

EU financial assistance as a tool for the global development

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Abstract— The EU integration process is a very complex process which involves designing and implementing reforms in a large number of areas. Experiences of new EU members as well as those currently in various stages of the integration process, show that it is not at all easy to work in many areas simultaneously and decisions are made on the complex political, economic, legal and institutional issues of which have long-term consequences for the daily lives of citizens. European integration has always been an economic and political project: the integration of markets, the integration of countries/ states and the integration of individuals. In this regard, the EU public finances have played an important, albeit little-known, role in supporting market consolidation, constitutional construction, and the Union's internal policies.

Index Terms— EU financial assistance, cohesion funds, EU integration, budget support.

1 INTRODUCTION

EU integration of Western Balkans has never been questioned, however, the main issue has always been when and how to make that happen. The EU integration process is a very complex process which involves designing and implementing reforms in a large number of areas. Experiences of new EU members as well as those currently in various stages of the integration process, show that it is not at all easy to work in many areas simultaneously and decisions are made on the complex political, economic, legal and institutional issues of which have long-term consequences for the daily lives of citizens. As part of the Western Balkans countries, Albania has received a clear political commitment from the European Union that it will become part of the European family once it meets the necessary conditions. It is difficult to say how many years the EU accession process will take. The different countries experiences have shown that this process is extremely complex and requires a strong political commitment to the adequate reforms, an administration competent and able to design and implement these reforms, and last but not least a significant support from the citizens, willing to accept the necessary changes. Similar to other candidate countries, the EU will support these processes with different financial aids and funding projects.

In the past, this assistance has been provided to EU candidate countries through different programs, but the main purpose of this assistance has always been the same: to supports the efforts of the candidate country to meet all the criteria needed for its admission to the European Union. In the period 2007 - 2013, pre-accession assistance for pre-candidate and candidate countries of the Western Balkans has been given through the so-called Instrument for Pre-Accession Assistance - IPA. It is extremely important that each pre-candidate or candidate country to create the conditions that will enable the use of effective resources provided by this instrument. An important segment of IPA funds are the resources for the policy of cohesion. The fundamental goal of EU cohesion policy is to reduce differences economic and social relations between different parts of the EU. Cohesion policy applies by means of so-called "internal" instruments, more precisely the instruments that are available to eligible regions within the EU, and through in-

struments of the period 2007 - 2013, IPA is the only instrument " external "for the cohesion of the European Union¹.

2 AIMS AND RESEARCH QUESTIONS

European integration has always been an economic and political project: the integration of markets, the integration of countries/ states and the integration of individuals. In this regard, the EU public finances have played an important, albeit little-known, role in supporting market consolidation, constitutional construction, and the Union's internal policies². Little is mentioned, but the EU is one of the most important trading blocs, accounting for more than 24% of world trade³.

In an overview, the purpose of the paper will be focused on a critical outlook at the processes of international cooperation in terms of development policies and financial assistance and their impact on beneficiary/ partner countries for their internal development. In this way, the main objectives of the study have in their focus a detailed analysis of the evaluation of the implementation of IPA funds in Albania, in both phases of its implementation (2007 -2013) and (2014 -2020). Included in this large objective of the paper, will be a presentation of various arguments by local or international experts who have dealt with the evaluation of the implementation of different EU financial assistance or mechanisms. Also, another important objective is to analyze some concepts and processes such as coordination and harmonization of foreign financing, information asymmetry in development cooperation, sectoral approach, program-based approach, budgets and institutional structures and legal framework of cooperation with the EU, integrated planning system and medium-term budgeting, improvement of foreign financing programming and its connec-

¹ European Commission. 'Economic and fiscal policy coordination'. (2020). Retrieved from: https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-financial-assistance/how-financial-assistance-given-eu-countries_en

² B. Laffan. "The finances of the European Union". London: Macmillan Press LTD, (1997) p.1.

³ Ibid.

tion with domestic structures and also EU financial transfers through structural funds.

3 THEORETICAL FRAMEWORK

The most widely used definition of financial assistance for development it was created by the OECD. In order to be able to calculate financial flows in developing countries, the it started to use the ODA definition, in other words Official Development Assistance, which refers to financial assistance for development and includes all those financial flows in countries or territories [...] which are enabled by: 1. official agencies, including government and local government agencies, or by their executive agencies; and 2. any transaction which has as its main objective the promotion of economic development and welfare in developing countries and has a concessional character and contains a grant element, at least in 25% of it⁴. EU financial assistance legislation and practice has been influenced by the gradual expansion of treaty-based provisions, the development of the parallel process of European Political Cooperation and pressures from the international system⁵. The founding treaties provide the legal basis for EU foreign policy, which includes: (1) Common trade policy deriving from the creation of the common market; (2) Accession agreements with any member country, group of countries or international organizations; (3) Agreements with individual countries, country groups and international organizations; (4) Relationships involving territories and dependencies⁶.

The EU financial system, as it is known today, is the result of changes and numerous adjustments that have occurred over the past 50 years. Despite the modest start, this system became necessary and irreplaceable for the functioning of the European Commission. The importance of financial planning is evidenced by the fact that negotiations in the field of finance are considered to be the most difficult, both between member states and within the EC / EU. The EU budget differs in many respects from the national public finances of the member states. The first and most obvious difference is undoubtedly the size of this budget. Although the EC budget / EU has grown over the years, it is relatively small compared to public finances of different member countries. Over the past two decades, it has reached at 1.24 percent of gross EU domestic revenue. It should be noted, however, that this is the maximum expenditure allowed, which has never been achieved. By comparison, the public finances of member countries are usually about 40 percent of their gross domestic income.

⁴ OECD. (2003) Harmonizing Donor Practices for Effective Aid Delivery. Paris: OECD Publications, p.1.

⁵ B. Laffan. "The finances of the European Union". London: Macmillan Press LTD, (1997), p.140.

⁶ Ibid.

There are several reasons for this kind of modesty in the EU budget. The first reason: the EU budget cannot be compared to the budgets of the federal states. This budget does not provide funding for sovereign functions, for public services or for social security as national budgets usually do⁷. Second, unlike national budgets, the EU budget is not allowed to have budget deficit⁸. In accordance with the Treaty of Rome, the European budget must be balanced and may not be in deficit. And third, EU budget expenditures are used mainly for the financing of common policies, more precisely for the policies for which member states have agreed to implement at the supranational level. That also explains the reason that Common Agricultural Policy and Cohesion Policy make up about 80 percent of total EU budget expenditure. At EU level, the translation of the Global Millennium Goal to the Official Development Assistance (ODA) occurred at a time when there was a deep governance crisis within it. Between enlargement with new countries during the year 2003, the non-approval of the European Constitution, and the EURO crises that followed in 2009, illegal migration, and the most recent BREXIT crisis - reflected a broader crisis of European interstate governance⁹. The EU has always been notable for an ineffective foreign policy, but yet it is one of the largest multilateral donors in terms of financial assistance. Official Development Assistance to the EU and its member states was 75.2 billion euros in 2019, representing 55.2% of global assistance, according to data produced by the OECD¹⁰. Financial assistance to the EU and its member states represented 0.46% of EU GDP (little lower than in 2018 when it was 0.47%).

4 EU AID TO WESTERN BALKANS AND CHALLENGES

There is much discussion on the factors that influenced the change in EU policies or legislation on development assistance. The main arguments are based on international organizations influence, the impact of the OECD, IMF, the World Bank and the UN itself with the approval of the Millennium Development Goals, which were adopted in the early 2000s and which were projected for a period of 15 years. According to various researchers, EU has incorporated many of these objectives and aims into its development policies. However, they note that the effect of the Millennium

⁷ European Union. (2021). How the EU budget is spent? Retrieved from: https://europa.eu/european-union/about-eu/eu-budget/expenditure_en

⁸ European Union, Treaty Establishing the European Community (Consolidated Version), Rome Treaty, 25 March 1957, available at: <https://www.refworld.org/docid/3a66b39c0.html> [accessed 15 May 2021]

⁹ S. Wolff. "EU Budget Support as a transnational policy instrument: above and beyond the state". Journal of Public Administration 93, No. 4. (2015). p.927.

¹⁰ European Commission. (2020). Economic and fiscal policy coordination. Retrieved from: https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-financial-assistance/how-financial-assistance-given-eu-countries_en

Development Goals on EU development policy development has not been achieved through the homogeneous dissemination of global policy models by the EU international community. Instead it has been characterized by a heterogeneous process where some Millennium Development Goals have played a more important role in EU policy formulation than some others¹¹. The current debates on EU development policies and budget negotiations involve a large number of political processes. EU has an institutional structure, which is constantly changing from the continuous improvement of its treaties, but also global aid and development architecture are changing constantly in order to respond to economic, political and social world trends. These changes are related to the discovery of new donors, the growth of the 'middle class' in developing countries and; increasing the interest of donors and developing countries in public goods at the global level¹².

According to Florian Kratke (2014), what can be described as a general goal of EU policy on financial assistance to developing countries is 'differentiation', which he describes as a goal or need to differentiate funding between different partner countries¹³. As he points out, this policy will have an impact on developing countries in three ways:

- 1) Access to assistance - and bilateral grant assistance - will no longer be provided to above-middle-income and high-income countries and countries representing 1% of global GDP. Translated according to EU statistics, this means that 19 countries will no longer receive bilateral financial assistance, although they will continue to receive funding through thematic programs or other instruments.
- 2) Levels of aid - currently the distribution of EU aid is differentiated between the needs, capacities, commitments and performance of partner countries and the potential impact of aid. EU instrument funds are initially differentiated by per capita income and population size as well as measurements on governance, human assets, economic vulnerability and state weakening.
- 3) Legal frameworks for policies and instruments for cooperation - The EU Agenda for Change calls for the optimal use of policies, approaches and instruments adapted to countries' development situations. For developing countries, differentiation may imply further cooperation in 'beyond aid' areas (such as trade, knowledge transfer, climate change, etc.) and the use of resources to discover innovative funding (such as mixing grants and lending and other risk-sharing mechanisms) when possible¹⁴.

Starting from 1 January 2007, EU made several changes related to the Structural Funds and the pre-accession funds. In this way there were conceived the IPA funds, which replaced vari-

ous EU programs and its financial instruments (PHARE, PHARE CBC, ISPA, SAPARD, CARDS and the financial instrument for Turkey) with a single legal instrument - the Instrument for Pre-Accession Assistance (IPA). The legal framework for this new instrument was under European Commission Regulation (EC) 1085/2006 of 17 July 2006 and in its implementing provisions of Commission Regulation (EC) 718/2007, as amended by Commission Regulation (EC) 80/2010 and Commission Regulation (EC) 1292/2011. Funding under this umbrella had five main components:

- o Transition assistance and institution building: managed by the European Commissioner in the Directorate-General for Enlargement.
- o Cross-border cooperation (with EU member states and other countries benefiting from IPA)
- o Regional Development (providing support for transport, environmental infrastructure and increasing competitiveness and reducing regional disparities);
- o Human Resources Development (strengthening human capital and combating exclusion): managed by the European Commission's Directorate-General for Employment and Social Affairs;
- o Rural development: managed by the European Commission's Directorate-General for Agriculture¹⁵.

The last three components of IPA are designed to closely monitor structural, cohesion and rural development funds in order to prepare the road for the management of these funds upon accession to the EU. Their main goal is to help candidate countries prepare for a successful participation in EU cohesion policies after accession. In this way they will be able to absorb the cohesion funds more effectively once this is made possible for them¹⁶. But, above all, all types of European financial assistance provided to member countries or not, need to meet certain budgetary and macroeconomic conditions. No less than seven EU member states have been in the schemes of conditioning in recent years¹⁷. Referring to the decision of the European Court of Justice (ECJ), 'strict conditionality' was a necessary requirement of financial assistance packages and are based on Article 125 of the TFEU. According to the provisions of this article, the Union may not be responsible or take any responsibility of national authorities regarding mutual financial guarantees for the joint execution of a specific project¹⁸. Since the early 2000s, general budget support has become one of the most promising instruments but also one of the most contradictory instruments of foreign aid. This assistance has its origins in the World Bank organization, but soon became one of the most used instruments by multilateral development banks, the European Commission and European bilateral donors¹⁹. Conditionality, on the other hand, meant two things:

¹⁵ European Commission. (2020). Economic and fiscal policy coordination. Retrieved from: https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-financial-assistance/how-financial-assistance-given-eu-countries_en

¹⁶ Ibid.

¹⁷ M. Ioannidis. "EU Financial Assistance Conditionality after "Two Pack." International Administrative Law, 2014: p. 3.

¹⁸ Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union, 2009.

¹⁹ J. Faust and K. Svea. "Foreign Aid and the domestic politics of the European budget support" German Development Institute, (2014). p.3.

¹¹ S. Hollis. "The Global Construction of EU Development Policy". Journal of European Integration Vol. 36, No. 6, (2014). p.567.

¹² F. Kratke. "From Purse to Policy to Practice - Six initiatives to future-proof EU development cooperation for 2014 -2020 and beyond" In The European Union's International Cooperation Recent Development and Future Challenges, by A. Sheriff. Maastricht: ECDPM, 2014. p.12

¹³ Ibid.

¹⁴ Ibid.

first, the specific policies that a state had to follow in order to have access to certain financial resources, and second, the procedures that had to be followed for their adoption and for monitoring the implementation of policies²⁰. It should be noted, however, that the OECD does not recommend that political conditioning should be specifically linked to budget support or any other individual aid instrument, but should be included in the context of the overall policy dialogue between the partner country and its donors²¹. But despite this recommendation, many donors continue to view budget support as a catalyst for technocratic reforms and reforms in democratic governance. At the same time, donors do not provide the aid of proactive strategic thinking on how budget support can strengthen or support democratic reforms. Moreover, the amount of assistance provided through budget support is very limited. And in this way, donors should be careful to avoid high expectations to achieve rapid economic growth through this instrument²².

Political conditioning can be attributed to budget support at various levels in the agreement between the donor and the partner country. The first level is during the selection phase. Only those countries that can demonstrate a good record of democratic governance can be offered budget support. This selective factor of budget support is an indication that budget support does not always help or improve democratic governance. As long as a donor or host country overcomes the budget support forecasting, they integrate the following principles into their contractual arrangements. These serve as conditions for providing budget support and generally include: i) macro-economic stability, ii) government commitments to implement a national development and poverty reduction strategy, iii) commitments to implement management reforms of public finances and iv) commitment to democratic principles and respect for human rights. If one of these conditions is not met, then donors have the option of scheduling a political dialogue and openly addressing these issues. At the same time, they may delay or suspend or freeze budget support in case there is a domestic political change or to signal disagreement with the current political situation of partner countries²³. However, what many scholars estimate is the fact that EU financial assistance is increasing and especially for the European Neighborhood Instrument (ENI) as well as the Partnership Instrument (PI).

Thus, it can be said that the EU is concentrating its forces on external efforts, especially its southern and eastern neighbors, as well as adopting new forms of partnership and cooperation with more advanced countries, given that its external actions of the EU account for 25% of funding²⁴. But in the meantime,

²⁰ Ioannidis, Michael. "EU Financial Assistance Conditionality after "Two Pack." *International Administrative Law*, 2014: p. 8.

²¹ V. Hauck, G. Galeazzi, and J. Vanheulekom. "The EU's state building contracts - courageous assistance to fragile states, but how effective in the end?" In *The European Union's International Cooperation Recent Development and Future Challenges*, by A. Sheriff. Maastricht: ECDPM, (2014). p. 70

²² V. Hauck, G. Galeazzi, and J. Vanheulekom. "The EU's state building contracts - courageous assistance to fragile states, but how effective in the end?" In *The European Union's International Cooperation Recent Development and Future Challenges*, by A. Sheriff. Maastricht: ECDPM, (2014)., p. 70

²³ J. Faust and K. Svea. "Foreign Aid and the domestic politics of the European budget support" *German Development Institute*, (2014)., p. 6.

²⁴ F. Kratke. "From Purse to Policy to Practice - Six initiatives to future-proof

even among European donors, there is, nevertheless, a great heterogeneity in budget support policies, especially for the period 2002-2012, a period during which different objectives were attached to this instrument, having great variety not only in quantities but also to the beneficiaries of budget support, and with different interpretations about how to proceed in the long run with budget support along with political conditioning. It was this heterogeneity of policies which in turn undermined the effectiveness of the instrument and efforts to improve donor harmonization²⁵. In fact, the OECD, in its efforts to harmonize donor practices, and 'good practices' regarding financial reporting, emphasized: 1) reliability in governance systems; 2) dissemination of information; 3) agreeing on joint reports; 4) reporting on budget support; 5) reporting on sectoral support; 6) reporting on project support; 7) notes on financial reports (program and project reports); 8) reporting on revenues in the form of profit from projects; 9) internal control; 10) Accountability standards; 11) Audit of budget support programs; 12) Audit of sectoral programs and projects²⁶ etc.

5 CONCLUSIONS

After the year 2015, the EU legal framework for financial assistance has been put in discussion in many aspects of it. The European Commission published its proposal and the EU position on the Development Agenda in a document entitled 'A dignified life for all'. This paper highlighted the importance and the need to integrate the three dimensions of sustainable development - economic, social and environmental - in an effort to blend the 'sustainability' and 'poverty' agendas into a single document. The document emphasizes that the main drivers for development are above all local. It cites numerous social, political and economic principles of good governance. Domestic reforms that were supposed to make economic growth sustainable have been presented as a catalyst for eradicating poverty, equality and prosperity. Although the dynamics of the EU aid programming process have not changed substantially, the sequence of stakeholder configurations and other secondary mechanisms has changed since the entry into force of the Lisbon Treaty and the Agenda for Change.

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²⁵ J. Faust and K. Svea. "Foreign Aid and the domestic politics of the European budget support" *German Development Institute*, (2014)., p. 3

²⁶ OECD. "Harmonizing Donor Practices for Effective Aid Delivery". Paris: OECD Publications. (2003) p. 73.

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