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On financial and economic implications of the Staged accession model on the EU budget, and on acceding countries' budgets

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Summary. *This paper examines the impact of the Staged Accession model on the EU's budget, with a focus on the Western Balkan (WB) countries. It reveals that the total cost of enlargement to the Western Balkans would amount to €35 billion over a single Multiannual Financial Framework (MFF) or €5 billion annually. Although this would represent a 7.5-fold increase in expenditures on the EU's side compared to IPA III, the annual burden on the member states' GNI would amount to only 0.014% and 0.026%, or, depending on the member*

1 A special gratitude to Professor Mojmir Mrak, whose original work was one of the key sources of inspiration and whose comments during the process of development of the paper were of highly significant value.

state, between €1.6 and €10.8 per capita. The burden of EU enlargement to the Western Balkans would be even lower in practice if mandatory contributions of new member states are taken into account. After subtracting the full contributions of the WB6, the post-accession costs would amount to around €26 bn, or €3.76 bn on an annual level. Put into the perspective of the €1.8 trillion of combined funds of the MFF and the Next Generation EU, these amounts appear relatively negligible. The gradual accession process also softens the budget impact, as the countries are unlikely to progress from one stage to another or join the EU all at once, allowing the EU more time to prepare its budget for the newcomers. In that context, the original logic of the Staged accession model of gradual financial assistance and incentives is both needed and feasible.

To ensure effective operationalisation, the Template's original funding progression was adjusted as it did not account for the dynamics of introducing compulsory contributions to the EU budget. The paper, therefore, cross-analyses three different financial variants for distributing funds and determining contributions from the Western Balkan countries at each stage of the accession process. The original Template suggested candidates receive 50% of conventional membership funding in Stage 1, followed by 75% in Stage 2, ending with 100% in Stage 3 when membership is achieved. The revised scheme stipulates that candidates would be able to receive up to 40% of conventional membership funding in Stage 1, followed by funds up to 60% in Stage 2, with standard full funding upon acquiring membership. Considering this adjustment, the paper suggests that the simplest, most straightforward option in terms of implementation would be to pursue Variant A, which prescribes full contributions to the EU budget upon acquiring the membership, as has always been the case. The more advanced one, and most advantageous for candidates, would be Variant B, which stipulates a gradual increase of required contributions even after attaining membership, leading to full contributions in Stage 4. It effectively balances the urgency of boosting reforms and economic convergence with the need to compensate the candidates for the Stage 3 limitations. Finally, introducing gradual contributions already during the pre-accession stages, as per Variant C, would be the least favourable one from the Western Balkans' perspective but could nevertheless be a compromise to convince enlargement sceptics to support the rationale behind the Staged Accession model. Opting in favour of any of these variants would represent a breakthrough in how the EU prioritises enlargement.

I Introduction

Besides highlighting the importance of gradually introducing institutional incentives, the Template for Staged accession to the EU[2] also recognises the necessity to provide substantial financial assistance to the Western Balkan countries already during the accession process. However, the current pre-accession assistance (IPA III) provided by the EU, amounting to €9 bn for a seven-year period (in line with the Multi-annual Financial Framework (MFF) 2021-27), is arguably inadequate[3] to support the region to catch up with the EU in terms of socio-economic development. Moreover, it currently provides only a feeble incentive for stabilising the region and keeping it on its EU course, despite the increasingly malign external influences of actors such as Russia and China. This sends a message that the enlargement was not prioritised during the MFF 2021-27 negotiations. With that in mind, the need to address the identified issue gained urgency in light of geopolitical changes in Europe following the Russian attack on Ukraine in 2022. The fact that

2 Michael, Emerson, Milena Lazarevic, Steven Blockmans, and Strahinja Subotic. "A Template for Staged Accession to the EU.", European Policy Centre (CEP-Belgrade) and Centre for European Policy Studies (CEPS), October 2021, available at: https://cep.org.rs/en/publications/a-template-for-staged-accession-to-the-eu/

3 Matteo Bonomi, et al, "Avoiding the trap of another Paper exercise: why the Western Balkans need a human development-centred EU enlargement model", Istituto Affari Internazionali (IAI), January 2020, available at: https://www.iai.it/sites/default/files/iaip2004.pdf

the war returned to European soil is a stark reminder that maintaining the status quo in the enlargement policy will not suffice if the aim is to "prepare Europe for tomorrow" (to quote the 2023 Franco-German Declaration[4]).

To help the EU move past the current state of affairs, this paper builds upon the Template for staged accession, which calls for a more gradual increase in available funding as a candidate country draws closer to membership. This approach aligns with the 2020 revised enlargement methodology[5], which stipulates "increased funding and investments" in order to provide tangible and predictable incentives. As this aspect of the revised methodology has yet to be put into action, **the paper aims to examine the impact of the Staged accession model on the EU's budget and its implications for the Western Balkan countries.** Specifically, the paper analyses different financial variants for distributing funds and determining contributions from the Western Balkan countries at each stage of the accession process.[6] The basic premise is that the proportions on the funding and contribution sides should be calibrated in a manner that moving from one stage to another would be financially attractive and politically incentivising for candidates. The findings will inform the development of Template 2.0 – a revised staged accession proposal which will be based on the conclusions of a series of issue papers offering in-depth analyses of the various elements contained in the original proposal.[7]

II Methodology

The paper follows a comprehensive methodological approach to simulate the allocation of funds and calculate the total cost to the EU budget associated with enlargement to the entire Western Balkans (Section III), which is then used as a basis for analysing the implications for the Staged accession Model (Section IV). That approach includes several steps:

1. **Providing the funding figures under the existing IPA for the Western Balkans**

   To calculate the absolute and relative change from the status quo to Stage I, but also to provide the overall pre- and post-accession contrast in terms of allocated funds, the paper uses the IPA II commitment appropriations (CA)[8] per country,[9] by relying on official data provided by the European Commission. Since IPA III no longer uses the "country envelopes" approach, relying on IPA II was a necessity in order to engage in this exercise.[10] As the two IPA cycles are of the same size, accounting for €9bn over a seven-year period, IPA II which

4 Elysée, "French-German declaration", January 2023, available at: https://www.elysee.fr/en/emmanuel-macron/2023/01/22/french-german-declaration

5 European Commission, "Enhancing the accession process - A credible EU perspective for the Western Balkans", COM, February 2020, available at: https://neighbourhood-enlargement.ec.europa.eu/enhancing-accession-process-credible-eu-perspective-western-balkans_en

6 The list of stages as per the Model: Stage I (Initial accession stage), Stage II (Intermediate accession stage), Stage III (New member state stage), and Stave IV (Conventional membership stage).

7 List of the issue papers that will inform the development of Template 2.0: https://cep.org.rs/en/initiatives/support-for-further-development-of-the-model-of-the-western-balkans-staged-accession-to-the-eu/

8 Commitment appropriations are the total amount of all legal financial obligations of the EU budget or multiannual financial framework entered into a given budget year for the EU as a whole. The appropriations entered into a particular budget year are not always projected to be paid out in that same budget year. Instead, they are typically paid out gradually over several consecutive years, implying a lag of payment appropriations behind commitment appropriations.

9 European Commission, "Overview - Instrument for Pre-accession Assistance ", available at: https://neighbourhood-enlargement.ec.europa.eu/enlargement-policy/overview-instrument-pre-accession-assistance_en

10 The allocation of IPA II funding amounts to 9 billion euros, of which 4.2 billion euros are specifically designated for the WB countries. The remaining funds include allocations for Turkey and a multi-country envelope, with a significant portion directed towards the WB countries. In contrast, in the context of IPA III, EU assistance programming focuses on thematic priorities rather than predetermined country envelopes, making IPA II figures a useful estimate for funding received by individual countries in a hypothetical pre-accession period.

was applied in the period 2014-2020 was used as a rough estimation for the period covered by IPA III, which covers the period 2021-2027. This, therefore, excludes the Economic and Investment package from the analysis, as the Package encompasses, besides IPA, guarantee instruments which are not and should not be considered as grants.

2. **Estimating the post-accession total allocation figures**

2.1 In order to determine the total cost of future enlargement and the cost of applying the Staged accession model in the pre-accession and post-accession stages, the paper relies on the post-accession CA estimates of Rant, Mrak and Marinč.[11] Allocation of commitment appropriations takes place across four distinct policy areas: cohesion policy, agricultural policy, competitiveness policy, and additional internal policies concerning security and citizenship. While expressing values in 2018 constant prices, authors base their calculation on a combination of the "country envelope principle"[12] where applicable and appropriate statistical estimation tools for those budget categories that are being allocated based on the "excellence principle".[13] For the calculations, full absorption was assumed, meaning that allocated funds were taken into consideration and not the actual flows.

2.2 To ensure applicability and reliability of findings in context of the latest EU's financial cycle, the paper compares the multiannual financial framework (MFF) 2021-2027 total CA figure for EU-27 with the corresponding figures for the MFF 2014-2020 (the UK excluded). Since Rank et al. assessed the expected changes in the size and composition of EU budget flows to the Western Balkan countries after their EU accession in the context of the 2014-20 MFF, this paper assumes that the total funds allocated to the Western Balkans (both as a region and on a country-by-country basis) for a hypothetical accession scenario during the 2021-2027 period would be similar to those calculated by Rant et al. This assumption is supported by the fact that the EU-27's total expenditure volume in MFF 2021-2027, at 2018 constant prices, is practically identical to that of MFF 2014-2020 (as shown in Table 1). [14] Such a step lays the groundwork for further contemporary analysis of financial flows.

3. **Providing the Western Balkan countries' EU budget contribution amounts**

To acquire understanding of the financial obligations of WB countries in terms of their contributions to the EU budget, the paper relied on the work of Rant et al. In their calculations, contributions were based on traditional own resources, VAT, and GNI.[15] This will assist in calculating the post-accession allocations in this paper. As the original Template proposed a staged approach to increasing the funding for candidates without defining the dynamics of their contributions to the EU budget, this paper delves deeper into this question, too.

11 For basic understanding of the matter, see the following paper:
Vasja Rant, Mojmir Mrak, and Matej Marinc, "The Western Balkans and the EU budget: the effects of enlargement", *Southeast European and Black Sea Studies*, April 2020, pp. 431-453, available at:
https://www.tandfonline.com/doi/full/10.1080/14683857.2020.1793061
For details about the methodology used for calculating the post-accession CA estimates see:
Mojmir Mrak and Vasja Rant, "Financial flows between the Western Balkan countries and the EU budget in the pre- and post-accession period", *Southeast European and Black Sea Studies,* August 2018, available at:
www.giz.de/en/downloads_els/Analysis_Financial_flows_between_the_WB6_and_the_EU_budget.pdf

12 Country envelope principle is used for budget expenditure items that are being allocated based on the criteria agreed upon as part of the MFF.

13 Excellence principle is used for budget expenditure items that are being allocated to the best-performing agents in the bidding available in all member states.

14 The calculation does not take into account the Next Generation EU Funds, which was established as an ad-hoc financial instrument to provide socio-economic support to EU member states and their citizens in response to the COVID-19 pandemic.

15 Although a contribution based on the amount of non-recycled plastic packaging waste in each country was introduced in 2021, this measure has not changed the overall amount of contribution per country, but has rather inserted a new line from which to rebalance the contributions. The fact the "waste tax" was not included in the analysis does not change the overall results.

4. Calculating post-accession allocations

Having determined the total post-accession CA and contributions, the paper proceeds to calculate the difference and provide the total allocations that each Western Balkan country would be eligible for upon membership. In doing so, the paper makes one important deviation from the approach used by Rant et al. Namely, Rant et al. use payment appropriations (PA)[16] for calculating post-accession net balances. This is important for correctly estimating the annual net-allocations per country, due to post-accession phasing-in of certain funds as well as other practical complexities due to which the actual CA are fulfilled over a period of time that exceeds a single MFF. Although deviating from the standard practice, this paper uses CA figures in all calculations, in order to keep all estimates constrained within a seven-year period of a single MFF. The authors deemed this adjustment necessary and more suitable for the purposes of this paper, which seeks to inform policymakers in both the EU and the WB region about the estimated costs and benefits of the staged accession proposal over a single MFF, rather than provide precise estimates of annual net-allocations. The authors therefore note that the precise *annual* net-allocations in the post-accession period would be somewhat lower than indicated in the tables in this paper, as PA will in practice be lower than CA for any given year. However, assuming full absorption, the total amounts of all PA and CA relating to a single MFF would be equal.

5. Applying the Staged accession model

5.1 Based on the acquired approximate figures, the paper engages in a sensitivity analysis, which entails analysing the impact of changes in fund allocations per stage in the context of applying the Staged accession model (Section IV). The examination of the Model's behaviour under different scenarios involves varying the inputs such as size and timing of EU's financial assistance, and monitoring the resulting changes in the output variable, defined as the degree of achievement of the two main criteria that the Model sets out to fulfil in terms of access to funding (see 5.2 below).

5.2 To successfully establish a benchmark for evaluating the suitability of different variants of introducing access to EU funds and payment of EU budget contributions, based on the Staged accession model, the paper sets two key criteria:

i. **Providing a significant financial boost early in the process** – The financial assistance allocated to candidates from Stage I should be substantial enough to contribute to their socio-economic development, so that the gap with the EU average is reduced over time. This means that entering Stage I should bring about the largest upsurge in terms of net-receipts from EU budget, providing an economic boost as early as possible in the process and acting as a strong incentive for governments to press with the necessary reforms.

ii. **Ensuring incentives for progress between stages** – Each stage should provide financial incentive to governments to implement necessary reforms and improve membership preparedness**.** It is therefore important to ensure that the amount of funding gradually increases from one stage to the next, ensuring also net-gains even once the payment of compulsory contributions to the EU budget starts. Such an approach aims at creating a sustainable and forward-moving momentum towards full EU membership.

16 Payment appropriations represent the actual cash payments made in a given budgetary year to fulfil the commitments made in previous years. Payment appropriations are used to settle the financial transactions arising from the commitments made in previous budgetary years. The payment process can take time, especially for long-term projects, and payments may be made over several years until the commitment is fully discharged.

Therefore, taking into account all the defined methodological steps, the paper aims to identify the most suitable financial assistance course for the Western Balkans in accordance with the Staged accession model. In that regard, the paper assesses whether and to what extent the Template's original funding proposal, which assumes full contributions starting from Stage III, fulfils the two criteria. While the Template remains the basis for the analysis, after applying the sensitivity analysis using the two listed criteria, the paper proposes three variants that can best ensure achievement of the Model's overall aims. The variants thus retain the same logic of increased gradual assistance during the accession process but change the funding and contribution rates per stage. Through this approach, the paper seeks to provide a realistic assessment of the most suitable financial variant(s) for reinvigorating the enlargement policy. At the same time, the paper retains flexibility by leaving room for EU policymakers to subsequently decide on the exact funding and contribution rates.

Table 1: Comparing commitment appropriations in two different EU institutional cycles

Commitment appropriations, EUR bn, 2018 prices	2014-2020	2021-2027	Difference (in%)[17]
1. Single market, innovation & digital	116	133	+15
2. Cohesion, resilience, and values	387	378	-2
3. Natural resources and environment	400	356	-11
4. Migration and border management	10	23	+130
5. (Resilience), security and defence	2	13	+550
6. Neighbourhood and the world	96	98	+2
7. European public administration	71	73	+3
TOTAL	**1.082**	**1.074**	**-1**

III Analysing EU budget allocations to candidate countries before and after accession

Juxtaposing the size of the current EU budget and the combined GNI of the Western Balkan candidates, it results that the financial implications of this region's accession would be insignificant. If, hypothetically, all Western Balkans joined as full members simultaneously, the sum of their share of structural funds (without contributions) would be around €35bn for a period of seven years, amounting to around €5bn per year (without subtracting these countries budget contributions) (see Table 2). Although this would represent a 7.5-fold increase in expenditures on the EU's side compared to IPA III, the annual burden on the member states' GNI would amount to only 0.014% and 0.026%, or, depending on the member state, between €1.6 and €10.8 per capita. Put into

17 Although there is a sharp increase of % difference in sub-areas 4 and 5, the absolute increase is relatively small compared to the total amount.

the perspective of the €1.8 trillion of combined funds of the MFF and the Next Generation EU,[18] these amounts appear as almost negligible. They also minimise the validity of finance-related arguments against enlargement and serve as a reminder that political will remains the key element for determining how and when future enlargements can take place.

In practice, the burden of EU enlargement with the Western Balkans would be even lower in practice if mandatory contributions of new member states are taken into account. As with all member states, the Western Balkan countries would be required to provide contributions to the EU budget upon membership. After subtracting full contributions, the post-accession CA would amount to around €26 bn. On an annual level, this amounts to €3.76 bn for the WB6 (see Table 2), which is a 26% decrease compared to the total sum without membership contributions. Compared to the current IPA, it represents a five-fold increase in available funding. Although all Western Balkan countries will be net-recipients upon membership, their contribution would further alleviate the concerns over the burden of enlargement on the EU's budget.

Table 2: Allocation of funds to the Western Balkans prior and after the accession to the EU (annual averages; in bn EUR)[19]

	Albania	BH	Kosovo	MNE	North Macedonia	Serbia	WB
IPA CA	0,11	0,08	0,08	0,04	0,09	0,2	0,6
Post-accession CA	0,74	0,95	0,41	0,21	0,6	2,17	5,07
Post-accession contributions to the EU budget	0,18	0,24	0,11	0,07	0,15	0,57	1,32
Post-accession CA accounting for contributions[20]	0,57	0,71	0,3	0,14	0,45	1,59	3,76

Moreover, the budget impact of EU's enlargement to the Western Balkans will be further softened by the fact that the countries are unlikely to join the club at the same time. In fact, as the Western Balkans progress to the EU under the "regatta" principle, their overall membership perspective depends on the pace of the adopted and implemented reforms in all clusters. Currently, Montenegro and Serbia are at the forefront of the process, Albania and North Macedonia are only starting accession talks (with the latter very close to the so-called frontrunners in terms of the overall preparedness across clusters), whereas Bosnia and Herzegovina and Kosovo have not yet started the talks. As *en block* enlargement is currently not being considered, the EU would have more time to gradually prepare its budget to accommodate new members that would be joining at different points in time.

18 Consilium, *Long-term EU budget 2021-2027 and recovery package*, official website, available at: https://www.consilium.europa.eu/en/policies/the-eu-budget/long-term-eu-budget-2021-2027/

19 All numbers are rounded to two decimals.

20 The results represent the difference between post-accession CA and contributions.

IV Applying the Staged accession model: Weighing the options

Providing additional funds to the Western Balkan countries, in a manner that would be gradual and conditioned, is one of the core elements of the Staged accession model. The original 2021 Template envisioned several-fold increase of funds compared to the existing pre-accession funds (IPA III). It insisted on the importance of generating political will for reforms by augmenting the "carrot", while simultaneously adding credibility to the "stick" by increasing the opportunity costs of non-compliance.[21] In addition to assisting the reform process and narrowing the socio-economic gap early on, the Model also aims to help national administrations gradually improve their absorption capacities. The existing binary approach to enlargement would result in a prompt jump from IPA to several times higher European Structural and Investment funds, creating a risk of very low absorption rates in the first years of membership. Therefore, it is worthwhile examining different options for structuring the progression in the financial benefits proposed by the Model of staged accession.

Template's original proposal

The Template's proposal is a valuable improvement over IPA and encourages early engagement in reforms. However, further examination suggests that its funding scheme may not provide enough financial incentives in each stage. According to the Template, a country in Stage I gets access to up to 50% of the funds it would be entitled to as a member state, 75% in Stage II, and full allocation in Stage III. Although it did not address contributions explicitly, it implied that full contributions start only after acquiring member status. While this scheme provides strong incentives in the early stages, funding rates remain nearly the same in Stages II and III after accounting for contributions upon membership (Table 3). This creates a potential gap in financial incentive for a candidate to finalise the reform process and strive for membership in Stage III, thus leading the countries to linger in Stage II and enjoy benefits without moving forward. Although the Template envisages a robust reversibility policy to sanction prolonged stagnation and backsliding in the fulfilment of membership conditions, it is nevertheless warranted to address the identified gap in order to minimise the risk of undesired outcomes.

21 A year later, the European Council reaffirmed the importance of "reversibility" when discussing gradual integration. For details see : European Council, *June 2022 Conclusions*, CO EUR 21, CONCL5, June 2022, available at: https://www.consilium.europa.eu/media/57442/2022-06-2324-euco-conclusions-en.pdf

Table 3. Template's original scheme for funding allocation and contribution rate per stage

	Albania	BH	Kosovo	Montenegro	North Macedonia	Serbia	Western Balkans
Yearly in billions of euros (50%-75%-100%-100% of funding and 0%-0%-100%-100% of contributions)							
IPA	0,11	0,08	0,08	0,04	0,09	0,20	0,60
Stage I	0,37	0,47	0,20	0,10	0,30	1,08	2,54
Stage II	0,56	0,71	0,30	0,16	0,45	1,63	3,81
Stage III	0,57	0,71	0,30	0,14	0,45	1,59	3,76
Stage IV	0,57	0,71	0,30	0,14	0,45	1,59	3,76
Absolute Change							
Stage I - IPA	0,26	0,40	0,12	0,07	0,21	0,88	1,94
Stage II - Stage I	0,19	0,24	0,10	0,05	0,15	0,54	1,27
Stage III - Stage II	0,01	0,00	0,00	-0,01	0,00	-0,03	-0,05
Stage IV - Stage III	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Relative Change							
(Stage I - IPA)/IPA	244%	514%	148%	171%	232%	440%	325%
(Stage II - Stage I)/Stage I	50%	50%	50%	50%	50%	50%	50%
(Stage III - Stage II)/Stage II	2%	0%	-1%	-9%	-1%	-2%	-1%
(Stage IV - Stage III)/Stage III	0%	0%	0%	0%	0%	0%	0%

Variant A – Gradual increase of funds with full contributions in Stage III

To better align with the objective of incentivising timely and effective completion of the accession process, a new variant of the Template's original proposal can be developed to provide stronger financial incentives for candidate countries at each stage of the process. Going forward, assuming *full contributions* take off in Stage III, the calculations show that the optimal option would consist of **35% in Stage I, 55% in Stage II, and 100% upon acquiring membership** (see Table 4). In Stage I, all countries have a substantial increase in funds compared to IPA, averaging 198%, indicating that there is a tangible financial incentive to press with reforms needed to reach that stage. In Stage II, all countries have an expected increase of 57% compared to Stage I. Becoming a new member state in Stage III would be accompanied by an average 35% increase in available funds compared to Stage II. Although this option entails 15 percentage points less funding than in Template's Stage I and 20 percentage points in Stage II,[22] it is nevertheless more effective, as it fully completes the two key criteria, i.e. providing a significant financial boost early in the process and ensuring incentives for progress between stages. This option would be the most feasible one from the EU's perspective, as no changes to the standard contribution regime are introduced.

22 The potential populist backlash is pre-empted by the fact that the original Temple served as a working document to feed subsequent discussions, whereas this one is supposed to provide further detail on more concrete and realistic pathways for the EU to follow and its official attempts to renew its approach to the region. Moreover, this option also guarantees financial and political incentives throughout the process.

Table 4. Applying Variant A

	Albania	BH	Kosovo	Montenegro	North Macedonia	Serbia	Western Balkans
Yearly in billions of euros (35%-55%-100%-100% of funding and 0%-0%-100%-100% of contributions)							
IPA	0,11	0,08	0,08	0,04	0,09	0,20	0,60
Stage I	0,26	0,33	0,14	0,07	0,21	0,76	1,78
Stage II	0,41	0,52	0,22	0,11	0,33	1,19	2,79
Stage III	0,57	0,71	0,30	0,14	0,45	1,59	3,76
Stage IV	0,57	0,71	0,30	0,14	0,45	1,59	3,76
Absolute Change							
Stage I - IPA	0,15	0,25	0,06	0,03	0,12	0,56	1,18
Stage II - Stage I	0,15	0,19	0,08	0,04	0,12	0,43	1,01
Stage III - Stage II	0,16	0,19	0,08	0,03	0,12	0,40	0,97
Stage IV - Stage III	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Relative Change							
(Stage I - IPA)/IPA	141%	329%	74%	90%	132%	278%	198%
(Stage II - Stage I)/Stage I	57%	57%	57%	57%	57%	57%	57%
(Stage III - Stage II)/Stage II	39%	36%	35%	24%	35%	34%	35%
(Stage IV - Stage III)/Stage III	0%	0%	0%	0%	0%	0%	0%

Variant B - Gradual increase of funds with gradual contributions from Stage III

A potential alternative to the proposed financial scheme is to introduce *staged contributions* starting from Stage III where membership is acquired, thus adjusting for the institutional limitations that new member states would face during the transitional period until Stage IV. The analysis shows that, in order to satisfy the two key criteria, the optimal allocation of funds per stage **would be 40%-60%-100%-100%, requiring 50% of contributions in Stage III and full contributions only in Stage IV** (see Table 5). In this case, in Stage I, all countries have a substantial increase in funds departing from IPA, averaging 240%, indicating that there is a significant financial incentive. Stage II results in a 50% increase from Stage I. Finally, becoming a new member would also be followed by a 45% increase from Stage II. This option, therefore, fulfils both criteria and envisions more funds for the Western Balkans than Variant A.

From the perspective of the Western Balkans, Variant B would be the most preferable one. Namely, it fulfils both criteria and creates strong financial incentives, with only 10 percentage points less funding than Template's Stage I and only 15 percentage points less in Stage II. Most importantly, it reduces the fiscal impact of membership on the Western Balkan countries in the early years of membership, as it requires only 50% of contributions. By the time Stage IV is reached, the Western Balkans will have had more time than countries in previous enlargement cycles to adapt to membership obligations. Despite the average 15% decrease in available funds in Stage IV, all Western Balkan countries would remain net-recipients from the EU budget. Applying this option, therefore, would extend more funding prior to and after acquiring EU membership, allowing acceding countries to better prepare their capacities in the long term. Its downside, however, is mainly observed from the perspective of the EU budget, which would endure a 50% loss of contributions during the Stage III transitional period. Yet, this can be considered a fair compensation for the institutional limitations that new member states would be subjected to in this stage.[23]

Table 5. Applying Variant B

	Albania	BH	Kosovo	Montenegro	North Macedonia	Serbia	Western Balkans
Yearly in billions of euros (40%-60%-100%-100% and 0%-0%-50%-100%)							
IPA	0,11	0,08	0,08	0,04	0,09	0,20	0,60
Stage I	0,30	0,38	0,16	0,08	0,24	0,87	2,03
Stage II	0,45	0,57	0,24	0,13	0,36	1,30	3,04
Stage III	0,66	0,83	0,35	0,18	0,52	1,88	4,42
Stage IV	0,57	0,71	0,30	0,14	0,45	1,59	3,76
Absolute Change							
Stage I - IPA	0,19	0,30	0,08	0,05	0,15	0,67	1,43
Stage II - Stage I	0,15	0,19	0,08	0,04	0,12	0,43	1,01
Stage III - Stage II	0,21	0,26	0,11	0,05	0,16	0,58	1,37
Stage IV - Stage III	-0,09	-0,12	-0,05	-0,03	-0,08	-0,29	-0,66
Relative Change							
(Stage I - IPA)/IPA	175%	391%	98%	117%	166%	332%	240%
(Stage II - Stage I)/Stage I	50%	50%	50%	50%	50%	50%	50%
(Stage III - Stage II)/Stage II	47%	46%	45%	40%	45%	45%	45%
(Stage IV - Stage III)/Stage III	-13%	-14%	-15%	-19%	-15%	-15%	-15%

Variant C - Gradual increase of funds and gradual contributions from Stage I until membership

It is possible to foresee introducing gradual contributions already in Stage I, as a way to solidify cooperation and build a fair relationship between the EU and Western Balkans during the pre-accession period. The logic is that if the candidate countries are to gain access to certain benefits unavailable to their predecessors in past enlargement rounds (i.e. gradual institutional participation and increased funding), it would make sense to expect them gradually start paying contributions to the EU budget already in the pre-accession stages. The contributions would, therefore, gradually fill up to the total amount in Stage III, as is the case with standard enlargement procedure. Considering the small size of the Western Balkans' economies, their potential contributions during the pre-accession contributions would become a matter of joint political commitment to the process and membership perspective rather than something the EU budget would substantially benefit from.

23 Legal paper written by Steven Blockman's will be referenced.

In that case, the optimal share allocation of funds would amount to **40%, 60%, 100% and 100% per four stages, and the share of contributions per stage would be 5%, 15%, 100%, and 100%** (see Table 6). In that case, a 229% average increase from IPA to Stage I would be ensured, as well as a 45% average increase from Stage I to Stage II, including a 32% average increase from Stage II to the new membership stage III. In short, although this option is more demanding for the Western Balkan countries as they would need to start with contributions already during the pre-accession process, it could nevertheless be seen as a way to render the process as something in which both sides, as a matter of mutual commitment, can invest. Alternatively, to alleviate the burden on the Western Balkans, while accounting for the institutional limitations in Stage III, a sub-variant of this approach could consist of coupling gradual funding with gradual contributions, with full contributions taking place only in Stage IV (e.g. 5%, 15%, 50%, and 100%). As with other policy options, these represent flexible calibrations that can be subject to change depending on the EU policymakers' considerations of wider range of factors when deciding in which manner precisely to enable gradual increase of funds for the Western Balkans.

Table 6. Applying Variant C

	Albania	BH	Kosovo	Montenegro	North Macedonia	Serbia	Western Balkans
Yearly in billions of euros (40%-60%-100%-100% and 5%-15%-100%-100%)							
IPA	0,11	0,08	0,08	0,04	0,09	0,20	0,60
Stage I	0,29	0,37	0,16	0,08	0,23	0,84	1,96
Stage II	0,42	0,53	0,23	0,12	0,34	1,22	2,85
Stage III	0,57	0,71	0,30	0,14	0,45	1,59	3,76
Stage IV	0,57	0,71	0,30	0,14	0,45	1,59	3,76
Absolute Change							
Stage I - IPA	0,18	0,29	0,08	0,04	0,14	0,64	1,37
Stage II - Stage I	0,13	0,17	0,07	0,04	0,10	0,38	0,88
Stage III - Stage II	0,15	0,18	0,07	0,03	0,11	0,38	0,91
Stage IV - Stage III	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Relative Change							
(Stage I - IPA)/IPA	167%	375%	92%	108%	157%	318%	229%
(Stage II - Stage I)/Stage I	45%	45%	45%	44%	45%	45%	45%
(Stage III - Stage II)/Stage II	35%	33%	32%	23%	32%	31%	32%
(Stage IV - Stage III)/Stage III	0%	0%	0%	0%	0%	0%	0%

To summarise, the paper reaffirms the feasibility of Template's original logic to allow for gradual financial assistance to take place as early in the process while providing sufficient incentives to move from one stage to another, with full membership being the ultimate goal. With the aim to implement that logic in practice, the paper found that the needs of the Western Balkan countries could be even better addressed if the original calibration presented in the Template were to be updated. In line with that thinking, the paper proposed three viable (and inexhaustive) variants to Template's original proposal. The simplest, most straightforward option would be to pursue Variant A, which entails full contributions upon acquiring the membership, as has always been the case. The more advanced one would be Variant B which recognises the specificity of the Western Balkans and the need to match the rights and obligations and, therefore, allow for contributions to gradually increase even upon acquiring membership. Finally, introducing gradual contributions already during the pre-accession stage, as per Variant C, would be the least favourable one from the Western Balkans' perspective but could nevertheless be a compromise to convince enlargement sceptics to support the rationale behind the Model of staged accession. Opting in favour of any of these options (see Table 7 for summary) would represent a breakthrough in how the EU prioritises enlargement.

Table 7. Summary of the proposed funding/contribution schemes

	FUNDING (%)				CONTRIBUTION (%)			
	Stage I	Stage II	Stage III	Stage IV	Stage I	Stage II	Stage III	Stage IV
VARIANT A	35	55	100	100	0	0	100	100
VARIANT B	40	60	100	100	0	0	50	100
VARIANT C	40	60	100	100	5	15	100	100

V Conclusion

The financial simulations presented in this paper suggest that EU enlargement to the Western Balkans would not significantly impact the EU budget. This alleviates any potential financial and budgetary concerns when it comes to promoting enlargement to the region in the context of the Staged accession model. The key ingredient needed to achieve more gradual access to substantial EU membership funds, therefore, appears to be political will. Such political will needs to be based on a wide understanding among EU institutions and member states of the importance of supporting socio-economic development in future member states while they are still in the accession process. Equally importantly, the paper highlights the significance of linking access to increased funds and progress in preparedness for membership. Access to higher levels of funding should only come as a reward for significant advances in meeting the EU membership conditions, and vice versa. This way, the "more-for-more; less-for-less principle" can be operationalised while making sure the process is credible and predictable for the candidates.

The paper's findings reaffirm the soundness of the Template's original logic to allow for gradual financial assistance to take place early in the process while providing sufficient incentives to move from one stage to another, with full membership as the ultimate goal. While maintaining a merit-based approach, the paper presents several options for policymakers to consider when deciding the levels of assistance to be offered to candidates during the pre-accession stages. While this paper only looks at financial flows, assuming full absorption of funds, a separate paper delves deeper into the practical financial arrangements and instruments needed for providing substantially increased funding to candidates in line with the Staged accession proposals.[24] Taken together, these proposals promise to better prepare the countries for future membership, as well as incentivise their political elites to engage in comprehensive reforms.

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