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# Reforming the EU's pre-accession funding instrument

## Effective membership preparation through the Staged Accession Model

Milena Mihajlovic, with contributions by Ruggero Tabossi<sup>1</sup>

### I. Introduction

The Template on Staged Accession to the EU proposed in 2021 that funding for reforms and socio-economic development should substantially grow as (potential) candidate states improve their preparedness for membership, assessed annually by the European Commission.<sup>2</sup> This proposal aims at incentivising politically sensitive reforms in the accession process while helping to gradually prepare beneficiaries for assuming membership obligations and opportunities in a gradual way. The setting of the current third edition of the Instrument for Pre-accession Assistance (IPA) appears to be neither financially sufficient nor designed for such a purpose. The recent announcement of a four-pil-

<sup>1</sup> The analysis of the Instrument for Pre-accession Assistance (IPA) and the proposals for IPA reform are based on the interviews and written contributions by Mr Ruggero Tabossi, independent expert. The author would also like to thank Mr Andrej Engelman, independent expert, for his valuable comments to an earlier draft of this paper.

<sup>2</sup> The Staged Accession to the EU is a novel approach to the enlargement policy based on the revised enlargement methodology. The European Policy Centre (CEP) from Belgrade, in cooperation with the Centre for European Policy Studies (CEPS) from Brussels, produced a model that outlines a four-stage process designed to address key enlargement-related challenges and restore the long-absent positive momentum to the European project. For more information, see: 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 – Brussels), October 2021.

lar growth plan for the Western Balkans by the Commission President Ursula von der Leyen,<sup>3</sup> which includes a decision to increase pre-accession assistance, provides a timely opportunity to reflect on the effectiveness of IPA III and design appropriate measures to improve it.

The rationale behind the funding proposal in the Template is threefold. Firstly, if the candidates are to catch up with the EU proper in terms of socio-economic development, they need much higher levels of funding as early as possible in the accession process. Secondly, the countries need to start preparing for the absorption of the European Structural and Investment Funds (ESIF)<sup>4</sup> once they become members, to avoid a scenario in which they absorb small portions of available funds in the first years of membership due to lack of capacity. Thirdly, more substantial financial support for socio-economic development can create more public awareness and support for EU accession, as well as a stronger incentive for governments in the region to press on with the ambitious reform agenda. As the original Template did not include details regarding the funding instruments and conditions for access to increased funding, this paper probes deeper into these issues and proposes different policy options for the funding facet of the staged accession model.

The paper starts with an analysis of the present IPA III, from the perspective of preparation of its beneficiaries for EU membership and especially the use of ESIF, providing an analytical basis for the Staged accession funding model.<sup>5</sup> In section III, it proceeds to a discussion of several policy options for introducing additional funding as interim incentives and benefits during the accession process. It also lays out in significant detail the preferred option, which includes a proposal for a fully reformed IPA IV, and assesses its advantages and disadvantages. In sections IV and V, the paper discusses proposals for conditioning and reversibility mechanisms as well as for the development of absorption capacities among candidates. It concludes by drawing attention to the major prerequisites that will decide if a new, staged approach to the provision of pre-accession assistance will make it or break it.

## II. State of play – Financial assistance supporting preparation for membership?<sup>6</sup>

The EU provides financial support to membership aspirants to support their socio-economic development and the plethora of reforms which must be undertaken in the accession process. Yet, **the socio-economic convergence gap between the Western Balkans and the EU-27 has not decreased in the past years.** In 2020, the GDP per capita in purchasing power standards was under 50% of the EU-27 GDP in all Western Balkan states, with that of Kosovo below 30%.<sup>7</sup> Moreover, as a recent study indicates, “[all] else being equal, poorer countries should grow faster than richer ones, yet the convergence performance of most Western Balkan countries has been weaker than that of EU-CEE countries over the past two decades.”<sup>8</sup> This fact is unsurprising, considering that

<sup>3</sup> European Council, *Keynote Speech by President von der Leyen at the GLOBSEC 2023 Bratislava Forum*, 31 May 2023.

<sup>4</sup> ESIF have comprised five funding categories depending on destination:

- European Regional Development Fund (ERDF), which provide urban and regional development;
- European Social Fund (ESF), which ensure social cohesion and good governance;
- Cohesion Fund (CF), which ensure economic convergence for the least developed regions of the EU;
- European Agricultural Fund for Rural Development (EAFRD) and European Maritime and Fisheries Fund (EMFF).

<sup>5</sup> In order to streamline the analysis, the paper does not cover the structure and implementation of the IPA III Rural Development Programme (IPARD III) and of the EU programmes open to third countries (such as Digital Europe, Horizon Europe, Erasmus +, etc). However, IPARD III budget is covered by the overall IPA III envelope. See: European Union, *Regulation (EU) 2021/1529 of the European Parliament and of the Council of 15 September 2021 establishing the Instrument for Pre-Accession assistance (IPA III)*, 2021.

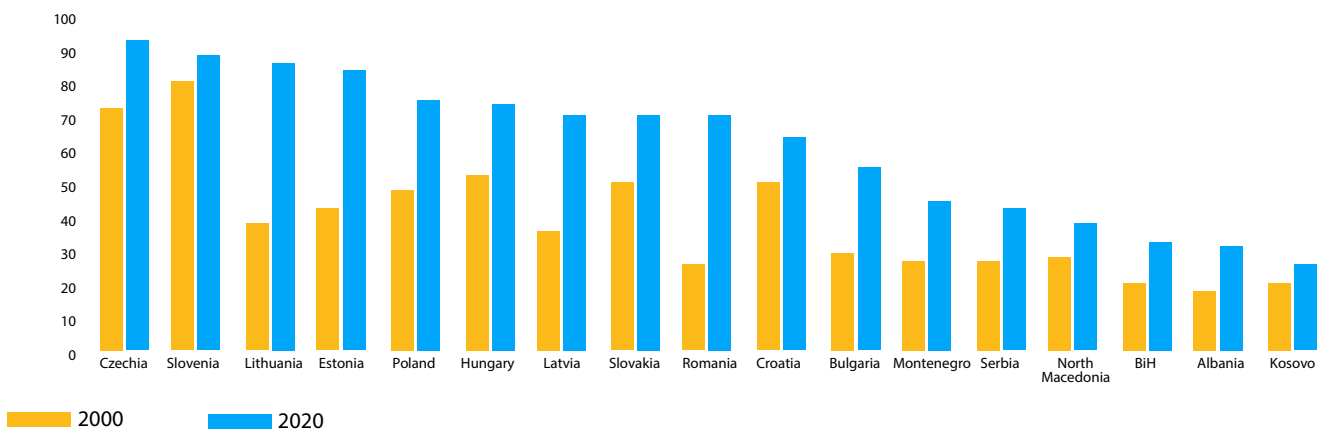
<sup>6</sup> This section is based on a combination of literature review and analysis based on conversations with experienced experts in IPA II management. The experts have asked to remain anonymous.

<sup>7</sup> Mahdi Ghodsi, Richard Grieveson, Doris Hanzl-Weiss, Mario Holzner, Branimir Jovanović, Stefani Weiss and Zuzana Zavorská, “The long way round: Lessons from EU-CEE for improving integration and development in the Western Balkans,” The Vienna Institute for International Economic Studies (wiiw) and Bertelsmann Stiftung, Joint Study No. 2022-06, June 2022, p. 11.

<sup>8</sup> Ibid, p.37.

the total value of IPA III (2021-2027) has remained roughly equal to that of IPA II (2014-2020), despite the overall EU budget practically doubling in size thanks to the ad-hoc instruments under the Next Generation EU (NGEU). The average per capita receipts of the WB-6 over the entire 2021-2027 MFF have been assessed at only EUR 500, in stark contrast with the neighbouring member states which stand to receive up to eleven times more funding in the same period.<sup>9</sup> Finally, due to IPA implementation modalities, which predominantly rely on large European consultancy companies and international organisations, large portions of implemented project budgets are returned to the EU through salaries of key experts and companies' profits. As a result of these enormous discrepancies between the transfers towards member states on the one side and WB (potential) candidates on the other, the convergence gap between the WB and the EU is likely to continue growing, unless a different approach in providing financial assistance to EU accession is adopted. These facts speak loudly in favour of introducing substantially increased funding already in the pre-accession period, to help the region catch up with the EU and prepare itself for the economic and demographic pressures of membership.

*Illustration 1. GDP per capita in purchasing power standards as a percentage of EU-27 GDP (in 2000 and 2020)<sup>10</sup>*



Sources: wiiw, Eurostat, national sources | © Bertelsmann Stiftung and wiiw.

Moreover, **since the establishment of IPA, the size of funding that its beneficiaries have access to has mostly been unrelated to how advanced these countries are in the preparations for EU membership.** As a result, even if a country was to make substantial progress in fulfilling membership conditions, the amount of funding it could access would remain unchanged. While IPA III has abolished country envelopes altogether, the main criteria for approving actions are now their strategic relevance to the IPA policy objectives and their preparedness for implementation (technical maturity), whereas smaller portions of funding have been allocated through the performance-based, sector budget support (see below). Indeed, the main criteria for approval of the actions have little to do with commitment and results in the EU accession related reforms. To be sure, the IPA III Programming Framework does state that the Commission “will take into account the progress of each beneficiary on the enlargement agenda” when assessing the beneficiaries’ strategic response.<sup>11</sup> This “performance-based and reform-oriented approach” should mean that “if candidate countries and potential candidates move on reform priorities agreed in the negotiations, they will also have access to increased funding investments.”<sup>12</sup> However, these criteria lack further operationalisation, leaving plenty of discretion to the Commission in selecting projects for financing. As a result, the IPA beneficiary governments lack both the predictability and a gradually

<sup>9</sup> See: Dušan Reljić, “The EU’s quest for strategic autonomy in the Western Balkans: Why it flopped,” in: *In Search of EU Strategic Autonomy: What Role for the Western Balkans? A Conversation with Odeta Barbullushi, Dejan Jović, Tanja Mišćević, Zoran Nechev, Dušan Reljić and Majda Ruge*, edited by Matteo Bonomi, Istituto Affari Internazionali, Rome, 2021, p. 37.

<sup>10</sup> Op. cit. “The long way round: Lessons from EU-CEE for improving integration and development in the Western Balkans”, p. 11.

<sup>11</sup> European Commission, *IPA III Programming Framework*, 10 December 2021, p. 7.

<sup>12</sup> Ibid, p. 7.

increasing, sizable financial incentive to undertake the demanding reforms on the long road to membership.

Additionally, **in terms of organisational and management logic, IPA has over time moved away from an instrument that prepares countries for absorption of ESIF, having adopted features of a more general development assistance instrument.** The first edition of IPA (2007-2013) targeted the three Copenhagen criteria for accession, and assistance was delivered through five components,<sup>13</sup> with eligibility differentiated based on the countries' accession process status. Three out of the five components of IPA I (components III, IV and V) were thus accessible to candidate countries only and were focused on the adoption and implementation of the full *acquis*, as well as on the preparations for ESIF implementation. During IPA II (2014-2020), the component structure was abandoned, introducing instead a structure based on policy areas,<sup>14</sup> in which assistance was equally accessible to both candidates and potential candidates. While this method, dubbed the Sector Approach,<sup>15</sup> was deemed successful in increasing ownership of the beneficiaries and supporting reforms where political commitment was high,<sup>16</sup> the structure of funding provision largely departed from the logic and structure of ESIF.<sup>17</sup> This change prompted commentators to warn: "If the successor of IPA II (during the period 2021- 2027) were to stick to the same approach, this would be a clear indicator that any further hopes of enlarging the EU would definitively be dropped – and that the story of the EU's most successful foreign policy ever would come to an end."<sup>18</sup>

Yet, the ongoing IPA III (2021-2027) has further directed pre-accession assistance towards the implementation of EU policies facing global challenges of importance to the region (climate change, energy transition, mobility, connectivity, digitalisation, etc.), without fully returning to the objective of membership preparation. While it does envisage the implementation of multiannual programmes managed by beneficiary countries in a way that resembles the utilisation of ESIF by EU member states, the number, duration and the size of these programmes are too small to count towards a suitable introduction to ESIF. Overall, although IPA's evolution over the years has increased its effectiveness in supporting fundamental reforms, the lack of structural funds emulation has resulted in candidates nowadays being insufficiently prompted to prepare their institutions and processes for the magnitude and complexity of ESIF utilisation upon membership.<sup>19</sup>

13 IPA I comprised the following components: Component I - Transition Assistance and Institution Building; Component II - Cross-Border Cooperation; Component III - Regional Development; Component IV - Human Resources Development; Component V - Rural Development.

14 Assistance under IPA II was provided for five policy areas: a) reforms in preparation for Union membership and related institution- and capacity-building; (b) socio-economic and regional development; (c) employment, social policies, education, promotion of gender equality, and human resources development; (d) agriculture and rural development; (e) regional and territorial cooperation. See: European Commission, *Regulation (EU) No 231/2014 of the European Parliament and of the Council, of 11 March 2014, establishing an Instrument for Pre-accession Assistance (IPA II)* 2014.

15 "Sector approaches became popular in development policy in the late 1990s. They were aimed at improving aid effectiveness, in particular with regards to the delivery of public services, in line with the 2005 Paris Declaration on Aid Effectiveness. The sector approach has been used in EU Development assistance since 2007." Wolfgang Koeth, "[The New Instrument for Pre-Accession Assistance \(IPA II\): Less Accession, More Assistance?](#)" European Institute of Public Administration, 2014.

16 European Commission, *Evaluation of Sector Approach under IPA II*, Final Report, October 2018, p. viii.

17 The departure of IPA II from the ESIF structure was a likely result of the political decision not to pursue enlargement as a political priority in that period. Namely, in 2014, the EC president-nominee Jean Claude Juncker announced that during his Commission's mandate there would be no further enlargement of the EU. Coming shortly after Croatia's accession in 2013, this statement was widely viewed as practically putting enlargement as a political process on hold. A new political impetus for the process came as late as 2019, when at the end of his mandate Juncker proposed a new enlargement strategy for the Western Balkans. A more detailed discussion is offered in: Op. cit. "[The New Instrument for Pre-Accession Assistance \(IPA II\): Less Accession, More Assistance?](#)".

18 Ibid, p. 15.

19 For a detailed discussion, see: Ana Ilic, Aleksandar Andrija Pejovic, Jelena Stojovic, Natasa Mikus Zigman, Andrija Pejovic, Victoria Primhak, Kalina Markovic Ilic, Aleksandra Milenkovic Bukumirovic, "[Study on progress in regional policy of the WB6 and Turkey](#)," Final Report, European Commission, June 2022, p.17.



Today, **IPA III management at the level of the Commission is handled almost exclusively by DG NEAR, which further undermines the beneficiaries' preparation for future ESIF absorption.** While IPA I (2007- 2013) included DG REGIO, DG AGRI, and DG Employment in its management, in IPA II (MFF 2014-2020) and IPA III (2021-2027), these DGs which are key to ESIF management have largely been excluded.<sup>20</sup> This change was implemented with IPA II in 2014, with the Commission stating that such a set-up would “remain until a later (but not defined) stage in the accession process where the respective DGs (REGIO and EMPL) will get involved.”<sup>21</sup> What is more, DG NEAR has turned to DG DEVCO for new support instruments, such as budget support, adapted as a performance-based element of the Sector Approach introduced under IPA II and labelled “sector budget support” (SBS).<sup>22</sup> To be sure, a degree of combination of performance-based SBS with programme and project support is helpful for pushing through systemic reforms, because SBS is conditioned by the achievement of specific reform measures and indicators. Nonetheless, beyond the shares allocated to SBS, the departure of IPA from the ESIF logic has had a detrimental effect on the EU's institutional preparations for the next enlargement, deprived the candidates' institutions from the “most valuable learning-by-doing experience,”<sup>23</sup> and resulted in DG NEAR adopting a different terminology to its colleagues involved in the management of ESIF.

Finally, **the recent trend in managing actions funded by IPA III has been to centralise management functions in the hands of EU delegations or to confer their indirect management to “pillar-assessed entities”,<sup>24</sup> such as international organisations, UN agencies, bilateral donors, etc.** Even though most of the beneficiary countries had accredited specialised contracting authorities during the past IPA editions, the experience of IPA III programming over the last three years has demonstrated a decrease in conferral of indirect management of funded actions to beneficiary countries.<sup>25</sup> The admitted lack of capacities and suboptimal funds absorption cannot serve as justification for this unwillingness to decentralise management functions; on the contrary, it leads to further erosion of absorption capacity – and eventually ownership over results of the supported actions – among IPA III beneficiaries.

Overall, this brief analysis of the evolution of IPA as an instrument supporting the EU accession of its beneficiaries shows **that the EU has (rightly so) prioritised support to systemic reforms in the period in which political will to press with enlargement was lacking.** That period was rather used to help these countries undertake fundamental reforms and develop more coherent and wider policy sectors within which reforms would be coordinated and implemented. Yet, the present political prioritisation of enlargement policy and the increasing determination by the EU to accelerate the candidates' accession processes appears in dissonance with the orientation and structure of its pre-accession financial support. Most importantly, **IPA has never created a sub-**

20 IPARD and Cross-Border Cooperation programmes involving member states are the only areas of IPA where DG AGRI and DG REGIO have remained involved.

21 Op. cit. “[The New Instrument for Pre-Accession Assistance \(IPA II\): Less Accession, More Assistance?](#)” p. 5.

22 “IPA II introduced a new form of multiannual programme, implemented by SBS. SBS allowed a medium-term perspective and a high level of ownership and, being run directly by the DG NEAR and the EUDs, it avoided the inefficiencies of indirect management. SBS represented a significant incentive for the sector institutions involved, although not mandatory it was intended that most of its financing would reinforce the sector budget for institutional strengthening and implementation of reforms. SBS appears to enable in-depth policy dialogue during the preparation for improved institutional coordination, identification of Performance Assessment Frameworks (PAFs), establishment of M&E and reporting systems and appropriate budgeting. During the implementation, such dialogue continues and helps the institutions acquire a method that should be gradually appropriated and internalised. The process is long, but the direction seems right. On the other hand, SBS has shown itself to be a rather complex tool, because specific pre-conditions must be in place for its decision, although its very process of preparation may help fill the gaps, when the commitment of the counterpart is high.” European Commission, *Evaluation of Sector Approach under IPA II*, Final Report, October 2018, p. 49.

23 Op. cit. “[Study on progress in regional policy of the WB6 and Turkey](#),” p.17.

24 Pillar assessments are institutional compliance assessments which the European Commission requires partner organisations to pass before using indirect management cooperation with them.

25 As a result, in 2021-2022 programming, the Commission approved only 12% of projects with indirect implementation by the beneficiary governments, while 55% of projects assumed direct Commission management, and 33% indirect management by pillar assessed entities. Source: own calculation based on publicly available data, performed by Ruggero Tabossi, independent expert.

**stantial financial incentive for reforms, at least not in the way in which the sheer size of ESIF can.** Against this backdrop, the announcement by the Commission President that pre-accession assistance will be increased creates an opportunity to achieve just that, provided that the increase marks a meaningful step towards the ESIF financial scale, possibly through the logic of the Staged Accession Model. Therefore, **the upcoming MFF – and by extension IPA III – mid-term review presents a timely opportunity to reflect on how well IPA is incentivising progress in membership preparedness and formulate policy changes which would reflect the current level of prioritisation of enlargement policy at the EU level.<sup>26</sup> At the same time, the IPA III review process offers an opportunity to prepare for the implementation of staged accession with its funding access conditionalities and tangible benefits.**

### III. Assessment of different options to introduce a “Staged Accession” funding mechanism

This section reviews several different options for introducing a funding mechanism in support of the Staged Accession Model. The different options are analysed based on their political and legal plausibility as well as the potential to be introduced in the short term, considering that the EU is in its third year of the implementation of the current MFF. Due to this fact, a redesign of the existing funding mechanisms might be impossible to achieve in an acceptable timeframe for the introduction of accession in stages that would bring the proposed financial benefits to the adequately prepared candidates. Therefore, the analysis proceeds to identify an option which promises to successfully combine the basic objective of supporting the staged accession in the short run with the necessity of providing a funding mechanism that will correct the analysed deficiencies of IPA III and allow for adequate preparation of candidates for membership in the longer term.

#### III.1 Overview of various policy options

The **first option** to consider is based on the work of several think tanks that over the past years have proposed that the EU should integrate the Western Balkans into its budget fully,<sup>27</sup> which would entail full participation in its structural funds, too. While opening ESIF to candidate countries would constitute a revolutionary act of support for enlargement, unseen to date, it is likely to be a task politically difficult to negotiate and agree on, as well as legally challenging to regulate. Ultimately, the decision to open ESIF to candidate countries would depend on the political will and consensus among the EU member states. It would require a comprehensive assessment of the potential benefits and challenges associated with such a policy change. At any rate, midway through the current MFF and with the added urgency of closing a large number of legislative files before the wind-still period induced by the EU electoral cycle next year,<sup>28</sup> it would be impossible to change all ESIF regulations and make preparations for the candidates' entry into the EU's structural funds. Therefore, the idea of fully opening EU's budget to candidate countries, while attractive in

<sup>26</sup> The Commission has proposed increasing Heading 6 “Neighbourhood and the World” by EUR 10.5 billion, out of which EUR 2 billion would be allocated to the Western Balkans. This proposal was made “in the light of the changed geopolitical landscape”, including a perceived need “to step up support to our Western Balkans partners, to accelerate convergence with EU Member States and aiming to support stable, prosperous and well-functioning democratic societies on their path towards EU membership.” See: European Commission, *Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions – Mid-term revision of the Multiannual Financial Framework 2021-2027*, Brussels, COM(2023) 336 final, 20 June 2023, pp. 6 and 15.

<sup>27</sup> See: Dušan Reljic. “The EU’s quest for strategic autonomy in the Western Balkans: Why it flopped,” in book: *In Search of EU Strategic Autonomy: What Role for the Western Balkans?* Italian Institute for International Affairs; Mahdi Ghodsi, Richard Grieveson, Doris Hanzl-Weiss, Mario Holzner, Branimir Jovanović, Stefani Weiss and Zuzana Zavorská, “The long way round: What the EU can learn from the accession of the new member states in Eastern Europe since 2004,” Joint Study No. 2022-06, June 2022, The Vienna Institute for International Economic Studies and Bertelsmann Stiftung; Ardian Hackaj, Krisela Hackaj, “[Conditionality and solidarity: Frontloading cohesion into EU enlargement to Southeast Europe 6](#),” Cooperation and Development Institute, Tirana, April 2023.

<sup>28</sup> Council of the European Union, *Programme of the Spanish presidency of the Council of the European Union*, 2023.

its essence, appears as unlikely to attract the support of EU's policymakers and legal experts, thus averting attention from other, potentially more feasible but just as effective approaches.

A **second option** for financially supporting the implementation of the Staged Accession Model is to increase the size of the current IPA III, by increasing the funds available to those candidate countries that fulfil the conditions for entering the first and/or the second stage of the process. Such a change would correspond with the announced addition of EUR 2 billion under the Commission's proposal for the MFF mid-term review.<sup>29</sup> This option, however, implies that the increased total IPA III envelope would apply the same rules and criteria for approval of actions which were analysed as suboptimal for preparing candidates for assuming membership obligations as well as for benefiting from the ESIF upon membership. The structural changes that the implementation of the Staged Accession approach to funding would require would necessitate a rather substantial revision of the relevant regulatory framework, which would be a time-consuming task, difficult to achieve within the remaining period of the current MFF. Therefore, while less demanding to implement from the regulatory standpoint than the previously discussed one, this option might not be optimal for accomplishing the main objectives set by the Staged Accession Model.

A **third option** to consider would be the creation of a completely new funding instrument to run in parallel with IPA III until the end of the current MFF (and possibly in the next MFF, too), which would be designed specifically to support the implementation of the Staged Accession Model and the achievement of its objectives. This option would presuppose that the new funding instrument compensates for the insufficient progression in the available financial assistance to those candidate countries that meet the criteria for entering Stages 1 and 2. This option would therefore allow for the new instrument to be designed so as to open specific funding allocations based on the candidates' achieved preparedness for membership. However, this option would also be time- and resource-consuming to materialise, bearing in mind the timeframe necessary to design, regulate and implement a new instrument. Finally, this option would go against the Commission's tendency to streamline the number of different funding instruments.

The second and third options would have to be complemented by a thorough reform of the IPA instrument for the 2028-2034 MFF, based on the lessons learned and the emerging needs in light of the accelerated enlargement process. Therefore, in the next MFF, IPA IV should serve as the main instrument to support the path to membership, in combination with other complementary instruments available to (potential) candidates.<sup>30</sup> This support should be oriented both to the systemic, institutional reforms (with a special focus on the membership criteria in the first cluster – fundamentals) and to the candidates' preparation for efficient and timely absorption of ESIF upon membership. However, the question remains how to support the introduction of the Staged Accession Model in the remaining four years of the ongoing MFF.

A **fourth, hybrid option** paves the way to supporting the implementation of the Model already under the current MFF, while ensuring adequate membership preparation support for candidates regardless of the accession model applied during the next MFF. **This option envisages a thorough IPA reform for the next MFF, while introducing for the remainder of the current MFF a new funding line based on instruments that have already been tried out and have produced positive results in supporting fundamental reforms.** As mentioned above, DG NEAR started using the performance-based sector budget support (SBS) mechanism already during the previous

<sup>29</sup> Op. cit. *Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions – Mid-term revision of the Multiannual Financial Framework 2021-2027.*

<sup>30</sup> As is the case today, candidate countries are gaining full access to a growing number of EU programmes, along with the main pre-accession financial instrument. Moreover, IPA funding is increasingly being combined with loan support instruments, such as the Western Balkan Investment Framework. The WBIF was set up to bring together the instruments of the EU, international financial institutions, bilateral donors, and governments of the Western Balkans to provide funding for strategic investments, particularly in infrastructure and socio-economic development. This typically involves key sectors like energy, environment, transport, social and digital infrastructure.

MFF, applying it, especially in the areas that demand deep, system-wide, cross-cutting reforms, such as public finance management, public administration reform, governance, justice reform, etc.<sup>31</sup> Considering the sizes of the financial envelopes in Stages 1 and 2, the Commission could consider combining the SBS with the positive experiences from the implementation of the Resilience and Recovery Facility (RRF), which as a performance-based instrument has similarities with the SBS but is designed to support ambitious reforms and investments in EU member states.<sup>32</sup> **For the next MFF, this hybrid option would entail a thorough revision of IPA, which would be turned into an instrument that combines performance-based support for large national reforms and investments with the programme-based approach emulating ESIF.** Such an option would facilitate the introduction of the Staged Accession Model during the current MFF by topping up the existing IPA envelope with increased funding through the performance-based modality, while preparing a visionary IPA IV that would facilitate the preparations for future ESIF absorption.

### III.2 Detailed description of the hybrid option

This section offers a more detailed description of the proposed fourth, hybrid option. Without delving into technical details, the following sections lay out the main elements of the combined approach, the proposed distribution of funds across the stages of the accession process as well as the key benefits and caveats to be considered in the implementation of such an option.

#### III.2.1 Structure of Staged Accession financial support package

**The hybrid option comprises two main elements: 1. A transitional arrangement until the end of the current MFF to support the introduction of the Staged Accession Model in the short run; and 2. for the next MFF, a fully reformed IPA IV, sizable enough to support the implementation of the Model.** While the first element serves to enable the introduction of the Model as soon as possible, the second element is key, as IPA IV should be the instrument which accompanies candidates into membership, while gradually introducing them to the ESIF management in terms of management structures, processes, and the amounts of managed funds. To enable its implementation, partnership agreements between candidate countries and the EC would have to include both elements.

##### *The transitional element*

As mentioned above, the transitional element of this option should comprise a top-up on the existing IPA III funds, using familiar mechanisms that will take comparatively less time to introduce than designing new or thoroughly reforming existing instruments, while making maximum impact on the motivation of the candidate governments to press on with reforms and alignment with the *acquis*. The simplest way to introduce this kind of support would be to rely on the SBS experience, which has been used in the region since 2014. SBS is a performance-based funding instrument which has supported various systemic reforms in the IPA beneficiary countries, with emphasis on public finance management, public administration reform and other major reform areas. As stated in the relevant guidelines, “budget support involves the transfer of financial resources to the National Treasury of a partner country, following the fulfilment by the latter of the agreed conditions

<sup>31</sup> Authors' own calculations based on publicly available data for the period 2014-2020 show a clear prevalence of these sectors in the provision of SBS across the region. Out of 5 countries that received SBS in this period (Bosnia and Herzegovina being the only country where SBS was not provided), 4 received SBS for these reform areas, with PAR and PFM being the most prevalent.

<sup>32</sup> “As part of a wide-ranging response, the aim of the Recovery and Resilience Facility is to mitigate the economic and social impact of the coronavirus pandemic and make European economies and societies more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions.” See: Vlaanderen, *EU funding Overview: Recovery and Resilience Facility*.



for payment set out in the contract.”<sup>33</sup> “Once the transfer has taken place, budget support funds are used in accordance with the partner country’s own public financial management (PFM) systems. The responsibility for the management of these transferred resources rests with the partner government.”<sup>34</sup> In the context of preparations for membership, SBS would be a suitable instrument to support the establishment of ESIF implementation structures. As SBS is usually combined with complementary assistance which helps beneficiaries with expertise and transfer of knowledge from EU member states in the supported sectors, one can envisage large sector reform performance contracts to be combined with such additional assistance.

To support the Staged Accession Model implementation, the EU will need to allocate additional funds towards this objective. The top-up for the remainder of the ongoing MFF will likely need to amount to between 3.08 and 7.4 billion EUR, depending on the velocity of the candidates’ progress in alignment with the *acquis* and results in fundamental reforms.<sup>35</sup> Based on the analyses performed in the national issue papers series,<sup>36</sup> the countries that are the closest to fulfilling the criteria for Stage 1 are Montenegro, North Macedonia and Serbia, followed by Albania. Yet, Serbia’s recent backsliding in Clusters 1 and 6 (the former not having been acknowledged by the Commission reports yet) makes it more difficult for that country to achieve the necessary level of membership preparedness in the short term. These figures illustrate that the additional financial boost for the WB region, even though it does not represent a major investment (as it amounts to less than 1% of the EU budget), will require immediate work on generating political consensus among member states.

Such a large increase in the available funds for support to reforms raises concerns about the protection of the EU financial interest, as in the first two stages, candidates will not be fully prepared in the crucial Cluster 1 areas which are supposed to ensure such protection. For that reason, the EU can consider applying some of the experiences in the current implementation of the Recovery and Resilience Facility (RRF), which is implemented under direct management by the European Commission, while relying on compliance with national and EU rules by member states. Moreover, the RRF regulation “empowers the EU’s control and investigative bodies – such as OLAF and the European Public Prosecutor’s Office (EPPO) – to exert their rights in the fight against fraud both at EU and Member State level, while the [European Court of Auditors (ECA)], as the EU’s external auditor, examines RRF payments for its Statement of Assurance.”<sup>37</sup> Accordingly, the EU could, for example, extend the mandate of EPPO by requiring candidate countries (as part of Stage 1 conditionality in Cluster 1) to sign administrative cooperation agreements, allowing prosecutors to investigate fraud and crimes against the EU budget and financial interests and initiate court proceedings when needed. Moreover, candidates will have to demonstrate solid progress in preparedness, i.e. moderate preparation in all Cluster 1 chapters and subareas for Stage 1 and a good level of preparation for Stage 2, which means that adequate progress in key areas affecting the management of funds must take place as a precondition for increasing pre-accession funds.

### *Towards a reformed IPA IV*

The design of a reformed IPA IV which would lead candidates into membership in the 2028-2034 MFF should build on the experience with the previous IPA regulations, while simultaneously intro-

<sup>33</sup> European Commission, *Budget Support Guidelines*, September 2017, p. 5.

<sup>34</sup> Ibid.

<sup>35</sup> The lower amount accounts for Montenegro, North Macedonia and Albania entering Stage 1 in a year’s time, while the upper amount also includes Serbia in this group. It should be noted that these calculations have so far been performed only for the Western Balkan (potential) candidates, while they are yet to be done for Ukraine, Moldova and Georgia. For more information, see: Strahinja Subotic, “On financial and economic implications of the Staged Accession Model on the EU budget, and on acceding countries’ budgets,” European Policy Centre (CEP – Belgrade) and Centre for European Policy Studies (CEPS - Brussels), 2023.

<sup>36</sup> European Policy Centre (CEP), *The Initiative for a Staged Accession to the EU, National Issue Papers*, 2023.

<sup>37</sup> European Parliamentary Research Service, “Governance and oversight of the Recovery and Resilience Facility,” May 2023, p. 3.

ducing significant innovations. The mid-term review process should be used to carefully prepare IPA reform, in order to turn it into an instrument which is both structured and sized so to prepare its beneficiaries for the opportunities and challenges of membership.

As the mid-term review of IPA III is prepared, experts are already anticipating a key finding regarding the functioning of the current pre-accession instrument: an excessive reliance on the project-based approach.<sup>38</sup> As was previously discussed in this paper, the practice of IPA III programming has so far favoured a project-based approach over the programme-based one, often in favour of direct management by the Commission or delegated implementation to “pillar-assessed” organisations, such as international organisations or bilateral development agencies. If IPA IV is to effectively facilitate the introduction of ESIF among its beneficiaries, the current trend of IPA III must be drastically reversed towards the predominance of multiannual programmes that are managed by structures of the beneficiaries’ administrations duly entrusted to manage IPA funds. This also implies that the Commission should put an end to the project-based approach in the programming of pre-accession assistance, instead prioritising the coherence provided by multiannual operational programmes, at least for those IPA beneficiaries whose institutions have already been entrusted with budget implementation tasks.

In this line of thinking, the new IPA should be streamlined and limited to two main modalities of financial support: 1) the allocation of funds destined to provide performance-based budget support (with application of relevant RRF experiences) for systemic reforms, especially in Cluster 1 areas, and 2) the implementation of multiannual programmes, imitating the mechanism of ESIF where management of multiannual programmes is entrusted to beneficiaries’ governmental structures. Similar to ESIF among member states, the implementation of IPA IV should require beneficiaries to prepare multiannual partnership agreements with the European Commission outlining the objectives and purposes of financial assistance. These agreements should describe the modalities through which pre-accession financial assistance will be used, including a description of the various multiannual programmes that will be put in place. Such programmes should rely on multiannual budgetary commitments, securing requested funds with specific implementing decisions stipulated at the beginning of the programming process for a defined period of time.

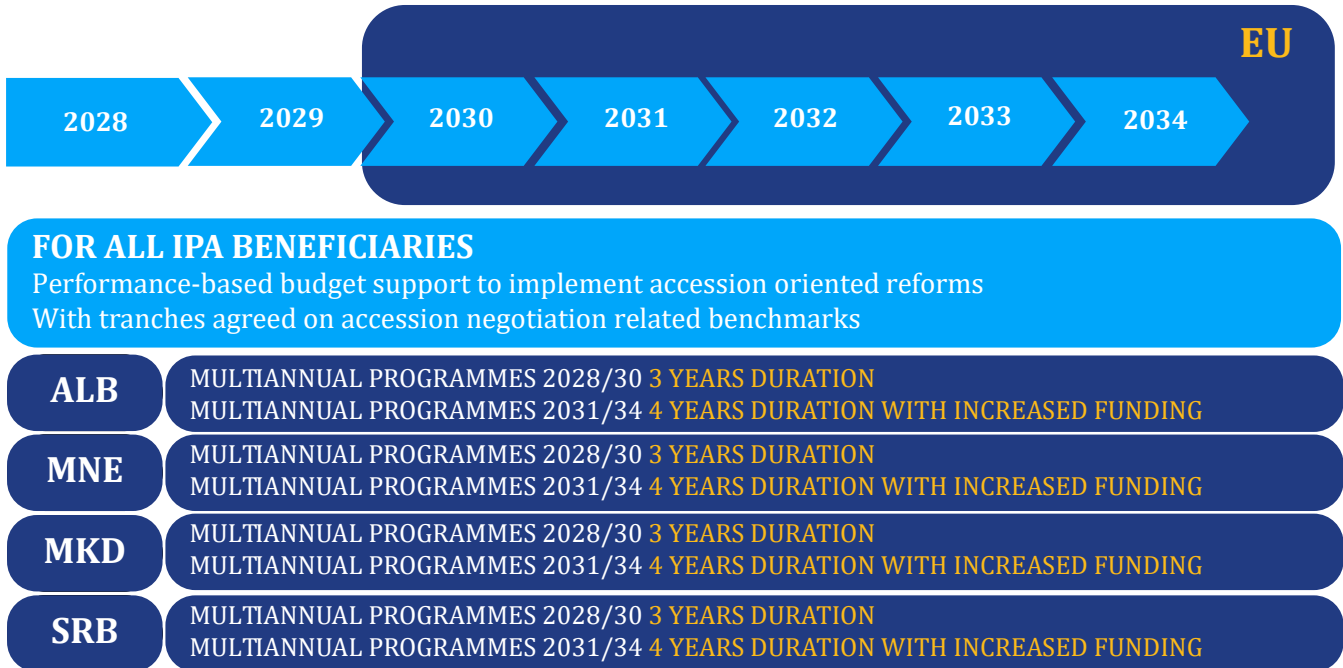
Programming may be organised in two rounds – first for a three-year commitment, followed by another four-year commitment – in order to consolidate experiences and strengthen the implementers’ capacities. In view of the Staged Accession Model, the size of those multiannual programmes would depend on the stage of the pre-accession process reached by an individual candidate country (i.e. stages 1 and 2), increasing from the first to the second round. The amount of funds which a particular beneficiary will effectively access will also depend on its capacity to plan ahead and develop a multiannual perspective. Such capacity should not be limited to financial planning but should also include the ability to design suitable roadmaps towards EU membership that combine the necessary reforms with the utilisation of gradually increasing resources, in the spirit and perspective of the Staged Accession Model.

In terms of management structures within the Commission, apart from the DG in charge of enlargement, direct involvement of the Commission’s DGs REGIO and EMPL will be paramount. They should serve as readily accessible policy advisors and institutional mentors for fine-tuning multiannual programmes and for backstopping during their implementation. In the short-term, DG NEAR should at least start regularly consulting DG REGIO and other relevant DGs, to prepare for their re-integration into the management of IPA under the next MFF.

<sup>38</sup> In essence, the project-based approach is output-oriented and linear, so that the donor focuses on the immediate result of its investment. The programme-based approach, on the other hand, is outcome-oriented, with the donor focusing on the changes directly influenced by its actions over time.

The gradual adoption of a programme-based approach over the project-based one will turn IPA IV into a suitable instrument to accompany countries to EU membership. Moreover, complementary assistance to the implementation of SBS should be provided through the Twinning modality delivered by relevant public administrations from EU Member States. Receiving such complementary assistance would require a higher degree of ownership and dedication by the recipients than is the case with technical assistance projects delivered by private market consultancies.<sup>39</sup>

Illustration 2. Proposed structure of a reformed IPA IV



Finally, to facilitate peer exchange and learning – and in line with the Staged Accession Model – candidates should be allowed to occasionally take part in the relevant EU bodies dealing with westernmost Regions (SMOR), which is responsible for issues concerning the development and conduct of cohesion policy. Another relevant body is the comitology committee dealing with ESIF – the Coordination Committee for the European Structural and Investment Funds (COESIF). Additionally, the Commission for Territorial Cohesion Policy and EU Budget of the European Committee of the Regions presents a suitable framework for the candidates’ socialisation with the EU policy-making arena. Following the overarching logic of the Model’s proposals on institutional participation ahead of membership,<sup>40</sup> in Stage 1 candidates should be invited for exchange of views only if they have achieved a higher degree of preparedness in Chapter 22 – Regional policy and coordination of structural instruments – than is required for the achievement of that stage (i.e. moderate preparedness rating of 3). In Stage 2, candidates gain access to all EU institutions and bodies, which would include the relevant bodies covering ESIF issues, too.

### III.2.2 The advantages and disadvantages of the hybrid option

In essence, the advantages of directing IPA IV fully towards multiannual programmes consist of:

- » ensuring a continuation of the current regulations and implementation modalities,
- » profiting and capitalising of the experiences gained during previous instalments of IPA,
- » providing IPA with a major and more effective focus on membership preparation.

<sup>39</sup> For example, to receive a Twinning assistance the beneficiary administration signs a Twinning Grant Contract with the European Commission in which it takes all responsibilities for the achievement of the Twinning result. For more information, see: European Commission, *Twinning Manual – Revision 2017 – Update 2022*, 2022.

<sup>40</sup> Strahinja Subotic, “Enabling gradual access to EU institutions with the Staged accession model,” European Policy Centre (CEP) and Centre for European Policy Studies (CEPS), 2023.

Although the implementation of IPA III so far has not sufficiently relied on multiannual programmes indirectly managed by the beneficiaries' accredited institutions, this modality is already envisaged by the current set of IPA regulations. Hence, boosting this approach in the scenario of IPA IV would be fully in line with the declared intentions of pre-accession assistance.

A certain challenge of the hybrid option is related to the need for careful differentiation among its beneficiaries. It must be noted that four of the six IPA beneficiaries from WBs have already established structures entrusted to indirect management and are, in principle, prepared to immediately absorb relevant IPA IV allocations through multiannual programmes. In fact, beginning in 2024, it is likely that a number of multiannual programmes will be implemented with IPA III funds through indirect management with Albania, Montenegro, North Macedonia, and Serbia as beneficiary countries. This mode of implementation was already adopted within the framework of IPA II (Montenegro and North Macedonia) and IPA I. Conversely, two IPA beneficiaries (namely Bosnia and Herzegovina and Kosovo), as well as the countries that were granted actual or potential candidate status more recently (Ukraine, Moldova and Georgia), should first identify and establish structures that will be entrusted by the Commission with the budgetary tasks to start with the implementation of multiannual programmes. For these countries, IPA IV will still need to include an approach based on mechanisms and modalities that are similar to the ones of development assistance. This distinction between two groups of IPA beneficiaries objectively reflects their degree of preparedness for EU accession, and it ultimately recovers the division initially introduced within the framework of IPA I that subsequent pre-accession instruments sought to eliminate. However, this separation appears to be an unavoidable consequence that should define IPA IV, while at the same time acknowledging (by increasing available funds) the actual progress made by each candidate government towards meeting EU membership criteria.

#### IV. Conditionality and reversibility mechanisms

The IPA regulation includes provisions that differentiate assistance to its beneficiaries based on commitment to and progress in implementing reforms, in particular in the field of the rule of law and fundamental rights, democratic institutions and public administration reform, economic development and competitiveness.<sup>41</sup> However, the threatened measure in case of significant regression or persistent lack of progress is only a “modulation” of the scope and intensity of assistance, which includes “reducing the funds proportionally and redirecting them in ways that avoid compromising support for improving fundamental rights, democracy and the rule of law, including support to civil society and, where appropriate, cooperation with local authorities.” Therefore, the conditionality based on fundamental reforms appears rather weak, especially for the potential allocation of much higher levels of funding proposed by the Staged Accession Model. The reversibility mechanism is somewhat reinforced by the revised enlargement methodology, which allows for the scope and intensity of pre-accession assistance to be adjusted downward, with the exception of support to civil society.<sup>42</sup> Yet, for this strengthened conditionality to be effective, it would need to be embedded in the IPA regulation, with sufficient detailing of preconditions that trigger such downward adjustments.

To support the proposals under the Staged Accession Model, the EU should consider the application of the conditionality and reversibility approach adopted more recently in its proposal for

<sup>41</sup> European Parliament and the Council of the European Union, *Regulation (EU) 2021/1529 of the European Parliament and of the Council of 15 September 2021 establishing the Instrument for Pre-Accession assistance (IPA III)*, Article 8, 2021.

<sup>42</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, “*Enhancing the accession process - A credible EU perspective for the Western Balkans*,” 2020, p. 6.



a regulation establishing the EUR 50-billion worth Ukraine Facility.<sup>43</sup> This proposal establishes preconditions for EU support, which entail upholding and respect for “effective democratic mechanisms, including a multi-party parliamentary system, and the rule of law, and to guarantee respect for human rights, including the rights of persons belonging to minorities.”<sup>44</sup> It provides the Commission with the power to monitor the fulfilment of these preconditions and in case of determining that they are not met, grants it the right to suspend payments. Moreover, in specific cases of irregularities, fraud, corruption and conflicts of interests affecting the financial interests of the Union, the Commission can also reduce the support under the Facility or ask for early repayment of the loan provided, in a proportional manner.<sup>45</sup> These provisions combined accrue to a strong and effectively designed conditionality and reversibility mechanism, linking fundamental democratic values to the dynamics of funds utilisation.

In order to ensure that the merit-based approach of the Staged Accession Model is upheld, in cases of persistent stagnation or backsliding in the chapters and sub-areas of Cluster 1 (as well as potentially across other clusters), the EU should be enabled to freeze or even fully withdraw any uncommitted funds that were previously opened by progressing through the stages. Taking the example of the proposal on Ukraine Facility, the Commission can be empowered to take such decisions, based on its progress reports, which should be the chief source of assessments to that end.<sup>46</sup> To allow member states sufficient space for oversight over the Commission's work, one may envisage a solution similar to the one under the Cooperation and Verification Mechanism for Bulgaria and Romania, requesting the Commission to inform the Council in good time before taking measures against a candidate country, as well as to duly take into account any observations of the Council in this respect. Such an enhanced conditionality mechanism would be suitable for the significantly enlarged funding offer by the EU and would go a long way in supporting domestic political will for the implementation of reforms towards membership.

## V. Absorption capacities

Discussions about increasing financial assistance in the pre-accession period are often dominated by concerns about weak absorption capacities in the beneficiary countries. Several EU stakeholders have used the fact that candidates have not been able to ensure full absorption of the relatively small IPA funds as an argument to oppose the proposal to increase financial assistance in the pre-accession period. It should be noted that absorption capacity is about more than just spending the funds; it involves successfully identifying, developing, implementing, and managing projects that meet the funding criteria and achieve the intended outcomes. This can be influenced by a range of factors, including administrative capacity, institutional quality, governance standards, and the broader economic and social context. Moreover, an important factor for absorption of funds is related to financial capacity, meaning “the extent to which administrative institutions can co-finance programs and may encourage others (private) entities to participate and to support these programs.”<sup>47</sup> Therefore, this issue requires a deeper understanding of how absorption capacities are developed and how they interrelate with the size of funding at candidates' disposal.

43 European Commission, *Proposal for a Regulation of the European Parliament and of the Council on establishing the Ukraine Facility*, 2023.

44 Ibid., Article 5.

45 Ibid., Article 33.

46 The Template also proposed that the Commission's monitoring and assessment approach should be improved with the view to improve the credibility of its reports, including quantification of the assessments of progress and membership preparedness. Concrete proposals for such improvements were also made in: Milena Lazarevic, Strahinja Subotic, “[Monitoring reforms in the EU accession process: A Western Balkan civil society contribution](#),” European Policy Centre, June 2023.

47 Laura Marcu, Tomislav Kandzija, and Jelena Dorotic, “[EU Funds Absorption: Case of Romania](#),” *Postmodern Openings*, 2020, Volume 11, Issue 4, pages: 41-63, p. 43

There are several important factors which have negatively affected the candidates' absorption capacities. As discussed in the previous chapter, over the years of IPA implementation, the size of available funds has not followed the countries' progress towards membership, and thus the national administrations' drive to retain and improve those capacities has not been maintained. On the contrary, the structures and procedures for indirect management of funds by beneficiary governments – i.e. implementation of funds by the institutions of the beneficiary country – have been underutilised and in some cases have even eroded over the past years, *inter alia* due to high turnover of staff.<sup>48</sup> In parallel, while prioritising the maintenance of absorption rates, the Commission has moved towards either direct management of funds or towards delegating this responsibility to international organisations or other pillar-assessed entities. As a consequence, the pressure on domestic institutions has diminished and the difficulties in retaining quality staff for funds management have taken their toll on the national administrations. Finally, the cost of losing the relatively modest IPA funds seems to be politically insignificant, especially if compared to the potential losses of sizable ESIF in member states.

Indeed, the experience with previous accession rounds has demonstrated that the “race” to build domestic capacities for ESIF management intensifies only after membership is attained, meaning that the offer of more substantial funds might be a precondition for the development of absorption capacities. Research has shown that “higher allocations have overall translated into higher absorption rates.”<sup>49</sup> In a way, administrations best respond to the already existing needs and pressures, while they are less capable of preparing for future opportunities that require a long period of preparation. Most newcomers in the EU in the past two decades had low absorption rates of EU funds in the first years of membership, only to catch up and increase absorption later on.<sup>50</sup> This experience should therefore guide the EU's decisions to gradually increase funds for candidates early on in the pre-accession stages. Improving the absorption capacity of candidates, through measures like administrative capacity building and governance reforms, therefore needs to be a key focus for both the EU and the candidate states, which is why it is paramount to ensure such support as early as possible in the process. Overall, by progressively increasing funding levels and ensuring adequate technical support on the way to accession, the EU can encourage administrations to develop their absorption capacity over time. This approach would allow them to ultimately become EU members well-prepared to participate in the ESIF, thus reaping maximum benefits from the first days of membership.

## VI. Conclusion

The EU stands very little to lose and much to gain by frontloading financial assistance more similar and equal in size to the ESIF for the WB already in the pre-accession period. For the candidates, adoption of a merit-based approach to increasing of financial assistance towards membership would result in significantly boosted political will for reform implementation as well a higher degree of predictability in the process. Namely, the candidate governments would know what they stand to achieve in terms of EU financial assistance depending on their commitment and progress in reforms and *acquis* compliance. This would allow them to develop multi-annual planning processes and gradually build their capacities towards future management of ESIF, thus creating the

48 See, for example, the European Commission's reports for Serbia, 2021 and 2022, where in the assessment of Chapter 22 – Regional policy and coordination of structural instruments – the Commission repeats concerns over the persistent problems in administrative capacity for EU funds management and lack of progress in the area.

49 Cristian Incaltarau, Gabriela Carmen Pascariu, and Neculai-Cristian Surubaru, “Evaluating the Determinants of EU Funds Absorption across Old and New Member States – the Role of Administrative Capacity and Political Governance,” JCMS 2020 Volume 58. Number 4. pp. 941–961, p. 956

50 For example, the evolution of the absorption in the case Romania was very slow: 2.96% at 31.12.2009, 8.62% at 31.12.2010, 15.1% at 31.12.2011, 21.85% at 31.12.2012 and 36.5% at the end of 2013. In 2014, the absorption rate reached 52.3%, and at 31.12.2015 attained 74.3%. See: Op. cit. “EU Funds Absorption: Case of Romania,” p. 54.

necessary conditions to truly reap the benefits of a merit-based accession process as well as the membership benefits in the long run.

In designing future support instruments towards accession, it is of utmost importance to boost the credibility of the enlargement policy by granting the Commission the powers to open new lines of funding – or indeed withhold funds – based on the candidates' performance. While member states should indeed use the available avenues to scrutinise the Commission's assessments of membership preparedness, they should not be able to hold back the progress in the process and the benefits that countries earn based on their demonstrated achievements. At the same time, the reversibility principle needs to be effectively embedded in the design of such instruments, ensuring that prolonged stagnation or backsliding in reform preparedness are accompanied by appropriate measures to the effect of decreasing available funds. In that context, the EU should start practicing what it preaches and apply reversibility mechanisms where they are due, much in line with its recent proactive approach in tackling rule of law problems within its own ranks. Such an approach will be key to ensuring the EU's overall credibility in driving the enlargement policy, while preventing a further deepening of state capture practices in candidate countries.

Finally, even if the Staged Accession Model and its funding proposals are not adopted and implemented in their entirety, it is of utmost importance to deliver on the Commission President's promise of increased pre-accession funds as well as to reform IPA in a way which will gradually introduce candidates with all the complexities of ESIF management once membership is achieved. In addition to supporting the Western Balkan countries towards membership, an improved approach in delivering pre-accession assistance will also help prevent the region's ailments – especially those related to weak political commitment and stalled reforms – repeat in the case of the most recent candidates for membership Ukraine and Moldova, guiding them more effectively towards EU accession. The MFF mid-term review presents an ideal opportunity to reflect and start developing a merit-based and predictable funding path for all (potential) candidates, stimulating gradual development of management and absorption capacities towards maximum absorption of both pre-accession funds and ESIF, upon achievement of membership.

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