

# EU ENLARGEMENT IN THE WESTERN BALKANS: FABRICATING REFORMS IN PUBLIC ADMINISTRATION

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## **Abstract**

*Previous EU assistance for the Western Balkans has been delivered through various programmes: PHARE; ISPA and SAPARD; CARDS; as well as the IPA assistance packages. In recent years, EU Institutions have provided a large part of region's total grant aid as part of its pre-accession process, supporting institutional reform in the candidate countries. When supporting national strategies or sector policies, EU budget support plays a unique role to help countries meet their strategic objectives. Specifically, from 2014, when first was introduced this new modality, for Albania they were allocated 272 ml Euro and for Kosovo 69.5 ml Euro in Sector Reform Contracts. This new financial instrument has contributed in pushing first and second generation reforms in important sectors as public finance management, public administration, employment and skills etc. The paper examines which are the key factors influencing the absorption capacities of Sector Budget Support by using annual data for Albania and Kosovo, considering their similarities and differences. This study aims to analyse the relationship between the country specification and the amount disbursed from sector budget support financial assistance. This article investigates which are the main determinants affecting the structure of financial funds granted by Europe Commission for Albania and Kosovo, and which are the lessons learned during the implementation of this new instrument for the region. Thus, the findings of this study can help public servants and academics to build wealthy strategy to ensure a diversified financial aid for countries which inspire to join soon Europe Union.*

**Key Words:** sector budget support, absorption capacities, financial aid, integration process, key factors

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<sup>1</sup> This designation is in line with UN Security Council Resolution 1244/99 and the International Court of Justice Opinion on the Kosovo declaration of independence.

## **1. Albania and Kosovo trying to connect the dots – Is European Union closer or further away?**

It has been around two decades from the official launch of the enlargement process for the countries of Western Balkans. Yet, with the exception of Croatia, none of other countries have managed to join the EU. The process of Albania's integration into the European Union (EU) is considered the most strategic national priority, which leads the country's governing agenda. But now that Albania is getting closer to the EU, the EU is moving away even more<sup>2</sup>. Albania's application for EU membership was submitted on 2009 and that year, the Council approved Albania's application and invited the European Commission to submit its opinion. One year later, the Commission assessed that before accession negotiations could be formally opened, Albania still had to achieve a necessary degree of compliance with the membership criteria. Finally, the good news: Albania was awarded candidate status in 2014<sup>3</sup>. But the path was not so simple until the opening of accession negotiations with Albania on July 2022.

Kosovo has a Stabilisation Association Agreement in place since 2016. It also engages actively in a number of sector-based regular policy dialogue with EU. Since 2017, the country has been implementing a set of political and economic priorities agreed with the EU Commission under a European Reform Agenda document. The present government has publicly confirmed its intentions of submitting the membership application in 2022. One of the challenges remain visa liberalisation for Kosovo citizens. The Commission's proposal to lift the visa requirements for Kosovo citizens is still pending in the Council. The Commission maintains the assessment it made in July 2018 that Kosovo has fulfilled all visa liberalisation benchmarks. The European Parliament reconfirmed its support for the Commission's proposal for visa liberalisation<sup>4</sup>. The accession process has become increasingly complex as time went by. Implications of the revised methodology for Kosovo are that the fundamentals are expanded to cover economic reforms and public administration reform versus the much narrower focus in chapters 23 and 24 in the case of Croatia and negotiating frameworks of Serbia and Montenegro. In future negotiations there will no longer be an opening of individual chapters, they will be opened for the whole cluster only after the opening benchmarks have been met by the country.

Previous EU assistance for the Western Balkans, including Albania and later on also Kosovo, has been delivered through various programmes: PHARE; ISPA and SAPARD; CARDS; as well as the IPA assistance packages. In recent years, EU Institutions have provided a large part of region's total grant aid as part of its pre-accession process, supporting institutional reform in the candidate

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<sup>2</sup> F. Fabbrini, Reforming the EU Outside the EU? The Conference on the Future of Europe and Its Options (2020) - European Papers, Vol. 5, 2020, No 2, pp. 963-982 [www.europeanpapers.eu](http://www.europeanpapers.eu)

<sup>3</sup> Council of European Union, Council conclusions on Albania, 2014: <https://www.consilium.europa.eu/en/policies/enlargement/albania/>

<sup>4</sup> Kosovo Report 2021, [https://neighbourhood-enlargement.ec.europa.eu/kosovo-report-2021\\_en](https://neighbourhood-enlargement.ec.europa.eu/kosovo-report-2021_en)

countries. When supporting national strategies or sector policies, EU budget support plays a unique role to help countries meet their strategic objectives. From 2014, when this new modality was introduced, in Sector Reform Contracts for Albania are allocated 272 ml Euro while for Kosovo 69.5 ml Euro.

## 2. Sector Budget Support in Albania and Kosovo

Starting from 2000, the budget support has become an increasingly important instrument in the European Commission's development cooperation (DC). Between 2000 and 2004 commitments for budget-support operations more than doubled, recently reaching a level of nearly 21 % of new European Development Fund (EDF) commitments<sup>5</sup>.

Actually, budget support is a financial assistance modality of Instrument of Pre-accession Assistance (IPA) for Candidate and Potential Candidate Countries. Financial assistance under IPA II has introduced some novelties, and it has emphasized the sector approach, with the aim to contribute better to sector reforms and overall process of bringing countries closer to the EU standards. Budget support started implementation in the context of moving under the IPA II „sector approach“, by focusing on support to sector reform strategies rather than on financing individual projects. It involves close dialog and cooperation, as aid modality it is different from budget support funds, it is not a blank cheque as it is based on eligibility criteria and conditions. There are no targets for the amount of EU budget support to be programmed at either national or global level in pre-accession countries, nevertheless the combination of IPA instruments is preferred. The specific objectives, which are later monitored and evaluated, should be defined in line with two important principles:

1. Consistency with EU enlargement policy.
2. Alignment with beneficiary countries own policies, priorities and objectives.

Budget support, in the enlargement context and in the perspective of EU membership, is applied by European Commission in three contractual forms<sup>6</sup>:

1. Sustainable Development Goals (SDGs) Contracts
2. Sector Reform Performance Contracts, and
3. State and Resilience Building Contracts

This new financial instrument has contributed in pushing first and second generation reforms in important sectors as public finance management, public administration, employment and skills in Albania and Kosovo.

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<sup>5</sup> Schmidt P., „2006“, *Budget Support in the EC's Development Cooperation*, Studies / Deutsches Institut für Entwicklungspolitik, Bon, p. 1. [https://www.idos-research.de/uploads/media/Studies\\_20.pdf](https://www.idos-research.de/uploads/media/Studies_20.pdf)

<sup>6</sup> European Commission, Directorate-General for International Cooperation and Development, Directorate-General for Neighbourhood and Enlargement Negotiations, Budget support guidelines, Publications Office, 2018, <https://data.europa.eu/doi/10.2841/59418>

### 3. Sector Budget Support in Albania

In Albania, sector reform performance contracts represented around 40% of the total IPA II envelope<sup>7</sup>. Budget support programmes have in fact provided valuable contributions to the implementation of key reforms as part of the EU accession process and to meeting the requirements for the approximation of the *acquis*. Budget support is also part of the EU's strategy to support Albania's efforts to cope in the medium and long term with the double impact of the earthquake (November 2019) and Covid-19 pandemic, and the related socio-economic crisis.

The first budget support operation in the Western Balkan region was approved in 2014 for Albania. Since then, a total of nine sector budget support operations have been approved for Albania to support reforms. With regards to enlargement, the Sector Reform Performance Contracts (SRC) contributed to the alignment to the *acquis*. There are nine contracts signed with the total target amount EUR 272.25 million accorded by EU. The target amount for the period 2015-2021 is EUR 201,749,998, out of which EUR 134,486,254<sup>8</sup> are disbursed in Treasury Single Account (TSA). The absorption capacity for the period 2015-2021 is 80%<sup>9</sup>.

The general overview of SBS in Albania is presented in the table below:

**Table 1. A. Status of SRCs disbursement in Albania (2015-2021)**

No.	Budget Support Action	Financial Agreement (a)	Target amount by end of 2021 (b)	Requested by MOFE (c)	Confirmed by EUD (d)	Offset	Disbursed in TSA	Absorption capacity (d-b)
1	Public Finance Management	40,000,000	40,000,000	33,500,000	31,250,000	578,310	30,671,690	78%
2	Public Administration Reform	28,000,000	28,000,000	21,000,000	20,300,000	527,141	19,772,859	73%
3	Employment and Skills	27,000,000	27,000,000	23,500,000	23,500,000	650,003	22,849,997	87%

<sup>7</sup> Law No. 37/2015 On the Ratification of the Agreement Framework between the Republic of Albania, represented by the Council of Ministers of the Republic of Albania, and the European Commission for the implementation rules of EU financial support for Albania, in the framework of the Instrument for Pre-accession Assistance (IPA II)

<sup>8</sup> Ministry of Finance and Albania, as per December 2021; <https://financa.gov.al/3014-2/>

<sup>9</sup> The calculation is made based on the fact that 134,486,254 Euro is the amount disbursed out of 166,249,998 Euro (target amount for which the respective disbursements were made by end of 2021).

5	Transport with Focus on Road	21,000,000	21,000,000	17,105,760	16,312,500	126,058	16,186,442	78%
6	EU for Justice	34,000,000	14,999,998	14,583,331	13,000,000	-	13,000,000	87%
7	EU for Social Inclusion	50,650,000	22,150,000	22,150,000	15,650,000	48,045	15,601,955	N/A <sup>10</sup>
8	EU for Economic Recovery	26,000,000	26,000,000	21,068,060	10,000,000	327,650	9,672,350	N/A
9	EU for Good Governance	36,000,000	13,000,000	10,219,048			-	N/A
	<b>Total</b>	<b>272,250,000</b>	<b>201,749,998</b>	<b>171,566,199</b>	<b>136,812,500</b>	<b>2,326,246</b>	<b>134,486,254</b>	<b>80%</b>

Source: Ministry of Finance and Economy, date 31.12.2021

Comparing to the other countries in the Western Balkan, it can be said that Albania has a history and can be considered a champion not only in numbers but also in the sectors covered through this financial instrument.

Strengthening the Public Finance Management (PFM) system was the first budget support priority, thus the first EU BS operation to be approved in Albania in 2014. As a general condition for all BS programmes, focusing on PFM would also enable subsequent budget support operations. The SRC for PFM was in place between 2014 and 2019. The overall objective of the PFM SRC was to contribute to sustainable growth and to maintain macro-economic and fiscal stability. European Commission's Communication 'Enlargement Strategy and Main Challenges 2014-2015'<sup>11</sup> recognizes the public administration reform (PAR), as one of the fundamental pillars of the enlargement process. PAR was also recognized as one of the five key priorities<sup>12</sup> for Albania's accession following the granting of the EU candidate country status. This was a good reason to design the PAR Sector Budget Support for Albania. The aim of the PAR Sector Reform Contract was to contribute to enhanced transparency, accountability and efficiency of Albania's public administration, by putting greater focus on the needs of the citizens and businesses, in view of establishing good governance practices and creating a solid basis for implemen-

<sup>10</sup> The absorption capacity for rows 7-9 is not calculated since any variable tranche disbursement has been made yet. The amount of fixed tranches is disbursed if the general conditions are met.

<sup>11</sup> EUR LEX (2014), <https://eur-lex.europa.eu/legal-content/en/ALL/?uri=celex%3A52014DC0700>

<sup>12</sup> These key priorities are: public administration, rule of law, fight against corruption, organised crime and fundamental rights.

tation of the EU acquis, thus addressing the developmental risks of government effectiveness. For this contract all tranches are requested, but from the aggregate table it can be noticed the low performance in its implementation.

Albania didn't stop. There was an appetite for more sectors to be reformed. Unemployment remains one of the major socio-economic challenges in Albanian society as labour market participation remains low and the informal economy is still significant. Between 2014 and 2020, the Government of Albania (GoA) has demonstrated a strong commitment to reforming the labour programs aiming to support the jobseeker's employability through improving the quality of Vocational Education and Training and building capacities of the relevant institutions. It is the best contract performed even though one of the most difficult contracts, including impact performance indicators. These types of indicators are always the most difficult to be achieved compared with outcome and output indicators.

Roads and motorways represent the predominant mode of land transportation in Albania and provide essential links for freight and personal mobility in the country. The overall objective of the Sector Reform Contract to Support Transport with Focus on Roads is to contribute to an efficient transport system, integrated in the region and in the EU network, which promotes economic development and the citizens' quality of life by focusing on the road transport.

In 2018, the European Commission<sup>13</sup> sent a clear message. In the path toward EU, Albania accession depends on progress made in certain key areas, such as judicial reform and fight against corruption and organised crime. Several government measures aimed at the modernisation of public administration and its performance, thus contributing to the prevention of corruption, included regulatory reforms and constitutional amendments. The overall objective of the Sector Reform Contract for the fight against corruption in Albania was to assist the Government of Albania in implementing the inter-sectorial strategy against corruption with the aim to create transparent and high integrity Albanian institutions that enjoy citizens' trust and ensure a quality and incorruptible service.

Following on the Anti-Corruption SRC and a legislative reform undertaken in 2016 that included Constitutional amendments adopted unanimously by the Albanian Parliament and followed by the adoption of a series of organic laws which outlined the organisation and functioning of the overall justice system, the Albanian Government adopted the Cross Sector Justice Strategy and its Action Plan 2017-2021. European Commission supported this new framework and emphasized the need for a holistic approach, through strengthening of the rule of law and the reduction of corruption in government agencies and the judiciary. The overall objective of the Sector Reform Contract is to assist the Albanian Government in strengthening rule of law, law enforcement, as well as lower corruption level in government agencies and judiciary.

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<sup>13</sup> Council of Europe Union, Enlargement and stabilization and association process - Council conclusions, page 17, June 2018. <https://www.consilium.europa.eu/en/meetings/gac/2018/06/26/>

Considering the impact in the country public finances and the efficiency to mobilize large amount of funding quickly and with low transaction cost through sector budget support, there was a preference for applying this financial instrument. For this reason, Government of Albania continued to negotiate the implementation of other sector reform contracts. The Social Protection Strategy integrated measures to empower and support people living in poverty, people with disabilities, children, women, elderly, youth, ethnic minorities and other vulnerable categories. The overall goal was to build a social protection system to combat socio-economic inequalities, with policies and mechanisms to protect all vulnerable or excluded individuals through prevention programs and social reintegration combined with employment schemes. The overall objective of this contract is to expand coverage, inclusiveness and effectiveness of social care services, pre-university education and employment opportunities for youth and adults in Albania, including populations at risk of exclusion. Albania suffered two major events that hit the country and harmed its economy: i) the 2019 November earthquake, and ii) since 2020, the Covid-19 pandemic. The Government of Albania established a phased approach to reopen the economy following overall Covid-19 lockdown measures. It was structured to achieve two main specific objectives: i) Macroeconomic effects and disruptions of the economy are reduced; and ii) Business resilience and safety nets for unemployed people are strengthened in the short to long term. As a continuation of the Public Finance and Public Administration, the EU for Good Governance programme was included in the Annual Action Programme for Albania for the year 2020, with the overall objective to contribute to a more capable and responsive public sector towards citizens needs and businesses as well as to advance and respond to demands of EU integration processes.

#### **4. Sector Budget Support in Kosovo**

Kosovo as most of the Western Balkan countries benefited from Sector Budget Support (SBS)<sup>14</sup>, actually named Budget Support<sup>15</sup>. Up to date, there were two Sector Reform Performance Contracts (SRPC) and one State and Resilience Building Contract (SRBC). There were three PAR pillars supported by SRPC in implementation of the PAR strategic framework.

The first SRPC was in support to Public Administration Reforms in Kosovo (PAR), aiming to support the process of reforming the administration in Kosovo, through increased accountability, transparency and effectiveness of public administration, with greater focus on the needs of citizens and businesses. In 2017 Kosovo Government and the European Commission successfully negotiated and signed the Sector Reform Contract for Public Administration Reform for a

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<sup>14</sup> Reference: DG Enlargement Sector Budget Support Guidelines, January 2014.

<sup>15</sup> European Commission, Directorate-General for International Cooperation and Development, Directorate-General for Neighbourhood and Enlargement Negotiations, Budget support guidelines, Publications Office, 2018, <https://data.europa.eu/doi/10.2841/59418>

period of three years covering 2018-2020. Due to the Covid-19 pandemic situation in 2020, the Government of Kosovo and the European Commission renegotiated the indicators for 2020, which included a revision of the targets of the indicators as well as the timeframe, by extending the implementation deadline to 2021. One of the key changes to the revised SRC-PAR for 2021 includes reducing the reform targets for 2021 across all indicators, as a response to the situation created from the Covid-19 pandemic in order to make their achievement more realistic, and one out of eight indicators (indicator eight) was entirely removed and its financial weight distributed to other indicators. In the recent XII PAR Special Group meeting<sup>16</sup>, the European Commission and Government of Kosovo discussed future plans and progress towards ensuring a professional civil service, with more accountable organization and higher legal certainty regarding service provision towards citizens and business. It was acknowledged and welcomed particularly the government's commitment in undertaking positive key steps forward in rationalizing agencies, as well as aiming to improve services by adopting a comprehensive reform programme on prevention and reduction of administrative burden and adoption of the first set of special laws harmonized with the Law on General Administrative Procedure in order to ensure legal certainty.

The second SRPC was supporting implementation of PFM Reform Strategy, aiming to contribute to the sound financial management and improved service delivery in Kosovo through improved fiscal discipline, operational efficiency, effective allocation and transparent use of public funds. In June 2016 was approved the Public Finance Management Reform Strategy (PFMRS) 2016-2020 and Action Plan 2016-2018. These two documents have been drafted with the support of OECD / SIGMA project funded by the EU. The strategy was accompanied with the Passport of Indicators and Risk Analysis. The objective of Kosovo Government was to provide a modern system of Public Financial Management (PFM), in harmony with international standards and best practices. Therefore, strategy addressed the findings of the evaluation reports in the field of PFM, such as PEFA, SIGMA, TADAT, and NAO reports. In order to harmonize the strategic framework in PAR that will cover the time period 2022-2026, the Transitional Action Plan in MFP for 2021 was drawn up. The transfer of financial resources was following the realisation of agreed conditions for payment to support the implementation of a national sector policy. Budget support transferred to Kosovo Treasury, after fulfilment of four eligible criteria and achievement of variable tranches, was not conditioned and it was consequently used in accordance with the public financial management system of Kosovo.

It is worthy to mention flexibility of budget support in pandemic Covid-19. Due to the Covid-19 pandemic situation in 2020, the Government of Kosovo and the European Commission agreed with assessment that in PFM, in the current circumstances, the targets of indicators 1, 2, 3, and 4 foreseen for 2020

<sup>16</sup> Press release PASG meeting, [https://www.eeas.europa.eu/delegations/kosovo/eu-and-kosovo-held-12th-public-administration-reform-special-group-27th\\_en?s=80#:~:text=PRINT-,EU%20and%20Kosovo%20held%20the%2012th%20Public%20Administration,Group%20on%2027th%20September%202022&text=The%2012thmeeting%20of%20the%20EU,Minister%20of%20Interior%20Affairs%2C%20Mr.](https://www.eeas.europa.eu/delegations/kosovo/eu-and-kosovo-held-12th-public-administration-reform-special-group-27th_en?s=80#:~:text=PRINT-,EU%20and%20Kosovo%20held%20the%2012th%20Public%20Administration,Group%20on%2027th%20September%202022&text=The%2012thmeeting%20of%20the%20EU,Minister%20of%20Interior%20Affairs%2C%20Mr.)

to be neutralised while target 5 to be revised. The financial weight of the four above-mentioned neutralised targets was reallocated to the respective remaining indicator targets 5 to 8. In addition, agreement was reached with the introduction of an additional fixed tranche recovering the funds not disbursed under the first and second variable tranche, to alleviate the liquidity shortfall of the budget.

The budget support had positive impact on implementation of PAR as a whole, in particular the third pillar of PAR Public Finance Management. It is worthy to mention that the SIGMA 2021 monitoring report for Kosovo<sup>17</sup> assesses: „The overall trajectory for Kosovo in the public financial management (PFM) area is upwards. Kosovo’s area average of 3.3 (out of maximum 5), is one of the highest compared to its neighbours in the region and has increased from 2.9 in 2017“. The fourth PEFA Performance Assessment Report 2022 (period 2018-2020), in final stages to be official, scores high the PFM in Kosovo.

The State and Resilience Building Contract (SRBC), was the third budget support, aiming to increase resilience and transparency in times of crisis and mitigate the socio-economic impact of the Covid-19 crisis in Kosovo. Following is the table showing all three budget supports:

**Table 2. Status of SRCs disbursement in Kosovo in million € (2017-2022)**

No	Budget Support Action	Financial Agreement a	Budget Support b	Budget Support disbursed in Treasury c	Budget Support expected to disbursed	Absorption becapacity c-b
1.	IPA II 2016, Part II, SBS for Public Administration Reform (PAR), SRPC	25.00*	22.00	9.03	1,575,500.00	41.0%
2.	IPA II 2017, Part II, EU Support for PFM Reforms, SRPC	25.00**	21.00	21.00	-	100%
3.	IPA II 2019, Part II, EU4 Resilience - Kosovo, SRBC	26.50	26.50	25.75	-	97.2%
	<b>TOTAL</b>	<b>76.50</b>	<b>69.50</b>	<b>55.78</b>		<b>80.25%</b>

\* Including Complementary Technical Assistance component, amounting 3 million €

\*\* Including Complementary Technical Assistance component, amounting 4 million €

<sup>17</sup> SIGMA „Monitoring Report, The Principles of Public Administration - KOSOVO“, November 2021, page 131: <https://sigmaweb.org/publications/Monitoring-Report-2021-Kosovo.pdf>

## 5. Challenges during the implementation

**Albania** is the first country benefiting from the financial instrument of Sector Budget Support, by having the largest number of Sector Reform Contracts in the Region. The benefits from the implementation of the instrument of budget support have been numerous, both in the improvement of the sectors for which the financing agreements have been signed, as well as in the institution level such as capacity building. Even though Albania is „in love“ with this financial instrument, the managing structure in the country have encounter many challenges during the implementation. Specifically:

An important process in the implementation of SBS is the process of monitoring the overall policy or reform performance as well as the agreed indicators that are part of the strategic document on which sector policy/reform is based. Hence the establishment of monitoring mechanisms is crucial. In Sector Reform Contracts, Monitoring and Evaluation are clearly defined. But restructuring of the institutions raise the challenge of lack of coordination between institutions. The culture of monitoring and evaluating policies in the Albanian administration needs to be strengthened.

An important element for success of this instrument is effective coordination between all stakeholders, specifically between technical secretariats and budget counterparts. A well-defined calendar for monitoring and disbursement process will be very helpful for coordination of all responsible institution for SRC implementation and will contribute in increasing the disbursement of variable tranches.

A challenge faced is that some leading institutions have a reactive approach during contracts implementation. The responsible units manage the issues once they emerge or being encountered, without appropriate arrangements on how to, what to, when to, and whom to report. It is suggested that institutions shall have a proactive approach, which includes planning for the future, taking into consideration the potential problems that may disturb the implementation processes. It is about recognizing the future threats and preventing them with requisite actions. The proactive approach will lead to more effective and efficient implementation.

Sector Budget Support is implemented in different countries and in several sectors in each country. Sharing good practice and learning between SBS stakeholders would be a great opportunity to learn from others and to be prepared for risks or challenges that are not yet faced. Also, to learn from best practices in order to maximize the disbursement ratio and to implement the sector policies more effectively.

Following are **Kosovo**’s challenges identified during the period 2016-2022 related to Budget support. Under the assumption that there is political will, budget support is complex process, taking in account the need for strong involvement of large number of partner country stakeholders (Government, national oversight bodies, civil society organisations, private sector, and other stake-

holders) and of EC organisational structures (relevant DG, EU delegation). It requires involvement of all stakeholders in regular dialogue on policies and their financing, objectives and results, consistent with the principles of ownership, transparency and accountability. Financial transfers, following the fulfilment of initially eligibility criteria<sup>18</sup> are covering the following: National/sector policies and reforms (public policies); Stable macro-economic framework; Public financial management; and Transparency and oversight of the budget. There are also agreed conditions for payment set out in the contracts (variable indicators). This requires regular qualitative monitoring and reporting as well as performance and results assessment. Budget support aims also capacity development support which in many cases require changes.

The first challenge was related to drafting of credible and relevant strategic framework, in line with best practices and international standards. In the time the strategic framework was prepared, there was no integrated tools or manuals in the field of drafting strategies. It has to be mentioned that OECD/SIGMA published in 2018 the „Toolkit for the preparation, implementation, monitoring, reporting and evaluation of public administration reform and sector strategies“<sup>19</sup>. The Kosovo Government approved in 2018 „Administrative Instruction (GoK) No. 07/2018 on Planning and Drafting of Strategic Documents and Action Plans“ and in 2019 „Manual for Planning and Drafting Strategic Documents“.

As budget support was new instrument, launched only in IPA II, there was no experience and institutional memory in Kosovo while there was same experience in EU. Therefore, there were some challenges in having proper institutional setup and human capacities to deal with requirements of this new tool. Even though the SBS was followed by complementary Technical Assistance, in initial stage there was lack of know how in both parties. There were often cases of joined participation in SBS trainings of both partner country and EU representatives (with emphasis on Contracting Authorities).

Dealing with new instrument was challenge for both sites. Having in mind that there was negative effect of Covid-19 pandemic, challenge was to have proper coordination between representatives of partner country and EU. It is worthy to mention that there were review and, in some cases, change or neutralisation of Variable Indicators as part of financial agreements, but there was no review of the strategic framework, perhaps due to short time and complexity. The challenge was to coordinate regular work on reaching SBS requirements and TA support needed. There were cases when similar projects had different rules/practices as per deployment of assistance. As a result of Covid-19 pandemic, lack of capacities and delay in TA support, there was negative impact on reaching all agreed objectives in time and achieving full implementation of reforms.

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<sup>18</sup> European Commission, Directorate-General for International Cooperation and Development, Directorate-General for Neighbourhood and Enlargement Negotiations, Budget support guidelines, Publications Office, 2018, Page 18; <https://data.europa.eu/doi/10.2841/59418>

<sup>19</sup> SIGMA, 2018: <https://sigmaweb.org/publications/strategy-toolkit.htm>

## 6. How several characteristics of Budget Support are a potential good fit with the dynamics of EU accession negotiations for Albania and Kosovo?

Budget support involves the transfer of financial resources to the National Treasury<sup>20</sup> of a partner country, following the fulfilment by the latter of the agreed conditions for payment set out in the contract. Transfers are made in euros to a government account held at the Central Bank and then converted into local currency to the National Treasury Account. Budget support funds must be included in the State budget and fiscal accounts as grants. Once the transfer has taken place, budget support funds are used in accordance with the partner country's own public financial management systems. Even though the budget support is „reward for work done“, it ensures partner countries to allocate budget for reforms, and efficiency to mobilise large amount of funding quickly and with low transaction cost (also in contexts of crisis). Actually, this is the case in both countries.

Budget support contracts are subject to the following four eligibility criteria<sup>21</sup> covering:

- National/sector policies and reforms („public policies“);
- Stable macro-economic framework;
- Public financial management;
- Transparency and oversight of the budget.

These criteria need to be met both when a contract is approved, and at the time of each budget support disbursement. The assessment of the eligibility criteria generally involves: first the assessment, during identification and formulation; and secondly the assessment, during implementation, of progress made in implementing the policy and strategy and achieving the objectives. It is an excellent exercise in order to assess the overall progress of the country.

Country ownership and donor coordination ensure a direct link to government national and/or sectorial strategies. This instrument is directly linked to reforms and developmental results. In fact, for Albania there are 9 and for Kosovo 3 sector budget supports implemented through EU funds. This requires the existence or building of effective country systems to collect information and statistics.

Policy dialogue between beneficiaries and cooperation partners is an essential activity under budget support. It constitutes one of the main inputs of budget support contracts, alongside the transfer of funds and capacity strengthening. Policy dialogue is one of the most important parts of the budget support. For

<sup>20</sup> Budget Support Guidelines, Tools and Methods Series, September 2017. [https://international-partnerships.ec.europa.eu/funding/funding-instruments/budget-support\\_en#related-links](https://international-partnerships.ec.europa.eu/funding/funding-instruments/budget-support_en#related-links)

<sup>21</sup> Budget Support Guidelines, Tools and Methods Series, September 2017. [https://international-partnerships.ec.europa.eu/funding/funding-instruments/budget-support\\_en#related-links](https://international-partnerships.ec.europa.eu/funding/funding-instruments/budget-support_en#related-links)

this reason, there is a specific mechanism in order provide a framework to take stock of the implementation of the partner country's policies and reforms, as well as of donors' commitments.

Strengthened legal and policy frameworks are key to the enlargement process. The objective of the EU's assistance is to support those countries in their progressive alignment with the EU law, standards, policies and practices and to build their capacity to adopt and implement those rules and standards. For Albania now which is on the current agenda for future enlargement of EU, and for Kosovo as potential candidate.

An orientation towards achieving policy outcome and impact targets leads to more targeted and focused assistance. Budget support aims to strengthen the capacity of partner countries in a sustainable way by using the country's policy and public finance systems, improving the accountability of the government towards its citizens, rather than creating parallel structures administered outside the budget by third parties. For Albania as well as Kosovo, this is the case when very important reforms are implemented and significant progress is marked.

## 7. Conclusions

It is important to mention the challenges encountered so far in the implementation of Sector Budget Support: lack of alignment and accountability between monitoring structures due to restructuring of the institutions; teams do not always work together with their budget counterparts to ensure better implementation; reactive approach of some leading institutions during the implementation; missed opportunity for involved stakeholders to share good practice, learning and time consuming.

Lessons learned in Kosovo shows that Budget Support is effective in moving forward reforms and legislative alignment with *acquis* as well as resilience in difficult times when all stakeholders are actively engaged.

Government of partner country need to establish and continuously backup Budget Support related structures. The key element in absorption of budget support are civil servants engaged daily in implementation of required reforms and activities.

Properly drafted, consulted and costed strategies ensures satisfactory achievement of objectives, which are precondition for successful absorption of sector budget support. PFM of partner country plays key role in achieving three out of four eligible criteria.

For successful absorption of budget support, there is a need for close and constructive cooperation between partner country and EC, but also donor community, CSO-s and developing partners. Coordination between beneficiary and managing authority of budget support is crucial in absorbing complementary Technical Assistance support. Flexibility is needed in difficult times, as it was during Covid-19, through open and constructive dialog which ensures best results for both sides.

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