

# Capacity for Acceptance and use of Pre-accession Funds in the Republic of Macedonia

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**Abstract** - The integration process of the Republic of Macedonia towards European Union is clear and unambiguous interest and priority goal. Republic of Macedonia within the integration processes from 16.05.2007, has the status of a candidate for membership in the European Union. Thus it has the right to use financial funds from the pre-accession funds in order to meet the criteria for membership in the European Union, and harmonization of the national legislation within the European. The paper has a goal to give preliminary assessment of the current capacities in the Republic of Macedonia for absorption of resources from the EU funds.

**Keywords** - Capacity, administration, harmonization, fund, absorption.

## 1. Introduction

Within the public finances of the European Union (EU), absorption capacity is defined as the degree to which a country (member or not member of the EU) is able to spend allocated funds in effective and efficient way. Based on the experience acquired over time the European Commission has concluded that states have limited absorptive capacity of foreign investment support in an effective and efficient way [6].

For this reason a special attention is paid to the issue of the concept of absorptive capacity and analysis of the factors that have influence on its determination.

Three main factors can affect the absorption capacity for cohesion purposes of EU member states or the country candidate for EU membership.

- Macroeconomic situation-macro-economic absorption capacity is defined and measured through GDP. Experience gained over time has led the Commission to conclude that the EU member states have limited macroeconomic absorptive capacity of foreign investment support in an effective and efficient way. During the current medium-term financial perspective of the EU, the upper limit for

cohesion goals is set at 4% of the state GDP, so the same figure the Commission proposes for the next medium term financial perspective.

- The state co-financing - financial absorption capacity can be defined as the ability for co-financing of programs and projects supported by EU to plan and guarantee these national contributions in perennial budgets, and to collect these contributions from multiple partners involved in a particular program or project and

- Administrative and institutional capacity - This capacity can be defined as the ability and skills of states and local authorities for timely preparation of appropriate plans, programs and projects, selection of programs and projects, establishing the conditions for coordination among the main partners, to fulfill the requirements regarding the administration and reporting, as well as funding and implementation of proper control, avoiding anomalies.

The assessment should be for the funds for cohesion purposes. Therefore, the Republic of Macedonia needs to analyze the problems of absorption capacity of the Baltic countries as well as those from the southeastern Europe, which now are members of EU, in order to improve its positions in terms of making greater possible absorption capacity.

## 2. Capacity to transpose the legislation

Capacity to transpose the legislation concerning the use of funds from European funds and subject to the requirement of full harmonization of national legislation of the Republic of Macedonia with the legislation of the European Union (EU<sup>1</sup>).

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<sup>1</sup>European Commission: On the Implementation of Commitments Undertaken by the Acceding Countries in the Context of Accession Negotiations on Chapter 21 – Regional Policy and Coordination of Structural Instruments, Commission Staff Working Paper, Annex to the Communication from the Commission to the European Parliament and the Council, COM (2003) 433 final, Brussels, 16.07.2003, ppt.2

Accordingly, the legal framework is a part of the country's capacity to use finances from EU funds. Harmonization and adoption of laws by the legislature must not remain only on their formal vote in the legislature. The same need to be carried out to determine the effect on their application.

The laws and bylaws, which are of great importance, for absorption capacity are related to public procurement, state aid, protection of competition, financial control and management, environmental protection and equal opportunities. In all these areas Republic of Macedonia has achieved significant progress of the necessary legal harmonization. However, special attention should be paid to the measures necessary for implementation of the legislation

### 3. Administrative and Institutional framework

When we look at the issue of creating a project, an initial part of the administrative-institutional absorptive capacity of a country represents the demand side. It means the ability to convert ideas into tangible projects with a clear structure, clear goals, clear momentum for achieving the general and specific objectives, a package that should be taken to achieve goals, complete list of entities involved in project implementation, benchmarks for measuring results and detailed analysis of costs and benefits.

The prepared projects On the other hand, administrative-institutional capacity includes the supply side, which refers to the state's capacity to implement project. In this section question arises about the existence of an appropriate structure, human resources, and systems and tools necessary to effectively and efficiently manage the implementation of projects. Specifically the existing administrative-institutional absorptive capacity in Macedonia is not sufficient for effective use of financial resources from the EU funds [7]. This can be concluded from the fact that the country still has no power to manage financial assets and that this managing is performed in an office designated by the European Union. RM has problems in the phase of creating projects for application as well as in the phase of their implementation. This has been proved in the past with the use of funds from the programs CARDS, PHARE and SAPARD, where the offered funds were used partially [3],[8].

When using these funds the following weaknesses were identified [3]:

- Lack of long-term strategy of the government in terms of priorities and what must be done in the future;

- There is limited demand for specific projects by potential users and the European Commission office in the country is in position to be the main driving force for generating projects;

- Sometimes employees in ministries and other institutions do not understand sufficiently the meaning of the projects and programs sponsored by the EU and

- In the Republic of Macedonia there is a lack of ownership of the programs financed by EU mainly due to the role of the European Commission office in the country which performs some functions should be within the bodies of the Republic of Macedonia under the decentralization system of implementation of assistance.

To eliminate these drawbacks a continuous work on retaining administrative staff is needed, as well as employment of young, highly educated personnel, ongoing training, both domestically and in the EU.

#### 3.1 Capacity for generating projects

In terms of the demand of administrative and institutional capacity of a country, it is determined by its capacity to create a good list of projects that will contain enough well-planned and formulated proposals. Although this phase as the demand phase is initial in the project cycle, in Macedonia, or phase in public institutions and the private sector, facilities for the preparation of professionals' entrusted projects are not yet sufficiently developed.

Unfavorable position of the state in the process of drafting the project is conditioned by several reasons:

- In many cases the use of public (or private) funds is not conditioned by the existence (i.e. construction) of quality project proposals. Consequently, there is neither pressure, nor an incentive for those who finance the projects to ask for their preparation and explanation (i.e. defense).

- The state officials and other public officials are rarely required to prepare projects in their daily activities, and justification of sustainability and the importance of the proposals for public policies, however, are often made on the basis of lack of clear criteria;

- In Macedonia there is no state institution that has generating projects as their sole or one of its key responsibilities, creation of private (consulting) firms whose professional orientation is preparing the project has started recently. Hence, it will take time before their expertise (aside from that of foreigners) matures to international standards of quality.

- There is an obvious lack of regular education, even at university level, associated with the preparation and evaluation of projects, hence such skills, in case of need, are gained by practice (learning-doing).

It is necessary to strengthen the demand side of the administrative and institutional capacity, or power-generating projects by animating the public about the importance of the projects, the existence of public bodies will provide information necessary for their development, and proactive approach to educational institutions to increase knowledge of young professionals for project development [5].

### *3.2 Capacity to implement projects*

After completing the process of creating projects, their implementation is the next step. Macedonia as a state candidate for membership in the European Union is of increasing importance in managing the funds of pre-accession funds. Thus, from an institutional standpoint, the national coordinator for foreign aid of the Republic of Macedonia, who is also a Deputy Prime Minister of the government of the Republic of Macedonia has the role of coordinating and managing the financial and technical assistance from the EU. In addition to his managerial role, more active approach to its decentralization is needed in order to use the EU funds effectively and efficiently. In implementing projects, there is the problem of managing human resources in the public sector. This problem manifests because of the politicized administration that is the human resources who are under huge political influence. This institutional problem is present since the assessment of the job applications, to the employment of inadequate human resources with our adequate expertise and knowledge of foreign languages. Structural funds for member states and pre-accession assistance to candidate countries are channeled to the respective countries based on previously developed programs in the medium and long term. An important link in economic management in many of the economically developed countries is the development of program activities [2]. Given the fact that policy in Macedonia often is not based on medium or long term strategic plans and documents, but rather on application of provisional measures or “ad hoc” solutions, medium term programming in the country is rarely applied.

The reasons for weak capacity to generate medium and long term strategic development plans in the Republic of Macedonia are the following [6]:

- The existence of a limited number of qualified staff with appropriate skills for preparing programming documents;

- Lack of institutions-institutions for research, centers or other entities of its kind-whose permanent assignment will be the research and preparation of draft policies and the fact is that the existing lack of personnel and resources for proper performance of those activities and

- Lack of real (not just formal) demand for such documents from those decisions.

- Different opinion, but the same goal-creating a program that will provide significant absorption of foreign funds to achieve comprehensive development of the country.

The experience of many of the countries that were countries candidates, and now are members of the EU shows that after approval of projects, their implementation has proceeded with series of weaknesses. It indicates that the state should continually build its institutional absorptive capacity. Monitoring and evaluation of the implementation of projects as part of regular duties of public institutions in Macedonia are not sufficiently developed. Good informative monitoring system that will provide prompt and updated information about the project’s progress is necessary for better monitoring and evaluation. Control audit of the financial management of projects, however, is solid considering the quality and availability of local human resources with financial management and audit skills [4],[1].

### **4. Analysis of the funds from IPA pre-accession assistance**

The first component of IPA (Component 1), which is entitled as “transition assistance” and institution building is aimed to strengthen the administrative capacity of the institutions that conduct reforms required by the EU accession process, i.e. for fulfilling the Copenhagen criteria for full membership of Macedonia in EU. The funds from this component will help the country to strengthen its institutional capacity, (the Central government and the state authorities as well as the syndicates, employers’ organizations, economic chambers, civil organizations etc.) for effective and timely use of the funds from the other four IPA components.

Macedonia and all the other candidate countries and potential candidates for EU membership have the opportunity to use the funds from IPA’s first component, which are part of the national program

that is, the money from the pre-accession funds for each country separately, as well as from the Multi-Beneficiary (regional) IPA. The IPA's Multi-Beneficiary portfolio is smaller than the amount which is distributed for the national program and the amount is around €1 billion i.e. around 10% from the total IPA budget for the period from 2007-2013 which is €11.6 billion.

#### 4.1 The first component of IPA for institution building

The fund allocations from the first component of the national IPA program are known in advance for each of the seven years from the current financial perspective 2007-2013 and they are part of the multi-annual indicative financial framework (MIFF). Therefore, the overall budget in the framework of the first component for this period of seven years is €42.8 million and the distribution of these funds is the following (Table 1):

Table 1. Funds estimated for the I-component for Macedonia in MIFF (€ million)

I-component	2007	2008	2009	2010	2011	2012	2013
Transition assistance and institution building	41,64	41,12	39,31	36,91	28,80	27,20	27,94
<b>Total</b>	<b>€42,8 million</b>						

(Source: Data retrieved from the EU delegates in the Republic of Macedonia).

If we look at the numbers we notice that the allocated funds in the first year (2007) are biggest, and in each of the following years they gradually decrease. The logic is that in the first years of the use of the new financial instrument, the country will have bigger needs for investment in the strengthening and institution building, but later, in 2012 and 2013 it is expected that the biggest part of larger investments are to be finished and the funds for this purpose to decrease. This does not mean that the overall support from IPA (for all components) decreases, but on the contrary, the overall support increases almost double (from €58.5 in 2007 to €117.2 in 2013). On behalf of the decreased amounts in the I component, in the last years of the financial perspective the funds in the other four components have increased significantly, especially in the third, fourth and fifth component (Table 2) [6].

Table 2. (MIFF) Financial frame of components and years for the Republic of Macedonia (€ million)

IPA components	2007	2008	2009	2010	2011	2012	2013
Transition assistance and institution building	42	41	39	36	29	28	28
Cross-border cooperation	4	4	4	5	5	5	5
Regional development	7	12	21	29	39	42	52
Human resources development	3	6	7	8	9	10	11
Rural development	2	7	10	13	16	19	21
<b>Total</b>	<b>58</b>	<b>70</b>	<b>81</b>	<b>91</b>	<b>98</b>	<b>104</b>	<b>117</b>

(Source: Information gathered from EU Delegation in the Republic of Macedonia).

After determining the financial allocations, the next step is preparation of multi-annual indicative planning document (MIPD) which is delivered by EC and prepared in consultation with the Government, the other donors and the civil society for a period of three years. It is a strategic document which functions as a landmark for IPA's programming per year and per component. MIPD 2011-2013 is current at the moment, and the funds' programming for 2011, 2012 and 2013 should show the priorities and the sectors quoted in it.

The following priorities for EU financial support in Macedonia over this period have been identified:

- Support the economic and social development
- Improve good governance and reduce the corruption
- Anti-discrimination and respect the human rights

According to sectors, MIPD 2011-2013 lists the following seven support sectors [6]:

- Public administration (€21.33 million);
- Justice, Home Affairs and Fundamental rights (€24.38 million);
- Private Sector Development (€45.71million);
- Agriculture and Rural Development (€7.04million);
- Transport (€0.95million);
- Environment and Climate Change (€4.85million);
- Social Development (€30.47million).

After MIPD is brought, the Government, in collaboration with EC, begins to prepare the sector and project proposals (the so called “fiche”) with the help of which the IPA’s first programs for the current year are programmed. At the moment, Republic of Macedonia is preparing the fiches for 2012 and 2013 together, which, because of the finishing of the financial perspective, the following year (2013) is an exception- the previous years the fiches were prepared only for the current year. The process of preparation of the sector and project fiches is coordinated by SEP and means serious consultation between SEP and the other state authorities i.e. the potential beneficiaries of the assistance. The consultation of the Government with the other interested parties in the process-donors, non-governmental organizations, syndicates, chambers etc., is also compulsory segment in the programming. In organization of the Mission of EU there are such consultations in Macedonia and in the last few years representatives from SEP are present at these consultations.

The funds from the first component 1 are programmed in year “n”, and are supposed to be spent at the latest in the year “n+2”, that is the funds programmed in I-component from the National IPA 2007 for example are supposed to be spent at the latest in 2009. If the projects that were programmed from IPA 2007 didn’t start with the spending until 2009, the funds are lost, that is the state loses the money and they are returned to the EU budget. The practice shows that the pace of spending the funds from IPA’s I component- with respect to some exceptions-is very slow and the announcement of the calls usually happens at the end of n+2 year.

The tables below, (Table 3 and 4) show the percent of funds’ spending from I-component up to and including 31.12.2010.

Table 3. Status of implementation of IPA financial assistance (I-component, up and until 31 December, 2010 (€ million).

Macedonia	Estimated	Concluded agreements	Concluded Agreements %	Paid	Paid
IPA 2007	34,02	30,71	90,27%	18,76	55,14%
IPA 2008	37,12	19,13	51,54%	6,23	16,78%
IPA 2009	37,06	0	0%	0	0%
IPA 2010	36,91	0	0%	0	0%
<b>Total</b>	<b>145,11</b>	<b>49,84</b>	<b>34,35%</b>	<b>24,99</b>	<b>17,22%</b>

( Source: Annual Report on the Financial Assistance for Enlargement 2010 ).

Table 4. Status of implementation of IPA financial assistance (I-component, up and until 31 December, 2010 (€ million), According to the annual program

Macedonia	Estimated	Concluded agreements	Concluded agreements %	Paid%	Paid
IPA 2007	34,90	32,87	94%	27,79	82%
IPA 2008	37,12	34,41	93%	19,92	54%
IPA 2009	37,06	0,15	0%	0,09	0%
IPA 2010	36,91	0.	0%	0	0%
<b>Total</b>	<b>145,99</b>	<b>67,43</b>	<b>46,18%</b>	<b>47,71</b>	<b>70%</b>

( Source: Information gathered from the EU Delegation in the Republic of Macedonia ).

The comparison of spending the funds shows drastic increase of the percent of the funds, namely, concluded agreements from IPA 2008 at the end of 2010 with the end of 2011, and the increase is from 51,54% to 93% appropriately, as well as the increase of the percent of the paid funds from IPA 2008 from 16.78% in 2010 to 54% in 2011. These numbers are just an illustration that the agreements are concluded very late and very slowly. It is obvious that the funds were managed to be saved by now because of the EU intern rule according to which the funds can be reserved. If we compare the funds which are programmed by the National IPA 2007, 2008 and 2009 to the amounts planned by MIFF (see the Table above I-3), the conclusion is that with the IPA 2007

were programmed and spent €6.7 million less than the estimated, with the IPA 2008, almost €4 million less, and with the IPA 2009 the difference between the estimated and the programmed Euros is €2 million. The question is whether Macedonia used less funds from those it had on disposal, or whether the funds, in total amount of €13 million, which is the difference for three years (2007, 2008, 2009) remained because some consultant firms tendered with lower bid. If it is the second case in question, then it is not known whether the funds were spent for some other purpose in the framework of the programmed national programs in the part for estimated for transition assistance and institution building or something else is in question. The management of money from IPA's I-component, from 1 January 2010, is conducted in accordance to the System for decentralization managing of the assistance, known as DIS-System (Decentralized Information System). Previously, that is in the period 2007-2009, the EU Mission in Macedonia was responsible for the IPA's money managing. Decentralized system of assistance managing means that the appropriate institutions in the country which are part of the structure for money managing, that is the Government is responsible for transparent spending of the funds. In that way, the Central Financing and Contracting Department (CFCD), as a part of the Ministry of Finance is a key body responsible for managing and implementing projects in line with the principle of sound financial management. This sector is a body in charge of announcing tenders, concluding contracts and executing payments upon concluded contracts for projects financed within the IPA's components 1-4. The Agency for Financial Support in Agriculture and Rural Development is in charge for managing of the funds from the V component (agricultural and rural development). Apart from CFCD, in each Ministry responsible for separate components, (in the case of the I-component that is SEP) there are so-called IPA coordinators who are responsible for programming, technical conduct and for monitoring the conduct of projects. In the programming process of IPA 2012-2013 there are €2.95, funds estimated for the IPA's first component for 2012 and 2013 in accordance to MIFF 2011-2013. From these funds €2.7 million are for projects financed through the regional program and that is for TEMPUS €1 million, for nuclear security €1.2 million and for civil society €0.5 million. For project proposals which should be supported with the national IPA these two years there are €0.25 million. During the consultations (at the end of January, 2012) the total amount of the project proposals was €9.634 million which is for €19.38 million more than the available €0.25 million. This means that some of the project proposals will

definitely be rejected.

In order to improve the situation of this IPA component, in the process of programming of the funds, the country has to take the following matters into account:

- 1) The state institutions have to possess national development plan in order to know where are they going to and what did they need the European money for and for what reforms they can use the other sources of funds (for example, bilateral assistance, loans, credits from financial institutions etc;
- 2) The national development plan has to include the European agenda as its priority, and especially the European strategy 2020. If the Republic of Macedonia has an intention to improve its absorption capacity for the period 2014-2020 it has to work on determination of the priority areas in the reforms;
- 3) The content and the directions of the strategic documents for European integration such as the priorities for partnership accession, the problems and weaknesses noted by the EC, the goals and the activities of the national program for adoption of the European legislature and the Multi-annual indicative planning document have to be taken into account in all strategic and development documents of Macedonia;
- 4) In the case of the sectors for which institutional and legal approximation to EU is necessary, there has to be sector politics and strategies in short term, that is in long term. Because the state authorities that program the assistance are not visionaries and they do not have mandates to make political decisions, the authority has to establish tools which will help the programming. In that way the administration will know what to support in the following two years and not to plan how to spend the money at the moment of programming ;
- 5) A special attention should be paid in the establishment of administrative capacity of the institutions and organizations which absorb the funds from the other four components as well as from the Community programs which the state has on its disposal and
- 6) Great coordination is necessary during the programming of IPA's funds and the funds that Macedonia receives from other bilateral assistance in order to avoid overlapping and duplication of the projects.

## Conclusion

Given the fact that one of the basic prerequisites for EU membership is the institutional and structural readiness of the country, experience shows that the best way for achieving the end for quality preparations of one country for EU membership are the pre-accession structural funds. Their use means adequate preparation for improvement of the absorption capacity that usually lasts three years. The experiences show that much money from EU funds lapse because of insufficient information of the subjects and weak support from the institutions. Some of the detected problems are extensive and complex applications, lack of professional assistance and untimely and inadequate information of the subjects.

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