2.3 | 7.0 |
| Human rights and protection of minorities | 1.3 | 4.9 |
| Economic criteria | 5.2 | 3.1 |
| Internal market and trade | 13.1 | 9.7 |
| Sectoral policies | 26.7 | 18.8 |
| Cooperation in justice and home affairs | 5.0 | 1.3 |
| Supporting programs | 10.1 | 14.1 |
| Economic and social cohesion | 5.0 | 2.0 |
| TOTAL | 68.7 | 61 |

Source: European Commission, *Croatia 2005 PHARE National Programme*; European Commission, *Phare national programme for the Republic of Croatia in 2006*.

The program was concentrated in eight sectoral objectives referring to the identified priorities in 2005 (Commission of the European Communities, 2006a, p. 1). The list of objectives is presented as follows: democracy and rule of law, human rights and protection of minorities, economic criteria, internal market and trade, sectoral policies, cooperation in justice and home affairs, supporting programs and economic and social cohesion. Under the first objective, a special focus was placed on strengthening the judicial system and approximately EUR 2.3 million were channelized through two projects. For the scope of promotion of human rights and minorities protection, a Roma support program was launched in order to improve the respect for their minority rights with a budget of EUR 1.3 million. Further on, the economic criteria priority was sponsored by accelerating a land reform. EUR 5.2 million were distributed for that point. The internal market and trade objective covered several diverse projects such as: free movement of goods (EUR 1.3 million), competition (EUR 1.8 million), taxation (EUR 3 million) and customs union (EUR 7 million). Then, the fifth, sectoral policies objective was also characterized by a wide scope of activities. Its budget was allocated in the following manner: the agriculture component got EUR 4 million, fisheries accumulated EUR 4.5 million of funds, transport activities obtained EUR 2.1 million, social policy and employment reforms incorporated EUR 2 million of resources, small and medium sized enterprises reforms gained EUR 2.5 million, education and training projects received EUR 5 million, EUR 4.6 million of funds were devoted to statistics and environmental activities were delivered EUR 2 million. The focal point under the cooperation and home affairs priority was placed on the border management with a total support of EUR 5 million. Supporting programs accumulated EUR 10.1 million PHARE budget and finally the last objective of economic and social cohesion accrued EUR 5 million (Commission of the European Communities, 2006a). It is important to note that all of the aforementioned projects within the priority areas are intended to be implemented by the Central Finance and Contracting Agency and they have duration of two to three years. The budget for the year 2005 was approximately EUR 68.7 million.

In 2006 the priority areas remained conceptually unchanged. The focus activities under several priorities however, got slightly modified (Commission of the European Communities, 2006b). For instance, the democracy and rule of law in 2006 also included public administration (EUR 2.5 million) apart from the projects for improvement of the Croatian judicial system (EUR 4.5 million). Moreover, the Roma support project under the human rights, protection of minorities and civil society dialogue priority continued in its Phase II. EUR 4.9 million of resources were allocated for its support. Thirdly, the scope of the economic criteria in 2006 has changed and EUR 3.1 million were distributed for improving budget processes for effective financial management. The internal market and trade objective now covers three priorities instead of

four. Its funds are assigned in the following mode: intellectual property law - EUR 1.5 million, taxation - EUR 3 million and finally customs union - EUR 5.2 million. The number of projects under the fifth objective is less unlike the year before. The sectoral policies of 2006 covered the fields of: transport (EUR 7.5 million), statistics (EUR 2 million), education and culture (EUR 4.5 million) and environment (EUR 4.8 million). Cooperation in justice and home affairs had an unchanged aim of improving border management with a drastic cut in resources, resulting to a budget in amount of almost EUR 1.3 million. Objective number seven got a slightly increased budget in 2006, resulting to EUR 14.1 million allocated for supporting programs. Last but not least, the final priority of social and economic cohesion experienced a decrease in funding, with an allocated budget of EUR 2 million. Just like in year 2005, the Central Finance and Contracting Agency was responsible for the implementation of projects, which also have similar duration frame of about two to three years.

3.4 Assessment of the program's implementation

Reviews have shown that PHARE has a mixed overall performance. There are dissimilar opinions and ratings, but many of its critics have assessed the performance of the program as unsatisfactory. However, there are also the supporters who claim that the complexity of the pre-accession needs and objectives as well as the limited implementation period of the program have to be taken into account and therefore in their view PHARE's performance is seen as a remarkable achievement (Commission of the European Communities, 2004a).

The strongest opponents claimed that the assistance the European Community provided to the Western Balkan region until 2000 could not really fit into a coherent system of relationships due to the simple reason that such a system did not exist at all (Szezlér, 2008, p. 10).

Other critics, as the European Court of Auditors among others were especially severe in the beginning of the program establishment i.e. in the period when PHARE was characterized as demand-driven and responded reactively to governmental support requests from beneficiary countries until the year of 1998. The statements were that this approach had a big disadvantage in sense that a lot of dissimilar priorities and therefore small projects have emerged within the program, so as an outcome they were sometimes complicated and time consuming to manage as underlined in the interim evaluation report (Commission of the European Communities, 1997).

Moreover, critics also discussed the assessment of one of the crucial pre-accession objectives within the scope of PHARE – providing assistance in the *acquis* implementation, claiming that the final outcomes are mixed, or that there is an uneven level of progress. Apart from being particularly addressed to the *acquis* issue, such comments were also referred to the chapters of higher complexity, like the agriculture or structural funds for instance. Some analysts argued that building judicial and administrative capacity had been negatively implicated by the

limited progress on horizontal reforms. They all agree that the lack of comprehensive assistance strategy for judicial and administrative capacity building bears a risk of undercutting the *aquis* achievements (Commission of the European Communities, 2004a).

Generally speaking, there are three shortfalls in performance that account for a large part of those findings. First of all, there were significant weaknesses in needs, analysis and design. Absence of adequate planning documents and/or sectoral strategies, contributed to the launching of projects that had insufficient operational relevance. Secondly, achievement of program/project objectives was only adequate. Finally, although improving, implementation suffered from persistent efficiency problems (Commission of the European Communities, 2004a, p. I).

In the starting phase of PHARE's implementation, all of the projects had a project management unit (hereinafter: PMU) which held the responsibility to manage them on a daily basis. However, the work of PMUs had quite a few imperfections. Apart from involving bureaucratic procedures, also the allocation of responsibilities between themselves and the European Commission had its downsides. PMUs were located i.e. isolated in the partnering countries, leaving a limited role of programming and implementation to the country delegations. Not surprisingly, during this period PHARE is regarded as a program dominated by a very complex network of institutions, rules and procedures where duplication of work, dilution of sense of ownership of projects, inertia and bottlenecks could not always be avoided. As a consequence this often has led to backlog in commitments and contracts (Bailey, & De Propriis, 2004, pp. 79-80).

In 1998, program's organization system already started improving. Firstly, instead of the PMUs, National Funds have replaced them and were usually set within the reach of national ministries of finance. Moreover, the European Commission has recognized the necessity to simplify and rationalize PHARE procedures and therefore a higher EUR 2 million target was set for investment projects in an attempt to avoid the proliferation of small-scale projects (Bailey, & De Propriis, 2004, p. 81). Another significant improvement was made by substituting the extensive programming documentation with the accession partnerships and a single annual financing proposal which provided a summary of all the projects including their timetables for contracting and payment. There has also been a notable change in the supervision and procedural control of PHARE, which has resulted with an increased supervisory role of Commission delegations. In addition, the capacity of distributing and managing pre-accession assistance has also improved. Nonetheless, it was not yet fully sustainable. Namely, the National Aid Coordination structures have demonstrated solid improvements in competence, but understaffing, low salary levels, and institutional instability is putting sustainability at risk (Commission of the European Communities, 2004a, p. II).

Apart from its considerable critics, some credit has to be given to PHARE for the program has pursued projects which provided remarkable improvements in various domains in the Western Balkan region such as: public administration reforms, customs reforms, infrastructure improvement, providing post-war critical aid, develop strategies for waste and water resource management, provide agriculture and fisheries support, improve cross-border cooperation etc. The overall performance was defined as mixed, however it must be taken into account that the agenda was vast, demanding and unfamiliar.

In conclusion, there are three recommendations that can be attributed for improving performance in the future.

First of all, an inevitable component to start with is providing a clear definition of objectives. The purposes of the program have to be concise; furthermore it has to include a comprehensive and independent evaluation of the whole pre-accession strategy, a rebalancing of program priorities in accordance with all three Copenhagen criteria, a much higher profile for good governance and horizontal public administration reforms and finally an action plan to address the economic and social cohesion shortcomings (Commission of the European Communities, 2004a, p. II).

Secondly, the design of programs and strategies needs to be improved. For this instance, a strategy of complete country enlargement should be prepared. Then attention should also be drawn to prioritized programming and enlarging the importance of multi-annual planning, as well as providing the suitable resources by all stakeholders for proper strategy management.

The final recommendation remark concerns the management of the program. To be precise, it could use some improvements like rigorous enforcement of conditionalities, better coordination of delivery instruments, introduction of systematic quality control mechanisms and comprehensive training packages on all the aspects of strategic planning and project cycle management (Commission of the European Communities, 2004a, p. II).

4 DETAILED PRESENTATION AND ASSESSMENT OF THE CARDS (COMMUNITY ASSISTANCE FOR RECONSTRUCTION, DEVELOPMENT AND STABILISATION) PROGRAM

4.1 Concept

After the year of 1999, the utilization of the three existing financial instruments including: ECHO, OBNOVA and PHARE was not adequate enough for the needs of the Western Balkan countries; moreover it became a cause of problems in coordination and concentration (Mrak, & Uzunov, 2005, p. 50).

The Community Assistance for Reconstruction, Development and Stabilisation was created as a key element of the strategy that the European Union has developed towards the Western Balkans, after the wars that disturbed the region in the previous decade (Commission, 2008a, p.1). The program was established by the Council of the European Communities in December 2000, as a mean for providing assistance to **Albania, Bosnia and Herzegovina, Croatia, the Federal Republic of Yugoslavia, i.e. Serbia and Montenegro, and Macedonia** (Council of the European Communities, 2000). The program was created in order to substitute PHARE and the other financial assistance programs and become the new sole pre-accession assistance fund for the Western Balkan region.

European Community has detected the commitment of the aforementioned countries to the concept of preserving the lasting social, economic and political stability and dialogue. As a result, after a meeting during the year 2000, the European Council has recognized these countries to be potential candidates for EU membership (Council of the European Communities, 2000 p. 1; Commission, 2003). Despite that fact, CARDS is still regarded as a reconstruction program and the pre-accession character was brought after it had finished, by its successor - the Instrument for Pre-Accession Assistance program.

CARDS was envisioned and functioned as an instrument of two levels – regional and national level assistance programs within the period between 2001 and 2006. The regional component represents an addition to the characteristic approach of each respective state and is basically meant for developing the cooperation among beneficiaries within the Stabilisation and Association process (hereinafter: SAp). Generally speaking, the financial program had four most important domains for providing assistance at a regional level and those were the following ones: integrated border management, institution capacity building, democracy stabilization and finally infrastructure development at a regional level (Commission of the European Communities, n.d.). The regional component of CARDS also aspires to reintegrate the five beneficiary Balkan countries into the wider networks of European infrastructure (Commission of the European Communities, 2008). This is to be executed via financing project preparations, feasibility studies and technical assistance. The fraction of the infrastructure project assistance from the overall regional part of the program is 25%. 10% of the infrastructure portion of funds is utilized for transport projects and 9% for energy purposes (Mrak, & Uzunov, 2005).

In order for the financial program to accomplish its goals and purposes, the strategic and the operational programs have been established on both of the levels, whereas the various strategic priorities differ depending on the situation of the respective countries (Mrak, & Uzunov, 2005, p. 51). The national strategic priorities and programs are included into the Country Strategy Papers (hereinafter: CSP) which covers the entire period of six years. There are also the Multi-annual Indicative Programs (hereinafter: MIP) documents that cover the annual action plans

and are being prepared each three years. In general, the regional programs have basically harmonized the national ones.

The objectives of regional cooperation were to promote direct cooperation between the beneficiary countries in tackling common threats such as crime and trafficking and to build networks of contractual relationships between them in certain areas (Commission of the European Communities, 2008, p. 8). As an outcome, the results of the success rate of the CARDS financial instrument in its respective beneficiaries is going to be measured by observing both the progress that has been identified by the respective national programs of the states, as well as their engagement for improving the cooperation within the region.

CARDS was meant to provide an extension of the Community's assistance, so that the region could get adjusted to the political objectives of the European Union and support growth and stability. The relevance of the CARDS regional programmes and added value stemming from a truly regional approach is undisputed by the stakeholders and in line with the European Commission strategy for stability in the region (Commission of the European Communities, 2008, p. 2).

The overall budget which was endowed to the Community Assistance for Reconstruction, Development and Stability was approximately EUR 4.65 billion (Commission of the European Communities, 2008) and it was managed in a direct centralized manner by the headquarters of the European Commission in Brussels (Commission of the European Communities, 2008). A fragment of EUR 282 million of the total budget was distributed to the regional programs during the period of 2000 to 2006, including the cross-border cooperation and neighbouring programs.

In 2000, the intended CARDS assets were initially used to finance the already existing active programs in each beneficiary state, whereas the programming in the framework of the Program CARDS has been formally agreed by the end of 2001 (Mrak, & Uzunov, 2005, p. 51). The implementation of program's strategic priorities has effectively begun by the end of year 2002.

This instrument's main objective was to facilitate the Western Balkan countries to take part in the association and stabilisation process. Moreover it covers five equally important priority sectors at a national level:

- **Justice and home affairs:** reform of the judiciary and police, migration and asylum, integrated border management, fight against organised crime
- **Administrative capacity building:** public administration reform, taxation and customs
- **Economic and social development:** economic reform, social cohesion, local infrastructure development, education

- **Democratic stabilisation:** civil society development, refugee return, media reform
- **Environment and natural resources:** institution strengthening, monitoring and planning (Commission of the European Communities, 2004b, p. 5).

Despite the fact that CARDS was a successor i.e. an extension of the previous programs for providing financial support on behalf of the European Community, there was a surprising observation that the donor visibility had remained unnoticed or even absent. One of the presented problems with this program from EU's point of view was that it did not manage to promote the European Union in the Western Balkan region. In fact, some of the stakeholders were not even aware who is financing their projects.

Nevertheless, the fact is that the programs and projects that CARDS provided are of crucial relevance for maintaining the socio-economic development of the region in a way more structured manner than its predecessors. Its criteria for fund allocation are to follow.

4.2 Criteria for allocation of funds

The basic precondition for receiving assistance is that the recipients respect democratic principles, the rule of law, human and minority rights, fundamental freedoms and the principles of international law (Council of the European Communities, 2000 p. 1). This and more clauses are included in the Stabilisation and Accession process, which represents the base of CARDS support. Moreover, SAP is the general policy framework of the European Community for the Western Balkan states. The base of this process lies within one of its most important pillars, that is the conclusion of individual Stabilisation and Association Agreements (hereinafter: SAA) with each of the Western Balkan countries. There are certain conditions that the Western Balkans states have to meet in order to finish the Stabilisation and Accession process i.e. sign the Stabilisation and Association Agreements and therefore obtain a candidate status which entitles them to start the European integration process. Croatia and Macedonia were the pioneers in the region and have signed their SAAs in year 2001. Albania was the third one in 2006, followed by Montenegro in 2007 and finally Serbia and Bosnia and Herzegovina signed the SAAs in 2008. The main principles that constitute the liaison between each of the Western Balkan and the EU that the SAA cover are: promotion of free movement of goods, creation of efficient institutions, development of a market economy; reducing crime and corruption, promotion of higher education reform, developing democracy, human rights, and an independent media and improving the region's infrastructure (Commission of the European Communities, 2008, p. 7).

The concept of CARDS was identified to be more structural than the ones of the pre-accession programs from the 1990s. The program was meant to be streamlined to the needs of the countries of the Western Balkans (Szemplér, 2008, pp. 11-12). Some analysts characterise it as

the most significant source of technical and financial assistance for reconstruction and reform in the region by far. It is provided by two regulations i.e. Council Regulation (EC) No 1628/96 and Council Regulation (EEC) No 3906/89, meaning that the assistance of the European Community is subject to different sets of procedures, which holds back its management. Due to the fact that the CARDS program had been created to accomplish EU's political objectives for the region, the instrument shall be essentially focused on building up an institutional, legislative, economic and social framework directed at the values and models subscribed to by the European Union and on promoting a market economy, with due regard for priorities agreed with the partners concerned (Council of the European Communities, 2000 p. 1).

The regulation of the European Council which officially announced the creation of CARDS in year 2000 suggests that in order to encourage cooperation within the region, provision should be made for the candidate countries as well as other countries covered by different financial programs to participate in the tendering procedures and contracts. In addition, it also suggests that the provided assistance ought to be regulated by a strategy framework, including annual and multiannual programming that has to be approved by the management body. The result is positioning the financial assistance within a medium-term outlook and ensuring that it complements and remains consistent with that of the EU member states (Council of the European Communities, 2000 p. 2).

Despite the centralised program management on behalf of the European Commission, the monitoring role of the financial activities within the program is dispersed between the Commission, the Court of Auditors and the European Fraud Prevention Office empowering them to execute the required controlling actions in order to protect the financial interests of the European Community. There are also the bodies that have decision making power and will be accordingly consulted concerning project implementation within their respective areas. Those are the organizations that are established by the international community to ensure civil administration in some areas like United Nations Interim Administration Mission in Kosovo (hereinafter: UNMIK) or the High Representative in Bosnia and Herzegovina. Moreover, the projects and programs run by organizations of such kind are considered eligible for receiving financial aid.

Given the impediments caused by the political situation in several areas, as well as the character of numerous entities which may hold responsibility for the support implementation in the beneficiary countries, the European Council recommends the possibility of providing the financial assistance directly to recipients, rather than engaging the country as an intermediary. According to the regulations, the entities which are directly eligible for Community assistance are the following: the state, entities under United Nations jurisdiction and administration, federal, regional and local bodies, public and semi-public bodies, the social partners, organisations providing support to businesses, cooperatives, mutual societies,

associations, foundations and non-governmental organisations (Council of the European Communities, 2000 p. 2).

As the Council's regulation No 2666/2000 suggests, there are several types of projects that are considered eligible and meet the criteria for receiving CARDS funding. First of all, there are the reconstruction projects that provide support for the return of refugees and providing stability for the region. The second eligible are the projects for creation of an institutional and legislative framework to strengthen democracy, improving the rule of law and human and minority rights, reconciliation and the consolidation of civil society, the independence of media and the strengthening of legality and of measures to combat organised crime. The third type of appropriate projects are the ones focused on boosting economic development in a sustainable manner and market-economy orientated economic restructuring. Next ones that meet the criteria are projects which promote social development, especially paying attention on endorsing education, teaching and training, decreasing the rate of poverty, gender equality and environmental rehabilitation. Furthermore, the Community strongly supports the initiatives i.e. projects for fostering regional, transnational, cross-border and interregional cooperation, improving relationships between the beneficiary countries, including their bilateral relation, but also the liaison with other candidate countries and of course with the European Union itself. Actually, the cross-border, transnational and the programs for regional transboundary cooperation with non-member countries were concretely created for this function.

The criteria also specify that each recipient shall be provided a CSP, giving a strategic framework of the long-term objectives and priority fields. The Country Strategic Paper will also serve as a base for all the relevant assessments. As mentioned earlier, MIPs shall be created, each covering a three-year period, reflecting the priorities as set by SAp. The Multi-annual Indicative Programs will also serve to provide suggestive amounts both in general and for each priority sector. They are going to define the funding criteria for the concerned programs.

The assistance will be provided in form of grants and can be used to cover expenditure on preparing, implementing, monitoring, checking and evaluating projects and programs. It must not be used for purposes such as paying duties, taxes or charges or for purchasing immovable property.

4.3 Volume and structure of funds by various criteria

As stated, the overall appointed budget of CARDS was EUR 4.65 billion. The following set of tables is going to present how it was allocated in each recipient throughout the years of eligibility. It is important to notify that there is an obvious distinction between the allocated, contracted and paid funds in each of the beneficiaries. The general trend is for the contracted

resources to be greater than the paid ones, and the allocated amount per country to be the greatest of the three. The allocated amount stands for the granted sum of funds which are determined to be spent per country by the EU institutions while preparing the budget of the pre-accession instrument. The contracted funds indicate the total of approved resources for all the projects per country. Lastly, the paid funds signify the amount of resources that were already compensated i.e. successfully implemented and finished projects in a recipient. The paid ones are the lowest, since the funds are paid only in case a project is well implemented and has met all the requirements predetermined by the donors i.e. the EU.

Table 6. CARDS fund allocation to Albania in the period of 2001-2006 (in EUR million)

| | Allocated | Contracted | Paid |
|--------------|------------------|-------------------|---------------|
| 2001 | 33.50 | 32.68 | 29.16 |
| 2002 | 42.90 | 41.53 | 40.39 |
| 2003 | 38.50 | 37.83 | 37.40 |
| 2004 | 62.00 | 58.07 | 49.78 |
| 2005 | 40.20 | 38.03 | 27.57 |
| 2006 | 42.50 | 40.85 | 14.68 |
| TOTAL | 259.60 | 248.99 | 198.98 |

Source: European Commission, *Report from the Commission to the European Parliament, the Council and the Economic and Social Committee: 2009 Annual Report on PHARE, Turkey Pre-Accession Instruments, CARDS and the Transition Facility*, 2010, p. 10.

To begin with, Table 6 explains the annual support distribution in **Albania** within the period between 2001 and 2006.

First of all, it is important to clarify that not all the funds were exhausted and there is a sum of EUR 6.34 million to be contracted and a total of EUR 48.28 million to be distributed as indicated in the Annual Report of 2009. The percentage of contracted funds is quite high equalling to 98% in years 2001 and 2003 and 97%, 99%, 95% and 96% in years 2002, 2004, 2005 and 2006 respectively. The average percentage of contracted aid as analysed in 2009 was 97.1% for the Republic of Albania. On the other hand, in year 2001 there were 89% of funds paid, increasing to 97% in 2002 and reaching a maximum 99% in 2003 after which they gradually started dropping to 86% in 2004, 72% in 2005 and finally to 42% in 2006. The overall portion of resources paid was 78%.

The identified priority areas that received the greatest amount of resources within the CARDS program in Albania were justice and home affairs issues, then local community development and institution building. Supporting the juridical system and the Albanian police, developing a task force against organized crime, fight against corruption and improving border management

were some of the most significant CARDS projects (Commission of the European Communities, 2004b). Looking at the national priority list, we can conclude that the greatest priority in Albania was Justice and Home Affairs. This area was split in two divisions including justice, and asylum and border management. The second most important objective was the Economic and Social Development and its internal market economic development and education sub-sectors (Commission of the European Communities, 2008b). Administrative Capacity Building activities are a step further down along the priority scale. The most significant activity in this domain was implementing a vertical and horizontal Public Administration Reform (hereinafter: PAR).

Further on along the recipient list there is **Bosnia and Herzegovina**, whose annual support distribution throughout the period between 2001 and 2006 is presented in Table 7. Yet, similar as the previous case, not all the available resources were contracted and paid until 2009, the year of observation. To be exact, there were still EUR 12.57 million to be contracted and EUR 26.69 million to be disbursed. The portion of contracted funds started with 94% in 2001, climbing to 98% in both 2002 and 2003 respectively, 97% in 2004, 98% in 2005 and again 97% in 2006. The average percentage of contracted CARDS funds in Bosnia and Herzegovina was 97%. The portion of paid ones equalled to 93% in 2001 and 2002 respectively, 91% in 2003, reaching the peak at 96% in 2004, dropping to 95% in 2005 and further to 86% at the final year of 2006. 93% of the total allocated amount of resources was paid in Bosnia.

Table 7. CARDS fund allocation to Bosnia and Herzegovina in the period of 2001-2006 (in EUR million)

| | Allocated | Contracted | Paid |
|--------------|------------------|-------------------|---------------|
| 2001 | 105.20 | 98.56 | 98.12 |
| 2002 | 60.50 | 59.30 | 56.53 |
| 2003 | 50.60 | 49.38 | 46.07 |
| 2004 | 62.10 | 60.49 | 59.46 |
| 2005 | 44.00 | 43.21 | 41.76 |
| 2006 | 43.80 | 42.69 | 37.57 |
| TOTAL | 366.20 | 353.63 | 339.51 |

Source: European Commission, *Report from the Commission to the European Parliament, the Council and the Economic and Social Committee: 2009 Annual Report on PHARE, Turkey Pre-Accession Instruments, CARDS and the Transition Facility*, 2010, p. 15.

In terms of priorities, CARDS worked on creating a more effective government with improved administration, customs, and the creation of a single economic space. Similar to PHARE, CARDS continued to keep a focus on helping refugees and internally displaced people to return to their homes, repaired Bosnian infrastructure and promoted administrative capacity

building, focusing on improving tax and customs services (Commission of the European Communities, 2008c).

Next in line, Table 8 contains the data of CARDS's distribution in **Croatia**.

Table 8. CARDS fund allocation to Croatia in the period of 2001-2006 (in EUR million)

| | Allocated | Contracted | Paid |
|--------------|------------------|-------------------|---------------|
| 2001 | 54.00 | 52.06 | 48.69 |
| 2002 | 56.00 | 53.81 | 51.46 |
| 2003 | 59.00 | 58.08 | 53.60 |
| 2004 | 77.00 | 74.48 | 68.92 |
| 2005 | 69.52 | 60.51 | 53.15 |
| 2006 | 60.47 | 51.21 | 29.17 |
| TOTAL | 375.99 | 350.15 | 304.99 |

Source: European Commission, *Report from the Commission to the European Parliament, the Council and the Economic and Social Committee: 2009 Annual Report on PHARE, Turkey Pre-Accession Instruments, CARDS and the Transition Facility*, 2010, pp.26-27.

EUR 25.84 million is the amount of funds to be contracted and EUR 71 million remains to be paid as indicated in the Ad Hoc CARDS Annual Report of 2009. The percentage of contracted supplied aid in Croatia starts at 96.4% in 2001, 96.1% in 2002, increasing to 98.4% in 2003 and then decreasing to 96.7% in 2004 and even further to 87% in 2005 and 84.7% in 2006. The absorption section i.e. the paid funding equalled to 90.2% at the beginning of the program in year 2001, reaching the maximum of 91.9% absorption in 2002 and then continuously start decreasing to 90.8 % in 2003, 89.5% in 2004, 76.5% in 2005 and 48.2% in 2006. The Croatian overall average contracting rate equals to 93.2% and the general percentage of paid sources is 81.2% throughout the entire six-year period.

The national Croatian priorities within the CARDS framework started by supporting the sustainable return of refugees and displaced persons, promotion of democracy and human rights by strengthening the capacity of civil society organisations and the media, improving property registration, modernisation of court operations etc (Commission of the European Communities, 2004b).

Moving along the beneficiary list, the following table, Table 9, presents the CARDS financial aid distribution in **Macedonia**. Unlike the previous recipient states, CARDS in Macedonia does not have any more funds to be contracted, but there is still a remaining amount of funds to be paid that equals to EUR 5.95 million, as the Annual Report of 2009 states. The portion of contracted resources started exceptionally with a complete rate of 100% contracted assets from

2001 to 2004. In 2005 this rate drops to 98.4% and finally reaches 92.03% in the final year, resulting with a total average portion of 98.7% contracted assets throughout the years. As far as the payment is concerned, CARDS starts very well with 100% payment ratios in 2001, 2002 and 2003. In the second half of the program, the payment percentage starts gradually decreasing to 99.39% in 2004, 95.8% in 2005 and finishes at 84.29% in 2006. The final average absorption rate from 2001-2006 in Macedonia was 97.16%.

Table 9. CARDS fund allocation to Macedonia in the period of 2001-2006 (in EUR million)

| | Allocated | Contracted | Paid |
|--------------|------------------|-------------------|---------------|
| 2001 | 56.64 | 56.64 | 56.64 |
| 2002 | 33.03 | 33.03 | 33.03 |
| 2003 | 36.01 | 36.01 | 36.01 |
| 2004 | 53.18 | 53.18 | 52.85 |
| 2005 | 34.04 | 33.50 | 32.62 |
| 2006 | 33.40 | 30.74 | 28.15 |
| TOTAL | 246.30 | 243.10 | 239.30 |

Source: European Commission, *Report from the Commission to the European Parliament, the Council and the Economic and Social Committee: 2009 Annual Report on PHARE, Turkey Pre-Accession Instruments, CARDS and the Transition Facility*, 2010, p. 41.

The Community Assistance for Reconstruction, Development and Stability program priority list for the Republic of Macedonia included several areas, which included strengthening of local and municipal governments, support to strengthen civil society and improve inter-ethnic relations, public procurement legislation and practices development, raising the level of skills of business managers and improving quality control measurement and integrated border management.

During the period of CARDS availability i.e. 2001-2006, **Kosovo** was not yet officially established as an independent sovereign country. Nevertheless, the region was still an important recipient of a significant portion of CARDS aid and its independent data of support allocation were tracked by the European Commission. The details considering its fund distribution are presented in Table 10.

Similarly like most of the countries of the Western Balkan region, Kosovo also had an amount of EUR 6.16 million still not contracted and an unpaid sum of EUR 21.76 million. The amount of contracted CARDS assets was absolute 100% during years 2001, 2002, 2004 and 2006. It slightly dropped to 94% in 2003 and 99% in 2005. A total of 100% of the support was paid in 2001 and 2002, after which it had decreased to 92% in 2003 and 93% in both 2004 and 2005

respectively. It reached 88% payment in the final year of 2006. The total amount of contracted funds was 99% and it reached 96% of payment within the whole extent of the program.

Table 10. CARDS fund allocation to Kosovo in the period of 2001-2006 (in EUR million)

| | Allocated | Contracted | Paid |
|--------------|------------------|-------------------|---------------|
| 2001 | 143.21 | 142.53 | 142.53 |
| 2002 | 162.54 | 162.08 | 161.80 |
| 2003 | 62.28 | 58.24 | 57.53 |
| 2004 | 72.60 | 72.60 | 67.85 |
| 2005 | 76.50 | 75.53 | 71.33 |
| 2006 | 46.50 | 46.48 | 40.85 |
| TOTAL | 563.63 | 557.46 | 541.89 |

Source: European Commission, *Report from the Commission to the European Parliament, the Council and the Economic and Social Committee: 2009 Annual Report on PHARE, Turkey Pre-Accession Instruments, CARDS and the Transition Facility*, 2010, p. 48.

The support was generally targeted towards supporting the justice institutions in Kosovo, strengthening the rule of law, improving the public finance management, developing quality standard infrastructure and improving industrial competitiveness and exports (Commission of the European Communities, 2010).

Finally, the last CARDS recipient country was the **Federal Republic Yugoslavia**, consisted of Serbia and Montenegro. The archived statistics for these two countries have been kept individually and that is how they are going to be examined in this research.

Montenegro's CARDS figures are included in Table 11 as it follows.

Table 11. CARDS fund allocation to Montenegro in the period of 2001-2006 (in EUR million)

| | Allocated | Contracted | Paid |
|--------------|------------------|-------------------|--------------|
| 2001 | 16.10 | 16.07 | 16.04 |
| 2002 | 12.00 | 11.95 | 11.95 |
| 2003 | 12.00 | 11.89 | 11.89 |
| 2004 | 16.76 | 16.71 | 16.62 |
| 2005 | 23.12 | 22.98 | 22.69 |
| 2006 | 20.71 | 20.09 | 19.88 |
| TOTAL | 100.69 | 99.69 | 99.07 |

Source: European Commission, *Report from the Commission to the European Parliament, the Council and the Economic and Social Committee: 2009 Annual Report on PHARE, Turkey Pre-Accession Instruments, CARDS and the Transition Facility*, 2010, p. 61.

Yet, there are CARDS resources remaining to be contracted in Montenegro as observed in 2009, which equal an amount of EUR 1.03 million. On the other hand, the funds that remained unpaid within the framework of this program were a total of EUR 1.61 million. In the beginning of CARDS, 99.6% of the support was contracted in years 2001 and 2002 respectively, followed by an increase of up to 99.1% in 2003 and 99.7% in 2004. The contracting rate then declined to 99.4% in 2005 and 97% in 2006. The average contracting rate throughout the duration of CARDS in Montenegro was 98.9%. Furthermore, the payment rate equalled to 99.6% in 2001 and 2002 correspondingly, then reached 99.1% in 2003, 99.2% in 2004, 98.2% in 2005 and finished at 96.0% in the final year of 2006, accumulating an overall of 99% absorption rate.

The national Montenegrin priorities within the scope of CARDS were supporting the labour market reform, strengthening of relevant institutions and civil society organisations and improvement of the regulatory framework of trade, competition, state aid and consumer protection (Commission of the European Communities, 2010).

The final table in this section, Table 12, holds the details of CARDS's financial aid parameters in **Serbia**. The amount which is still not contracted is EUR 15.73 million, as stated in the Annual Report of 2009 and the calculated unpaid rate is EUR 83.5 million. The rate of contracted assets started well reaching 100% in both years 2001 and 2002 respectively, then it decreased to 97.18% in 2003, increasing to 99.71% in 2004, dropping again at 98.35% in 2005 and further on to 95.88% in 2006; leaving Serbia with an overall contracting rate of 98.48%. Serbia's rate of payment started with complete 100% in 2001 and 2002, regularly declining to 97.07% in 2003, 94.41% in 2004, 91.93% in year 2005 and ending with 65.96% in 2006. The overall payment rate of funds was 91.39% during the overall six-year period.

Table 12. CARDS fund allocation to Serbia in the period of 2001-2006 (in EUR million)

| | Allocated | Contracted | Paid |
|--------------|------------------|-------------------|---------------|
| 2001 | 143.50 | 143.50 | 143.50 |
| 2002 | 161.00 | 161.00 | 155.28 |
| 2003 | 220.00 | 213.78 | 213.54 |
| 2004 | 207.13 | 206.52 | 195.55 |
| 2005 | 147.17 | 144.74 | 135.29 |
| 2006 | 157.46 | 150.97 | 103.85 |
| TOTAL | 1,036.26 | 1,020.51 | 947.01 |

Source: European Commission, *Report from the Commission to the European Parliament, the Council and the Economic and Social Committee: 2009 Annual Report on PHARE, Turkey Pre-Accession Instruments, CARDS and the Transition Facility*, 2010, p. 74.

There were several diverse objectives in various areas that CARDS projects in Serbia were covering. They included priorities like infrastructure, enterprise development, strengthening the role of civil society, anti-discrimination, improving the customs, police and integrated border strategy, support to the tax administration, support to national investment planning and implementation etc.

4.4 Assessment of program's implementation

It is a fact that CARDS was an extremely significant donor of both technical and financial support for the Western Balkan region, providing its recipients a bond with the political perspective of EU integration that is supposed to endow the countries with a stable democratic future. The program was conducted in a more structured manner than any of its predecessors; however it also had its flaws.

First of all, lots of comments were addressed towards the centralised management style of CARDS, claiming it represents a considerable obstacle to program ownership by key stakeholders. At the beginning, the program was considered as distant and bureaucratic. In addition, local stakeholders also remarked that the lack of a consultation process characterises CARDS as unsustainable. More attention had to be given to knowledge acquisition and capacity building needs among partners in order to satisfy their legitimate desire for increased involvement in programming and project design (Szeplér, 2008, p. 13). Fortunately, the consultation process was finally introduced by DG Enlargement after they took over the management of CARDS on behalf of the European Commission. The novelty was based on periodic meetings and on consultation during the phase of needs assessment and it had tightened the relationship with local stakeholders that have gradually increased ownership of the program (Commission of the European Communities, 2008, p. 41).

On the other hand, the trend that was perceived by the European Community was that the visibility of EU in the Western Balkan region did not improve. In certain cases the stakeholders did not know who provides the financing of their projects.

Another issue that was criticised was the variation of the absorption capacity which greatly differs across the countries of the region and across areas of intervention and national administrations struggle to deal with all the reforms undertaken (Commission of the European Communities, 2008, p. 41). These circumstances have created an obstacle and weakened the efficiency of the intervention at some points. A possible cause of the problem could be the deficiency of adequately skilled human resources in the national administrations.

Then, the sustainability as well as the long-term impact of pre-accession assistance remained an open issue in most beneficiaries. It came as a consequence due to high turnover of staff and

budget uncertainty to cover follow up activities and operational i.e. maintenance costs of projects (Commission of the European Communities, 2010, p. 8).

Furthermore, the regional component of CARDS was regarded as underperforming. Even though this dimension was created as a supplementary to the national programs, it showed to be relatively weak. Despite the lack of strategic guidance, which seemed to be the crucial concern, the regional component was perceived as inaccessible by the local partners.

Other elements of CARDS were also not spared from critics, such as the system of programming that was based on CSPs and MIPs of the respective countries and according to opponents does not seem to be the best alternative for implementing the evolving Stabilisation and Association process policies. Moreover, the dual implementation model of CARDS via the European Agency for Reconstruction and de-concentrated delegations revealed its inconsistencies, also the evaluation contains a number of findings relating to specific sectors, which are generally favourable but reveal weaknesses in relation to institution building, mainstreaming issues (notably gender and minority rights) and judicial reform insufficient strategic support and guidance (Szeplér, 2008, p. 13).

On the whole, the performance of the provided assistance by the Community Assistance for Reconstruction, Development and Stabilisation is regarded as fluctuating between moderately satisfactory to moderately unsatisfactory, depending on the recipient state. Despite the evaluation, CARDS has managed to accomplish extraordinary achievements by working on so many spheres such as modernising infrastructure within the region, improve practices and procedures, as well as enhance the capacity of people and institutions working with EU-funded programs across all sectors (Commission of the European Communities, 2010, p. 7). Moreover, the financial program had a huge impact on the governmental policy, institutions, private entities and individuals. The provided assistance has noted positive results in the political, economic, social and environmental sense.

Last but not least, there is a list of opinions and recommendations for the future.

First of all, evaluation has shown that the responsible bodies and institutions that hold the responsibility of dealing with pre-accession assistance in the recipient countries should pay more attention to programming and project design, bearing in mind their capacities. To be concrete, a more precise and realistic measurement of the factual necessities and of the absorption capacity of the beneficiaries is crucial. Moreover, it is important for the national strategies to have a better i.e. more systematic set-in of the available support, bearing in mind the efficiency facets. The presence of timely procurement, regular monitoring and administrative discipline and efficiency of both recipient and EU structures can assure successful project implementation in the future.

The CARDS program was managed in a centralised style which was characterised as not the most efficient method, so the next recommendation suggests a decentralised management manner. However, this process should be trailed gradually and in accord with beneficiary institutions capacities. Pre-accession programs should put a greater focus on their partnering institutions and provide them the needed technical assistance respecting their learning competences, rather than only offering *lat. acquis communautaire* guidance.

Thirdly, the regional component of CARDS requires reorganisation. The program should have a cohesive character and should be built upon the already existing regional and local development programs. Regional networks of stakeholders should be involved in definition and exchange of best practice and to encourage inter and intra-regional cooperation in key sectors (Szezlér, 2008, p. 14). The recommended way of managing the regional program is by delegating it to an institution which can guarantee close engagement of the regional countries and their resources.

Finally, the last suggestion is to improve the visibility of the European Union as an actor in the Western Balkan region. Visibility of the EU assistance in the regional programs should be strengthened as the contractors are normally wrongly perceived as the funders by the beneficiary authorities (Commission of the European Communities, 2008a, p. 41), therefore supplementary marketing activities are recommended.

5 DETAILED PRESENTATION AND ASSESSMENT OF THE IPA (INSTRUMENT FOR PRE-ACCESSION ASSISTANCE) PROGRAM

5.1 Concept

After observing and acknowledging the overall improvement of the Western Balkan region throughout the years, the European Parliament has conceded that the Western Balkan beneficiaries are gradually approaching towards accession. Yet, it was also recognised that the countries should be evaluated and judged on their individual merits instead of using a common regional approach, as an outcome of their different stages of EU integration progress (Council of the European Communities, 2006). In the interests of coherence and consistency of Community assistance, assistance for candidate countries as well as for potential candidate countries should be granted in the context of a coherent framework, taking advantage of the lessons learned from earlier pre-accession instruments on assistance for Albania, Bosnia and Herzegovina, Croatia, the Federal Republic of Yugoslavia and the Republic of Macedonia (Council of the European Communities, 2006, p. 82).

In order to improve the efficiency of the Community's External Aid, a new framework for programming and delivery of assistance has been envisaged (Council of the European

Communities, 2006, p. 82) after the termination of CARDS. The final instrument which provides assistance to the Western Balkan countries engaged in the accession process to the European Community contained in this research is the Instrument for Pre-Accession Assistance. This program supports the entire edifice of European Union strategy towards South-Eastern Europe, which rests on a promise for eventual integration of the Western Balkan countries into the EU (Gjorgjievski, 2008, p. 69). Consequently, the overall long-term goal of the program is tracing the way of its beneficiaries towards becoming European member states.

IPA was adopted on 17 July 2006 as a replacement of all the previous financial instruments⁶, it has officially started in 2007 and shall conclude at the end of 2013, after which it is expected to be substituted by its extension – the IPA II program. The target support domains of the instrument were carefully generated to be coherent with the previous Community assistance programs. In fact, some of the priorities are very similar, even identical to the earlier. Namely, as Council Regulation (EC) No 1085/2006 states, assistance for candidate countries as well as for potential candidate countries should continue to support them in their efforts to strengthen democratic institutions and the rule of law, reform public administration, carry out economic reforms, respect human as well as minority rights, promote gender equality, support the development of civil society and advance regional cooperation as well as reconciliation and reconstruction, and contribute to sustainable development and poverty reduction in these countries, and it should therefore be targeted at supporting a wide range of institution-building measures (Council of the European Communities, 2006, p. 82).

However, it was just right after the initial period of program's implementation, when the current situation of the beneficiaries started becoming clearer and the list of national priorities was clarified. After a careful observation, it was decided that the identified set of IPA priorities should include the following: maintaining the momentum of reform of the judiciary and public administration, enhance regional cooperation in the fight against organised crime and corruption, contribute to ensuring non-discrimination and respect for human rights as well as freedom of expression, help completing the process of reconciliation in the Western Balkans, contribute to building a vibrant civil society, help beneficiaries overcome the economic and financial crisis and prepare for sound recovery by jointly working on increasing competitiveness and investments in infrastructure and finally foster reforms and regional cooperation in education.

The Instrument for Pre-Accession Assistance has several similarities with the previous financial channels of the European Community, but it also has its considerable differences.

⁶ PHARE, ISPA, SAPARD, the Turkish Pre-Accession Instrument and CARDS

Correspondingly to the previous programs, IPA also has an officially instituted Budgetary Authority body that has a word in settling on the proper amount of financial resources for the projects within its framework. However, there is still the European Commission as a highest governing factor of the instrument, so in order to prevent conflicting decision making scenarios between the two aforementioned administrative bodies; the Commission holds a responsibility to provide the Budgetary Authority with a document including its intentions for financial distributions. This document i.e. the Multi-Annual Indicative Planning Document (hereinafter: MIPD) is supposed to include proposals of the financial framework for the upcoming three-year period as an integral part of the annual enlargement package. It is also important to stress that the total budget allocated for the activities of IPA for the period of 2007-2013 would be in an amount of approximately EUR 11.5 billion⁷.

Also, analogous as in the past, apart from the prospects of national plans of improvement, the Instrument for Pre-Accession Assistance includes a regional component with the vision of improving the inter-state cooperation at the Western Balkan.

The greatest novelty established into this instrument that gradually differentiates it from its predecessors is the segregation among its beneficiary states depending on the level i.e. official status of their respective European integrations, as recognised by the European Council. Namely, potential candidate countries⁸ receive their share of resources within the framework of European Partnerships, whereas EU's candidate countries⁹ get their portion of assistance through their Accession Partnerships. As far as candidate countries are concerned, IPA's target is full implementation of the *lat. acquis communautaire*, whereas for the non-candidates there is a limited command of progressive alignment to the *lat. acquis*. The differentiation is crucial, since it defines the type of support by determining the eligibility of countries. Potential candidates are less qualified and therefore receive a smaller portion of funds. Nevertheless, IPA is regarded as a pretty flexible instrument, so in the instance of improvement of the official status, more specifically in case if a country moves from the potential to the candidate group of countries it becomes qualified for full IPA support. In order to better clarify this matter, we shall talk in terms of concrete program objectives.

The IPA program is consisted of five components which define its span of activities and they are the following:

- 1. Transition Assistance and Institution Building**, which is supposed to provide recipients with both “soft” support in terms of know-how and “hard”, in terms of physical

⁷ Including the support for Turkey

⁸ Referring to Albania, Bosnia and Herzegovina and Kosovo

⁹ Referring to Croatia, Macedonia, Montenegro and Serbia

investment in order to help countries meet the accession criteria and improve their administrative and judicial capacity (Gjorgjievski, 2008, p. 72).

2. **Cross-Border Cooperation.** This module is the continuation of the regional component of the CARDS program. It encourages cross-border engagement and collaboration between recipients and EU member states, as well as among beneficiary countries themselves.
3. **Regional Development,** whose scope is aimed at assisting the countries within their preparations for the cohesion policy of the European Community, especially focusing on the Cohesion Fund and the European Regional Development Fund (hereinafter: ERDF) program.
4. **Human Resources Development,** which is going to support the preparation for involvement within the structural funds and European Social Fund (hereinafter: ESF) programs.
5. **Rural Development.** This final component will help its beneficiaries to prepare for Community's CAP, for the European Agricultural Fund for Rural Development (hereinafter: EAFRD), and other related programs.

Candidate countries are entitled beneficiaries of all the five components, whereas potential candidate countries are only eligible to receive support for the first two components of IPA.

Concerning the process of implementation, IPA demonstrates its flexibility once again. The program has a whole range of implementation methods available, from centralised to full decentralisation of financial management to the beneficiary countries, as well as joint and shared management (Gjorgjievski, 2008, p. 72). The final goal however, is to accomplish full decentralisation. In the case of the last three IPA components, for instance, the Commission strongly supports decentralised management and assists candidate countries in their preparations for the structural funds¹⁰ once they become member countries.

The decentralised structures of a recipient country are instituted of seven authorities, under the leadership of the **National IPA Coordinator** (hereinafter: **NIPAC**). The main responsibility of NIPAC is to organise and synchronise the overall organisation of the program. Moreover, NIPAC is the authority who approves the projects. Secondly, there is the **Competent Accrediting Officer** (hereinafter: **CAO**), whose task is to monitor the effective functioning and implementation of the projects previously approved by NIPAC. Further on, there is the **National Authorising Officer**, who is responsible for the financial issues. NAO is the one

¹⁰ Referring to the Common Agricultural Policy and the Cohesion Policy

that manages the EU resources and provides an annual statement to the Commission on behalf of the beneficiary. Fourthly, there is the **National Fund**. After being accredited by CAO, this body represents the central treasury of the program and is also responsible for its financial management. Assessment of the actions is an accountability of the **Audit Authority**, which must perform frequent controls in order to make sure of righteous IPA execution according to international standards and prevent irregularities. The Audit Authority must be an independent body from the control and management systems. Then, each component of the program requires its **operating arrangement** that would administer and carry out the activities in line with the principle of sound financial management. Finally, the third and fourth components i.e. the Regional Development and Human Resources Development also require **Sectoral Coordinators**.

Last but not least, the possible types of assistance a beneficiary state could contract within the framework of IPA may be in the forms of: grants, finance investments, special loans, loan guarantees, financial assistance, procurement contracts, budgetary support and other forms of budgetary support.

5.2 Criteria for allocation of funds

The biggest and most significant division concerning the eligibility of funds lies in the official European integration official status of the beneficiaries, as cited. According to this principle the countries entitled to all of the five IPA components are: Croatia, Macedonia, Montenegro and Serbia. These components can only be initiated in candidate countries, having a decentralised management and having demonstrated autonomous programming and management capacities (Gjorgjievski, 2008, p. 72), with the aim to improve ownership and enable them to implement EU funds by themselves once they become members. On the other hand, Albania, Bosnia and Herzegovina and Kosovo can benefit only from the Transition Assistance and Institution Building and the Cross-Border Cooperation components, as they are potential candidates. The purpose is to promote regional cooperation between them and support them in their transition period and EU approximation. The provided IPA assistance is based on the priority areas decided within the SAp and a result of a comprehensive multi-annual strategy.

Officially, as Council Regulation (EC) No 1085/2006 states, the rules determining the eligibility of participation in tenders and grant contracts, as well as rules concerning the origin of supplies should be laid down in accordance with recent developments within the European Union concerning the untying of aid, but should leave the flexibility to react to new developments in this field. The decided amount of support to be allocated broken down by component is to be included in the Multi-Annual Indicative Financial Framework (hereinafter: MAIFF) presented by the Commission as a part of its enlargement package.

Distribution will be detailed on the basis of certain transparent criteria such as **needs for assessment, respect of conditionality, capacity of management and absorption capacity of the recipient**. Still, IPA shall retain its flexibility of adapting to precise pre-accession requirements of its respective beneficiaries. The process of assessing the needs of a country is planned to be performed in close collaboration and consultation with the national authorities in order to be in line with the national strategy and involve engagement of the beneficiary country itself. All the national IPA authorities are operating under delegation of the European Commission, which is indeed responsible for the program implementation and is entitled to manage, monitor, evaluate and report project achievements, but also the capacity of the national management. In case if a beneficiary country is disobeying the principles of the European Community, or in case of a lack of progress the Commission is obliged to notify the European Council, which must take the necessary measures of consequence. Absorption capacity is the ability of efficient utilisation of the available EU funds by its beneficiary and is manifested in three manners at a national level. First of all, there is the macro economy (overall development of the state), then there are state's abilities to participate with its own funds (co-financing), and finally the administrative capacity, taken as a competence of the national and local authorities to formulate viable plans, programs and projects on-time, to deliver timely proper decisions, to coordinate the main partners and to administrate the entire process on a transparent and accountable manner (Gjorgjievski, 2008, p. 76). A successful example of absorption capacity is a country that has the capacity to create projects, is tolerant to risk, has the competence to plan its resources in advance, acts proactively and tries to earn the given funds.

5.3 Volume and structure of funds by various criteria

The total budget of the Instrument for Pre-Accession Assistance is in an amount of approximately EUR 11.5 billion throughout its duration. As previously explained for the PHARE and CARDS financial instruments, IPA's distribution is going to follow, provided by a series of tables for each beneficiary.

The first one in this section, Table 13 shall present the first fund allocation of IPA resources in Albania.

Albania has started and will most certainly end up as a potential candidate country throughout IPA's overall duration; therefore this country is officially qualified for resources from the first two components only. Apart from the Cross-Border Cooperation component which has the goal to reinforce and develop Albania's relations within the region, the national recognised priorities of this beneficiary in the framework of the Transition Assistance and Institution Building component, are within three crucial areas including political, socio-economic requirements and European standards. Despite the progress of Albania in the consolidation of

the stability of its institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities, continued efforts remain necessary in order to ensure good governance (Commission of the European Communities, 2007a, p. 4). Based on this country's needs, the pre-accession assistance should focus on: improving governance and rule of law especially the in the police, public administration and the judiciary, then supporting economic development and enhancing social cohesion, adopt a transparent implementation of the *acquis*, promote human rights, contribute to establishing a financial control for decentralised management of EU funds, fight corruption, improve public finances, provide agricultural and rural development etc. The overall IPA support in Albania equals to EUR 595.49 million.

Table 13. IPA fund allocation per component to Albania in the period of 2007-2013 (in EUR million)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Transition Assistance and Institution Building | 54.30 | 61.10 | 70.90 | 82.70 | 84.30 | 85.99 | 87.45 |
| Cross-Border Cooperation | 6.70 | 9.60 | 10.30 | 10.50 | 10.70 | 10.28 | 10.67 |
| TOTAL | 61.00 | 70.70 | 81.20 | 93.20 | 95.00 | 96.27 | 98.12 |

Source: European Commission, *Multi-annual Indicative Planning Document (MIPD) 2007-2009 for Albania*, 2007, p. 5; European Commission, *Multi-annual Indicative Planning Document (MIPD) 2009-2011 for Albania*, 2009; European Commission, *Multi-annual Indicative Planning Document (MIPD) 2011-2013 for Albania*, n.d., p. 14.

Secondly, the upcoming Table 14 is going to provide a detailed fund allocation by components in **Bosnia and Herzegovina**.

Table 14. IPA fund allocation per component to Bosnia and Herzegovina in the period of 2007-2013 (in EUR million)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|--|--------------|--------------|--------------|---------------|---------------|---------------|---------------|
| Transition Assistance and Institution Building | 58.10 | 69.90 | 83.90 | 100.70 | 102.70 | 104.67 | 106.87 |
| Cross-Border Cooperation | 4.00 | 4.90 | 5.20 | 5.30 | 5.400 | 4.80 | 4.94 |
| TOTAL | 62.10 | 74.80 | 89.10 | 106.00 | 108.10 | 109.47 | 111.81 |

Source: European Commission, *Multi-annual Indicative Planning Document (MIPD) 2007-2009 for Bosnia and Herzegovina*, 2007, p. 6; European Commission, *Multi-annual Indicative Planning Document (MIPD) 2009-2011 for Bosnia and Herzegovina*, 2009, p. 14; European Commission, *Multi-annual Indicative Planning Document (MIPD) 2011-2013 for Bosnia and Herzegovina*, n.d., p. 12.

Similarly to the previous example, Bosnia and Herzegovina is also a potential candidate country and eligible for the first two IPA components. This country is struggling with a number of difficulties on its way to European integration. The issues that the Instrument for Pre-Accession Assistance shall try to improve within its first component are: the rule of law, social inclusion and respect for the protection of the minorities, human rights, reforming the media sector and the public administration, combat high unemployment and develop the education system that would better fit the labour market, support SMEs and regional development, stabilise the macro-economic environment, reduce public spending and improve its quality in order to create a favourable business climate, improve beneficiary's liaison and collaboration with international financial institutions etc. The scope of the second component is to support Bosnia and Herzegovina's cooperation with its neighbouring countries Croatia, Montenegro and Serbia and also Italy within the IPA Adriatic program. Another goal of the program is to prepare this recipient for decentralised management manner of EU assistance via institutional administrative capacity building and establishing internal audits and controls. The total IPA support in Bosnia and Herzegovina equals to EUR 661.38 million.

The next observed case is a dissimilar one, since **Croatia** has been an EU candidate country since the very beginning of the program i.e. is entitled to receive financial aid from all its five components. Table 15 presents IPA's financial distribution by component in Croatia.

Croatia has been the recipient marking the fastest progress at a regional level. It also presents one of the proofs that properly implemented support in all the areas ensures successful European integration. IPA's main objectives for this beneficiary are meeting the political and economical criteria, enforcement of the lat. *acquis communautaire* and preparation for the upcoming implementation of the CAP and Cohesion Policy with an EU membership vision. The first component shall place its focus on supporting public administration reform, anti-corruption policy, providing support in structural reforms and public finance, economic restructuring, land and labour market reforming and institutional capacity building. Secondly, the Cross-Border Cooperation component would improve Croatia's neighbouring relations with countries including: Slovenia, Bosnia and Herzegovina, Montenegro, Italy, Hungary and Serbia. The second component shall also familiarise the country with the European Territorial Cooperation objective. The Regional Development and the Human Resources Development components ultimate objectives are to prepare Croatia for the management and execution of the Cohesion Policy and finally, the Rural Development component aims to prepare the beneficiary for Community's Common Agricultural Policy. It will concretely focus on three CAP components i.e. agricultural sector adaptation to the lat. *acquis communautaire*, sustainable development of rural areas and implementation of agri-environmental measures. The full IPA assistance in Croatia equals to EUR 1039.54 million.

Table 15. IPA fund allocation per component to Croatia in the period of 2007-2013 (in EUR million)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Transition Assistance and Institution Building | 49.60 | 45.40 | 45.60 | 39.50 | 40.00 | 40.87 | 38.51 |
| Cross-Border Cooperation | 9.70 | 14.70 | 15.90 | 16.20 | 16.50 | N/A | N/A |
| Regional Development | 45.10 | 47.60 | 49.70 | 56.80 | 58.20 | 59.35 | 62.00 |
| Human Resources Development | 11.40 | 12.70 | 14.20 | 15.70 | 16.00 | 16.04 | 18.00 |
| Rural Development | 25.50 | 25.60 | 25.80 | 26.00 | 26.50 | 27.27 | 27.70 |
| TOTAL | 141.20 | 146.00 | 151.20 | 154.20 | 157.20 | 143.53 | 146.21 |

Source: European Commission, *Multi-annual Indicative Planning Document (MIPD) 2007-2009 for Croatia*, 2007, p. 13; European Commission, *Multi-annual Indicative Planning Document (MIPD) 2009-2011 for Croatia*, n.d., pp. 5-6; European Commission, *Multi-annual Indicative Planning Document (MIPD) 2011-2013 for Croatia*, 2011, p. 11.

The upcoming Table 16 presents the IPA support allocation by sections in **Macedonia**. Like Croatia, Macedonia has also held a candidate country status all through the duration of the program.

The first IPA component has been predominantly focused on institution building. Under this scope the instrument aims to improve governance and observance of the rule of law, as well as to provide *lat. acquis* implementation and building institutional capacities for Community standards. The second component's purposes are to foster cooperation with the neighbouring countries, including Bulgaria and Greece and make future members acquainted with the governing procedures of the European Territorial Cooperation. The general aim of the remaining three components is preparation for Community's cohesion and rural development policies. Their roles are however divided. Namely, the Regional Development component is basically focused on the environment and transport sectors; Human Resource Development provides assistance for projects in the domain of education and employment and the final Rural Development component provides support for sustainable development in the rural areas as well as preparation for the CAP policy and other related matters. Last but not least, the IPA program also nurtures the objective to prepare Macedonia for decentralised program management of EU funds. The overall IPA support in Macedonia equals to EUR 623.78 million.

Table 16. IPA fund allocation per component to Macedonia in the period of 2007-2013 (in EUR million)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|--|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
| Transition Assistance and Institution Building | 41.60 | 39.90 | 38.10 | 36.30 | 34.50 | 28.20 | 27.94 |
| Cross-Border Cooperation | 4.20 | 5.30 | 5.60 | 5.70 | 5.80 | 5.18 | 5.24 |
| Regional Development | 7.40 | 12.30 | 20.80 | 29.40 | 35.00 | 42.30 | 51.80 |
| Human Resources Development | 3.20 | 6.00 | 7.10 | 8.40 | 9.40 | 10.38 | 11.20 |
| Rural Development | 2.10 | 6.70 | 10.20 | 12.50 | 14.00 | 19.00 | 21.03 |
| TOTAL | 58.50 | 70.20 | 81.80 | 92.30 | 98.70 | 105.07 | 117.21 |

Source: European Commission, *Multi-annual Indicative Planning Document (MIPD) 2007-2009 for the Former Yugoslav Republic of Macedonia*, 2007, p. 13; European Commission, *Multi-annual Indicative Planning Document (MIPD) 2009-2011 for the Former Yugoslav Republic of Macedonia*, n.d., p. 14; European Commission, *Multi-annual Indicative Planning Document (MIPD) 2011-2013 for the Former Yugoslav Republic of Macedonia*, n.d., p. 12.

Further on, there is Table 17 which presents the financial allocation of the Instrument for Pre-Accession Assistance in **Kosovo** under the patronship of United Nations Security Council Resolution (hereinafter: UNSCR). Kosovo has been and remained a potential candidate country throughout the length of IPA and is eligible to obtain the benefits of its first two components.

Table 17. IPA fund allocation per component to Kosovo in the period of 2007-2013 (in EUR million)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Transition Assistance and Institution Building | 65.70 | 62.00 | 63.30 | 64.50 | 65.80 | 67.07 | 70.71 |
| Cross-Border Cooperation | 2.60 | 2.70 | 2.80 | 2.80 | 2.90 | 2.93 | 2.99 |
| TOTAL | 68.30 | 64.70 | 66.10 | 67.30 | 68.70 | 70.00 | 73.70 |

Source: European Commission, *Multi-annual Indicative Planning Document (MIPD) 2007-2009 for Kosovo under UNSCR*, 2007, p. 4; European Commission, *Multi-annual Indicative Planning Document (MIPD) 2009-2011 for Kosovo under UNSCR*, 2009, p. 4; European Commission, *Multi-annual Indicative Planning Document (MIPD) 2011-2013 for Kosovo under UNSCR*, 2011, p. 13.

Kosovo's greatest challenge at the beginning of the program was solving the issue of its future status. A crucial issue that is incorporated within the first IPA component is the constant effort for its development in a peaceful, multi-ethnic, modern society which obeys the rule of law. Concerning the socio-economic criterion, IPA's scope is to boost recipient's weak economy and assist local authorities into a process of reformation that would provide excellent governance of public expenditure and therefore enable fiscal stability. Finally, the program should also gradually start implementing Community's legislation while maintaining home affairs at the centre of attention. The total IPA aid in Kosovo equals to EUR 478.8 million.

Next, there is Table 18 which provides description of the financial support that **Montenegro** received as Community assistance from 2007 to 2013.

Table 18. IPA fund allocation per component to Montenegro in the period of 2007-2013 (in EUR million)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Transition Assistance and Institution Building | 27.50 | 28.10 | 28.60 | 29.24 | 29.84 | 16.35 | 5.20 |
| Cross-Border Cooperation | 3.90 | 4.50 | 4.70 | 4.76 | 4.86 | 4.60 | 4.70 |
| Regional Development | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 8.00 | 15.20 |
| Human Resources Development | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 2.80 | 2.95 |
| Rural Development | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 3.30 | 7.60 |
| TOTAL | 31.40 | 32.60 | 33.30 | 34.00 | 34.70 | 35.03 | 35.66 |

Source: European Commission, *Multi-annual Indicative Planning Document (MIPD) 2007-2009 for Montenegro*, 2007, p. 5; European Commission, *Multi-annual Indicative Planning Document (MIPD) 2009-2011 for Montenegro*, 2009, p. 6; European Commission, *Multi-annual Indicative Planning Document (MIPD) 2011-2013 for Montenegro*, 2011, p. 15.

This country has a unique disbursement, since in the beginning of the program it only received the first two IPA components due to its official potential candidate country status. At the end of 2010 Montenegro became an EU candidate country and consequently it started receiving all the five components as from year 2012.

The political principles that the Instrument for Pre-Accession Assistance was focused on, were the ones in alignment with the aforementioned Copenhagen criteria. They included: decentralization of local government, improved fiscal management, public administration reform, consolidation of democratic institutions, fight against corruption, implementation of the rule of law, civil society, human rights and protection of the minorities and reformation of

the police. Considering socio-economical reforms, IPA took actions to bring improvement into domains such as education, health, employment, fiscal and macroeconomic issues. The financial instrument also worked on improving infrastructure, as well as rural development under the respective components. In its later phase, IPA also focused on effective implementation of the *acquis* and advancing recipient capacities for future implementation of the CAP, Cohesion and other Community funds. The entire IPA aid in Montenegro equals to EUR 236.68 million.

Finally, the ultimate table in this section is Table 19 which provides a detailed allocation of IPA's assistance in **Serbia**.

Table 19. IPA fund allocation per component to Serbia in the period of 2007-2013 (in EUR million)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Transition Assistance and Institution Building | 178.5 | 179.4 | 182.6 | 186.2 | 190 | 194 | 203.0 |
| Cross-Border Cooperation | 8.2 | 11.5 | 12.2 | 12.5 | 12.7 | 12.0 | 12.0 |
| TOTAL | 186.7 | 190.9 | 194.8 | 198.7 | 202.7 | 206.0 | 215.0 |

Source: European Commission, *Multi-annual Indicative Planning Document (MIPD) 2007-2009 for Serbia*, 2007, p. 4; European Commission, *Multi-annual Indicative Planning Document (MIPD) 2009-2011 for Serbia*, 2009, p. 7; European Commission, *Multi-annual Indicative Planning Document (MIPD) 2011-2013 for Serbia*, n.d., p. 14.

This beneficiary has been a potential country for the most part of IPA, therefore entitled to support from the first two components only. It holds a candidate status starting from 2012. The objectives throughout IPA's duration for Serbia have generally remained unchanged. Namely, the political actions of this program incorporate: reforming the judiciary system, fighting corruption, administration reform and reform of the police, decentralization and establishing local government, antidiscrimination, protection of minorities and human rights. The socio-economic criteria include projects trying to improve social inclusion, business environment, employment and education, reducing regional disparities, restructuring and competitiveness, environmental and infrastructure issues. The Cross-Border Cooperation component basically provides support with cross-border infrastructure, security and crime prevention, job creation, flood prevention, administrative, economic and cultural cooperation. The total IPA assistance in Serbia equals to EUR 1394.8 million.

5.4 Assessment of program's implementation

Inconsistency between the appointed and actually allocated amounts of support has been one of the greatest issues that IPA's predecessors faced. This has proved beneficiaries' inability for fund management as a consequence of the witnessed limited capacity to absorb the allocated support. As a conclusion the European Commission has decided that no assistance will be paid if the Western Balkan recipients do not demonstrate their fund management capability. This decision was already in force although IPA's implementation and is the cause for which institution and administrative capacity building has been and remained one of the top priorities of the program, for both candidate and potential candidate countries.

However, apart from the local administrative authorities of the recipients, the European Union itself has been criticised as well. The main reasons for it are the arguments of the treatment it provides to its potential member states of the Western Balkan region in comparison to its commitment to the previous enlargements. The Community has been judged for its incentives, dedication and credibility.

A positive characteristic of the Instrument for Pre-Accession Assistance is the structure organisational improvement, as seen by the case of candidate vs. potential candidate country diversification. This is an illustration that the assistance conditions have progressively transformed and became in line with the traits of the previous Community support, as in the case of prior enlargements.

On the other hand, there are also such critics who claim that this same approach is incorrect and discriminative. Their argument is that IPA is formulated to be in favour of the candidates and discriminatory towards the potential candidate countries since the two groups do not have the same eligibility conditions. European Commission's opponents claim that this differentiation represents an essential impediment and prevention for fast pace progress in potential candidate countries due to the concept that the last three components, which are indeed the most important fields of development, are not accessible.

Another criticised issue is the amount of available assistance, which seems to be abundant and unlikely to be enough to satisfy all objectives in all the seven beneficiary states. The assignments themselves expected by the Western Balkan countries are way more difficult and fund consuming in comparison to the ones of the recent previous enlargements.

Other evident weaknesses of instrument's implementation can be observed in various fields such as the use of different measures within IPA, its planning and incentives, the structure and budgeting of IPA. These aspects include limited flexibility in using budget support, limited scope of the regional programs, lack of target dates for accession, inadequate focus on strategy and results, lack of financial rewards for performance, insufficient recipient involvement in

programming, rigidity in differentiation of beneficiaries, low levels of national co-financing etc (European Policy Evaluation Consortium, 2011).

Despite all the critics, IPA has been the largest donor to the South-East European region and has a crucial position in the coordination of assistance for political and socio-economic development. The instrument has brought numerous benefits to its recipients, like the visa liberalisation for Western Balkan citizens. The preferred option would cost effectively advance the enlargement process and help realise the political stability, economic, social, cultural benefits of enlargement to the EU, the accession countries and the beneficiaries with candidate and potential candidate status (European Policy Evaluation Consortium, 2011, p. 73).

CONCLUSION

Initially created due to the aspiration to preserve peace after the dreadful implication of the World Wars, the European Union stands for the harmonized integration of some of the oldest countries in the world with very diverse cultures, languages, economic and political systems. It stands for unity within diversity. Unity has increased the significance of EU in the world and made it a better player on the global scene. After each executed enlargement, the EU is intensively upgrading its new action plan of the following one. Clearly, European integration is one of the priorities of the European Community, as well as a challenge due to the increased number of members through the years and the economical and social differences between the member and candidate countries. It is also important to clarify the fact that when a country is applying for an EU membership, there is an inevitable common initial difficulty in attaining a balance between the existing member states and their willingness to compromise with the applicants.

Given that the European Union stands for a partnership lying on the base of cohesion and collaboration, two of its most important policy goals within the last three decades have been improving the economic and social cohesion among the current EU member states and providing support for the economic and social development of countries which are not member states including the ones that are going through the acceptance negotiation process. By promoting cohesion, the EU marks its contribution for a harmonic and sustainable development of the economic activities, increasing employment, human resource development, also for protection of the environment. Since enlargement has a complicated and rather costly nature, the EU has established a system of providing assistance to its future member states via financial instruments that it creates. These instruments involve long-term planning towards narrowing the gaps and candidate country adjustment to the EU standards.

Several pre-accession enlargement financial aid programs have already been established with the purpose of helping its candidate countries and the potential candidates to overcome possible difficulties of their negotiation and therefore accession process. It is however important to differentiate the financial support allocated to candidates and potential candidate countries. To be precise, potential candidates have the advantage of utilizing some budgetary instruments of the EU meant for supporting economic and social development. Still, once the country starts the accession process, it attains the right of financial help from Union's budget which has a different character. The key objective of candidate country's support is not overall development, but preparation of the state for full EU membership, and in that context also for the cohesion policy of the Union.

The main scope of these programs is to diminish the transition period of applicants by helping them develop the specific sections. This was proven to be a successful method, since many of the current EU member states have been receiving pre-accession financial aid within their negotiations, which have helped them fulfil the accession criteria and become eligible to enter the European Community. In fact, the PHARE program was initially intended for Poland and Hungary, but then started being distributed to other candidate countries as well. Led by this notion, the European Union has proceeded to pursue this trend of establishing financial aid programs to its future members.

After the latest enlargement that presented Croatia as the new 28th member state, it is a common belief that the Western Balkan countries including Albania (potential candidate), Bosnia and Herzegovina (potential candidate), Macedonia (candidate country), Montenegro (candidate country), Serbia (candidate country) and Kosovo (potential candidate) are going to be the main protagonists in the upcoming EU expansions. These countries have been beneficiaries of three structured pre-accession programs including PHARE (Poland and Hungary: Assistance for Restructuring their Economies) starting from 1997 to 1999, CARDS (Community Assistance for Reconstruction, Development and Stabilisation) in the period between 2000 and 2006 and IPA (Instrument for Pre-Accession Assistance) from 2007 to 2013. Each of the financial instruments had different priorities, objectives and scope of activities depending on the recipient state and the point in time of implementation.

During the 1990s, the European Community was trying to follow the turbulent happenings on the Balkan Peninsula with great interest. The outcomes of the transformation of the Western Balkan countries were enormous. In this period PHARE was one of the pioneering established programs for pre-accession assistance which became available to the Western Balkan countries. Its primary scope was to sustain peace, implement peace agreements, build democracy and provide critical aid to all the successors after the colossal division of Yugoslavia. Apart from these main objectives, the program also provided support to other important areas including transport and infrastructure, education and training, administrative

reformation, social development, employment, public health, agricultural restructuring and other sections depending on the situation, capacity and absorption power of beneficiary.

European Community has detected the commitment of the aforementioned countries to the concept of preserving the lasting social, economic and political stability and dialogue. As a result, after a meeting during the year 2000, the European Council has recognized these countries to be potential candidates for EU membership and provided them with a new more structured pre-accession program.

CARDS was envisioned and functioned as an instrument of two levels – regional and national level assistance programs. Generally speaking, the financial program had four most important domains for providing assistance at a regional level and those were the following ones: integrated border management, institution capacity building, democracy stabilization and finally infrastructure development at a regional level. On the other hand, the national component objectives have varied, adjusting to the development phase and necessities of the recipients. Still, there are five priority sectors that the Community addressed as crucial for the next phase of improvement for these states and that CARDS covers at a national level. The first priority area is within justice and home affairs. This includes projects involving reform of the judiciary and police, migration and asylum, integrated border management, fight against organised crime and similar activities. Secondly, CARDS places its focus on administrative capacity building, including public administration reform, taxation and customs as main concerns. The third category is consisted of activities for economic and social development and tends to boost economic reform, social cohesion, improve local infrastructure development and education. The following component is the democratic stabilisation one focusing on civil society development, refugee return and media reform issues. Last but not least, the final CARDS national priority area deals with environment and natural resources including institution strengthening, monitoring and planning.

The Western Balkan recipients have shown improvement in their local administrative capacities for fund management and increased absorption capacities, consequently the European Community decided to create another pre-accession financial program after the official termination of CARDS. The last program which is still being implemented at present day is the Instrument for Pre-Accession Assistance.

Thought by the previous experiences, this instrument is the most structured one the EU has established. This also refers to the definition of its objectives. It was just right after the initial period of program's implementation, when the current situation of the beneficiaries started becoming clearer and the list of national priorities was clarified. After a careful observation, it was decided that the identified set of IPA priorities should include the following: maintaining the momentum of reform of the judiciary and public administration, enhance regional cooperation in the fight against organised crime and corruption, contribute to ensuring non-

discrimination and respect for human rights as well as freedom of expression, help completing the process of reconciliation in the Western Balkans, contribute to building a vibrant civil society, help beneficiaries overcome the economic and financial crisis and prepare for sound recovery by jointly working on increasing competitiveness and investments in infrastructure and finally foster reforms and regional cooperation in education.

All these objectives are allocated within the five established IPA components. The first one is the Transition Assistance and Institution Building, which is supposed to provide recipients with both “soft” support in terms of know-how and “hard”, in terms of physical investment in order to help countries meet the accession criteria and improve their administrative and judicial capacity. Secondly, there is the Cross-Border Cooperation section. This module is the continuation of the regional component of the CARDS program and it encourages cross-border engagement and collaboration between recipients and EU member states, as well as among beneficiary countries themselves. These two components are the only two available for all the Western Balkan countries, since the following three components are exclusively for the candidate countries only. The third IPA component concerns Regional Development and its scope is aimed at assisting the countries within their preparations for the cohesion policy of the European Community, especially focusing on the Cohesion Fund and the European Regional Development Fund program. Fourthly, there is the Human Resources Development component, which is going to support the preparation for involvement within the structural funds and European Social Fund programs and the final one is the Rural Development component. This fifth component will help its beneficiaries to prepare for Community’s CAP, for the European Agricultural Fund for Rural Development, and other related programs.

There have been numerous polemics concerning the performance of all three programs. PHARE is the instrument that received most of the critics due to its mixed overall performance. There were many traits that were considered incorrect in the implementation like its demand-driven phase where recipients were the ones deciding on the type of projects and there was clearly a constant alteration of focus and a lack of guidance considering the outlined objectives. Absence of adequate planning documents and sectoral strategies, contributed to the launching of projects that had insufficient operational relevance. Also there were some communicational impediments leading to performance downfalls among the European Commission as the principal decision maker and the local authorities as executors of projects in their states. Apart from its considerable critics, some credit has to be given to PHARE for the program has pursued projects which provided remarkable improvements in various domains in the Western Balkan region such as: public administration reforms, customs reforms, infrastructure improvement, providing post-war critical aid, develop strategies for waste and water resource management, provide agriculture and fisheries support, improve

cross-border cooperation etc. The overall performance was defined as mixed, however it must be taken into account that the agenda was vast, demanding and unfamiliar.

The lessons from PHARE were clearly learned, since CARDS was already improved in terms of providing a clear definition of objectives, as well as improved program management. The design of programs and strategies still needs to be improved. Speaking of the management, it had remained centralised i.e. totally in control of the European Commission. In the beginning CARDS was considered as bureaucratic, distant and unsustainable, so more attention had to be given to knowledge acquisition and capacity building needs among partners in order to satisfy their legitimate desire for increased involvement in programming and project design. Then finally the Commission decided to commence periodic meetings and consultations during the phase of needs assessment and it had tightened the relationship with local stakeholders that have gradually increased ownership of the program. Unlike PHARE, CARDS had an established list of objectives that defined the strategic needs of its beneficiaries. On the whole, the performance of the provided assistance by the Community Assistance for Reconstruction, Development and Stabilisation is regarded as fluctuating between moderately satisfactory to moderately unsatisfactory, depending on the recipient state. Despite the evaluation, CARDS has managed to accomplish extraordinary achievements by working on so many spheres such as modernising infrastructure within the region, improve practices and procedures, as well as enhance the capacity of people and institutions working with EU-funded programs across all sectors. Moreover, the financial program had a huge impact on the governmental policy, institutions, private entities and individuals. The provided assistance has noted positive results in the political, economic, social and environmental sense.

Previous evaluation has shown that the responsible bodies and institutions that hold the responsibility of dealing with pre-accession assistance in the recipient countries should pay more attention to programming and project design, bearing in mind their capacities. This aspect was also taken into consideration by the European Council, which divided recipients in two factions for the scope of component availability within the latest support program, the Instrument for Pre-Accession Assistance, as stated before. This was considered as a positive characteristic of the structure organisational improvement and an illustration that the assistance conditions have progressively transformed and became in line with the traits of the previous Community support, as in the case of prior enlargements. Furthermore, unlike its predecessors, IPA took great concern into training its recipient for decentralised fund management. This attribute is regarded as very useful and recommended, since it is a direct preparation for the later management of EU funds, once becoming a full member.

The positive trend is that there has been a constant improvement from each prior program to its successor. There have been numerous developments in various fields in the Western Balkan countries. Pre-accession support has become more than simply an adjective referring to a

strategy or a process; instead it has become an experience of change and adaptation by the candidate states and the European Union as well.

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APPENDIXES

APPENDIX A: LIST OF ABBREVIATIONS

| | |
|-------|--|
| CAO | Competent Accrediting Officer |
| CAP | Common Agriculture Policy |
| CARDS | Community Assistance for Reconstruction, Development and Stabilization |
| CEE | Central and Eastern Europe |
| CEEC | Central and Eastern European Countries |
| CEFTA | Central European Free Trade Agreement |
| CFCU | Central Financing and Contracting Unit |
| CSP | Country Strategy Papers |
| CU | Customs Union |
| DG | Directorate General |
| DIS | Decentralized Implementation System |
| EAFRD | European Agricultural Fund for Rural Development |
| EBRD | European Bank for Reconstruction and Development |
| EC | European Community |
| ECHO | European Community Humanitarian Office |
| ECSC | European Coal and Steel Committee |
| EEA | European Economic Area |
| EEC | European Economic Community |
| EFTA | European Free Trade Association |
| EIB | European Investment Bank |
| EMU | European Monetary Union |
| EP | European Parliament |
| ERDF | European Regional Development Fund |
| ESF | European Social Fund |
| EU | European Union |
| EUR | Euro |

| | |
|---------|--|
| Euratom | European Atomic Energy Community |
| GDP | Gross Domestic Product |
| IFI | International Financial Institutions |
| IPA | Instrument for Pre-accession Assistance |
| ISPA | Instrument for Structural Policies for Pre-Accession |
| MAIFF | Multi-Annual Indicative Financial Framework |
| MAP | Multi-Annual Programming |
| MIP | Multi-Annual Indicative Programs |
| MIPD | Multi-Annual Indicative Planning Document |
| NAC | National Aid Coordinator |
| NAO | National Authorising Officer |
| NIPAC | National IPA Coordinator |
| NPAA | National Programs for the Adoption of the Acquis |
| OEEC | Organization for European Economic Cooperation |
| PAR | Public Administration Reform |
| PHARE | Poland and Hungary: Assistance for Restructuring their Economies |
| PMU | Project Management Unit |
| SAA | Stabilisation and Association Agreements |
| SAP | Stabilisation and Association process |
| SAPARD | Special Accession Program for Agricultural and Rural Development |
| SME | Small and Medium Enterprises |
| TBT | Technical Barriers to Trade |
| UK | United Kingdom |
| UNMIK | United Nations Interim Administration Mission in Kosovo |
| UNSCR | United Nations Security Council Resolution |
| WB | World Bank |