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## **FINANCIAL INSTRUMENTS OF EU DEVELOPMENT AND REGIONAL POLICY FOR WESTERN BALKAN COUNTRIES**

### **Abstract**

*Instruments for Pre-Accession Assistance (IPA) are one of the most important instruments for EU development and regional policy available to the candidate countries for EU accession. Enlargement of EU can cause, what already can be seen, considerable problems. Especially when the level of economic development is lower in some new member states and candidate countries than in “ old “ EU member states. Among these countries are also western Balkan countries which use IPA funds (IPA I and IPA II) to solve problems caused by lack of money on national, regional and city level as well as for the citizens.*

*The aim of this paperwork is to explain what the European Commission has done by analyzing experiences in the utilizing IPA I funds. In the paper work we try to explain the new conditions, beside indispensable Stabilisation and Association Agreement, for programming and absorbing IPA funds that should increase impacts of financial and technical support for achievement of reform goals, particularly emphasising EU 2020 Strategy for smart, sustainable and inclusive development.*

**Keywords:** *IPA funds, Stabilisation and Association process for western Balkan countries, IPA I, IPA II, EU development and regional policy.*

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## **1. PERSPECTIVE OF BOSNIA AND HERZEGOVINA IN EU**

EU commitment is, together with the maintaining peace, economic and technical assistance, to contribute to the durable solution of instability within the Balkan countries (Bosnia and Herzegovina, Serbia, Macedonia, Montenegro, Albania, Kosovo and Turkey), primarily by integrating the region into Europe. Integration refers to encouraging the regional dialogue, specific trade arrangements and related financial instruments of EU development policy. EU policy towards the western Balkan countries, as well as to Bosnia and Herzegovina, is defined within the Stabilisation and Association Process – SAP) that European Commission launched in May 1999. At Zagreb summit<sup>1</sup> in November 2000, at the meeting of leaders from EU and western Balkan countries it is confirmed clear commitment to the Stabilisation and Association Process. At the last summit held in July 2016 Europe reiterated that European perspective of the west Balkan is clearly outlined and EU promise given to these countries will not be called into question due to actual situation, taking into account results of recent referendum in United Kingdom, whose citizens opted leaving the EU.

But the last summit also addressed the importance of implementation of Stabilisation and Association Process. With the SAP indispensable and immensely important are instruments of development policy like European Development Fund (EDF), Development and Cooperation Instruments (DCI), European Neighbourhood and Partnership Instruments (EPN/EPV), Instruments for Pre-Accession Assistance and other helping to the Western Balkan countries to meet specific requirements, so called policy of conditionality that is integral part of the EU policy towards the Southeastern Europe. At the Western

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<sup>1</sup><http://www.esiweb.org/pdf/bridges/bosnia/ZagrebSummit24Nov2000.pdf>

Balkan political conditionality of EU is a multi-dimensional instrument with the multiple function directed towards reconciliation, reconstruction and reforms at regional, national, bilateral and multilateral level to meet all security, political, economic and social criteria (Beširević, 2012). Conditions that countries have to meet refers to: democratic principles, human rights and the rule of law, respect for the rights and protection of minorities, regional cooperation, market reforms of economy and especially for Bosnia and Herzegovina, fulfillment of the obligations under Dayton and Erdut Agreement, and decisions of Peace Implementation Council for Bosnia and Herzegovina. Bosnia and Herzegovina has the perspective of EU membership so the mutual relationship are developed in that context. In response to the EU offer related to the membership perspective and assistance to achieve it, Bosnia and Herzegovina has committed itself to comply with agreed political and economic criteria that have to be compatible with the Copenhagen Criteria agreed by EU Council in Copenhagen in 1993 and that include the following:

- *Political criteria*: stable institutions guaranteeing democracy, rule of law, human rights and respect/protection of minorities, as well as accepting the political objectives of the Union,
- *Economic criteria*: functioning market economy capable to cope with the competition and market forces within the EU,
- *Legal criteria*: harmonisation of national legislation with *acquis communautaire* of EU,

But also (Mintas, H., Lj., 2010)

- *The criteria on the EU*: EU has to be ready institutionally and in every other way to accept new member(s).

Just two years after meeting of the Council in Madrid in 1995 has resulted in one more criteria:

- *Administrative criteria*: request for adapting administrative framework (administrative, judicial and other authorities in the country) to ensure full implementation and enforcement of the EU *acquis communautaire*.

In its essence Stabilisation and Accession Process serves as framework for negotiations between EU and Western Balkan countries until their eventual accession. The process is progressive partnership where EU offers to every country mix of different trade

concessions, economic and financial assistance and contractual relations. Close cooperation between the countries in the region is strongly encouraged, especially regarding agreements on free trade and intensive cooperation on issues related to Stabilisation and Accession Agreement (SAA), especially those of common interest. As such, Stabilisation and Accession Process has three objectives:

- *stabilization* of the countries and encouragement of their transition into market economy,
- *promotion* of regional cooperation,
- *preparation* of the country for the EU membership.

Political turbulence and impact of global economic crisis have prevented preparation for the membership and thus made that Bosnia and Herzegovina still has the *potential* candidate status. A signed Stabilisation and Accession Agreement that is supposed to establish a framework for implementation of legal, administrative, institutional and economic reforms for accession of Bosnia and Herzegovina to the EU, entered into force on July 1, 2015 ie. eight years after its signing. This significantly increased obligation of the Bosnia and Herzegovina's authorities because the scope of the reforms is expanded from trade issues to EU regulations as a whole. Since most potential members faced with huge problems after transition to market economy due to weakness of their economies, uncompetitive products and backward agriculture, EU made conditional for new members not just to meet membership criteria but also to adopt pre-accession strategy that objective is to support all reforms potential members have to make at internal level in order to qualify for EU membership. Reform Agenda for Bosnia and Herzegovina for the period 2015-2018 has committed Bosnia and Herzegovina to connect with the objectives of new way of accession to EU and economic governance in Western Balkan through improvement in six areas on the one hand, and on another way to maintain macroeconomic stability of the country in accordance with the program of economic reforms and to enhance growth and competitiveness. Reform Agenda that Bosnia and Herzegovina should conduct refers to the following:

1. Public finance, Taxation and Fiscal sustainability
2. Business environment and competitiveness
3. Labour market

4. Reform of social and pension system
5. Rule of law and good governance
6. Public Administration Reform

According to Article 49 of the Treaty on European Union (Treaty of Lisbon) Bosnia and Herzegovina submitted formal “application for the membership to EU” on February 15, 2016 under the Dutch presidency of the EU Council.<sup>2</sup>

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<sup>2</sup> Accession of Republic of Croatia in EU on July 1, 2013 represents important encouragement for other countries in the region. Drawing on the experience with Croatia, Commission proposed in its „Enlargement Strategy“ further improvements in its negotiation process including greater emphasis of the rule of law. That committed Commission to engage in negotiation chapters related to judiciary reform and basic rights (Chapter 23) and to justice, freedom and security (Chapter 24) in the beginning of the negotiation process. In accordance with that „new approach“ opening of Chapters 23 and 24 was a top priority in negotiations with Montenegro. Both Chapters, along with others, are opened on December 18, 2013. Accession negotiations with Serbia officially started on January 21, 2014 and it is possible to open one or more chapters till the end of 2015. Other Western Balkan countries go through the process of European integration on different way. Candidate status for F.Y.R.O Macedonia was approved in 2005 but negotiations did not start yet due to the dispute with Greece regarding the use of name „Macedonia“, and lately due to strained relations with Bulgaria. Since 2009 Commission regularly proposed starting negotiations. However, in its Report from 2015 Commission recommended opening of accession negotiations provided to continue implementation of political agreement from June/July 2015 and to make significant improvement in implementation of urgent priority of reforms. In June 2014 Albania granted the candidate country status and has to fulfill five „key priorities“ to start negotiations. Bosnia and Herzegovina and Kosovo have potential candidate countries status. For Bosnia and Herzegovina, which almost has no progress in the last few years, EU made recently a new approach with special emphasis on economic governance that enabled implementation of Stabilisation and Accession Agreement (SAA) on October 27, 2015. Stabilisation and Accession Agreement (SAA) between EU and Kosovo, that is not accepted as independent state in five countries, is signed on October 27, 2015 and should enter into force at the beginning of 2016 after ratification in European Parliament (approval). Kosovo is also in dialogue with Serbia in order to normalize their relations.

## 2. EU REGIONAL POLICY

Regional policy is one of the oldest common policies with the objective to achieve harmonious, balanced and sustainable development and strengthen of economic and social cohesion of the Union (Kandžija, V., Cvečić, I., 2008). The general assessment of economic theory is that economic integration ensures better allocation of resources within integrated area what affects faster improvement of well-being of population (measured by GDP per capita) in all member countries (Jovančević, R. 2005). But, almost all economists addresses that adjustment process of every new country to the new conditions (in integrated area) requires extremelly efficient economic policy of the new member, beacuse the level of economic development of some new members and candidate coutries is much lower than in the „old“ EU members. Thus, it is necessary for such new members massive *transfers* from the existed members to bring their economic development at satisfactory level. *Transfers* refers to basic principle of regional policy that is financial solidarity that is reflected in directing financial funds through mutual funds. By EU regional policy, encouraged with its instruments, especially funds, EU improves growth and quality of life by strategic investments. Before the entry into membership it helps to prepare legislation of the country by reform agendas through fulfillment of obligations under SAA, and after accession through regional policy instruments, again especially through funds it supports less developed countries.

For example, in 2015 funds from different instruments are allocated as follows:

- Instrument for Development Cooperation (2,4 billion EUR)  
Objectives and basic principles of the Instrument for Development Cooperation are formulated in accordance to Treaty of Lisbon and the latest rules, first of all “*Agenda for Change*” of the EU development policy. Its main objective is to reduce poverty. The Instrument contributes also to the achievement of other objectives of EU external actions, especially encouragement of sustainable economic, social and ecological development, as well as promoting democracy, rule of law, good governance and respect for human rights.

Different programs encourage development in about 47 countries in Latin America, South Asia and North and Southeast Asia, Middle Asia, Middle East and South Africa.

- European Instrument for Neighbourhood (2 billion EUR)  
European Instrument for Neighbourhood provides the most of funding for 16 partner countries (Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, The Republic of Moldova, Morocco, Palestine, Syria, Tunisia and Ukraine) in order to strengthen relations with neighbourhood countries that will bring tangible benefits to the EU.
- Pre-Accession Assistance Instrument (1,6 billion EUR)  
Pre-Accession Assistance Instrument (IPA) is the instrument that EU uses to support reforms in the enlargement countries with financial and technical support resulting in progressive, positive developments in the region. For the period 2007-2013 IPA I budget reached 11,5 billion euros, while IPA II will have the budget of 11.7 billion euros for the period 2014-2020.

Current users are: Albania, Bosnia and Hercegovina, F.Y.R.O.Macedonia, Kosovo, Montenegro, Serbia and Turkey

Financing of EU regional policy is directed in four priorities:

- research and innovation,
- information and communication technologies,
- increase of competitiveness of small and medium enterprises,
- development of the economy with low carbon emission.

Regional policy has results. It helped in member countries in the period 2007-2012 to:

- open 769,000 new working places,
- invest funds in 225,000 small enterprises,
- finance 72,000 research projects,
- another 5 EU citizens were given access to broadband Internet,
- improve quality of life in the cities by implementing 11,000 different projects.

## **2.1. Regulatory initiatives and authorities of potential candidates in using the budgetary funds for Western Balkan**

For the new member, it is important, beside the economic development criteria, whether potential candidates can fulfil basic principles of freedom, democracy, respect for human rights and rule of law.

Event he Treaty of Lisbon provides the EU jurisdiction in coordination of member countries' policies in the field of: economic policy, social policy and employment policy. There are fields where EU with its jurisdiction do not interfere in regulatory powers of the member countries nor have exclusive or primary regulatory powers, but only jurisdictions use in order to support, coordinate or complement measures taken by member states (Mintas, H.,L.J., 2010). Those fields are social policy and employment, human health protection, industrial policy, culture, tourism, educational and sport policy, youth policy, civil protection and administrative cooperation. In the context of planned seven-year EU budget (2014-2020) through new instrument IPA II available in the region of the Western Balkan countries EU has expressed its willingness to implement necessary institutional reforms in the countries involved in the accession process and to help them to achieve social and economic development necessary for their accession and membership in the EU.

Regional cooperation should not serve as a part of the pressure or criteria for accession in EU but should be a model of common approach to the European funds. To achieve this, it is necessary to encourage generously creation of Euro-region in the Western Balkan, as is the case in the EU. But availability of financial funds for regional cooperation shows that share of per capita does not increase for years. Regional cooperation in the Western Balkan will continue at the same political pattern both by the EU and regional participants (Beširević, Cujzek, 2012).



Table 1. Allocation of IPA funds for the period 2014-2020 for the Western Balkan countries

Country	Status	Period of allocation	Allocation of the funds	Cross-border cooperation
Albania	Candidate	2014-2020	649,4 mil. €	Included
Bosnia and Herzegovina	Potential candidate	2014-2017	165,8 mil. €	Not included
Macedonia	Candidate	2014-2020	664,5 mil. €	Included
Kosovo	Potential candidate	2014-2020	645,5 mil. €	Included
Montenegro	Candidate	2014-2020	270,5 mil. €	Not included
Serbia	Candidate	2014-2020	1.5 milijardi €	Included
Turkey	Candidate	2014-2020	4.453 mil. €	Not included

Source: <http://ec.europa.eu/enlargement/instruments/>, adopted by author

The overall objective of the IPA II instrument is to help beneficiary countries to implement necessary reforms for convergence and ultimately for EU membership, while special objectives are formulated in accordance with Copenhagen criteria and are based on the necessity of every beneficiary country according to its individual accession agenda. The proposal of new Regulation<sup>3</sup> abolished division on previous five components of IPA ( component 1 – transition institution development support; component 2 – cross-border cooperation; component 3- regional development; component 4 – human resources development; component 5 – rural development) and new policy areas compatible with the components are introduced:

- transition process to membership and capacity building (component),
- regional development (component 3),
- employment, social policy and human resources development (component 4),
- agriculture and rural development (component 5),
- regional and territory cooperation (component 2)

The aim of introducing the policy is to avoid disadvantages and overcome lessons learnt from IPA I to increase effects of financial and

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<sup>3</sup> Commission Implementing Regulation (EU) No. 447/2014 2 May 2014 on the specific rules for the application of Regulation (EU) No. 231/2014 of the European Parliament and the Council on establishment of Pre-Accession Assistance (IPA II)

technical support for achievement of reform objectives with special emphasise on *EU Strategy 2020 for smarta and sustainable development*. Further, financial sipport should allocate according to individual accession agenda of every country taking into account its real needs and not absorption capacities. The support would be available in all policy areas regardless country status. IPA II should be more flexible in allocation, programming (introduction of muti-annual programming) and implementation that will depend on progress towards accession objectives. The mentioned means that European Commission will carefully monitor progress on which it will allocate, reallocate financial support, i.e. if certain country do not achieve previously defined progress from pre-accession agenda money could easily go to the other beneficiary countries. In IPA II it is introduced sectoral approach as well as multi-annual strategic planning.

## 2.2. Sector approach

European Commission services conducted series of framework and medium-term evaluations for Component 1 od IPA during the period 2007-2010. This evaluation showed that programming based in project often misses strategic focus and it is concluded that chances for achievement of planned effects are weakned because of that.

Table 2. Differences between project and sector approach

Project approach	Sector approach
No continuity of individual projects	Holistic approach on all sector
Projects mostly did not follow policy objectives achievement	Coordination and dialogue with external partners through mutual trust and responsibility
Projects are mostly referred to certain problems	Increased benefits of local procedures and processes
They were fulfilled by small group of experts within the government institutions	Long-term capacity/
Weak institutional responsibility without an attempt to include wide social community of experts and to show importance of projects in relation to national policy programs.	Development of system in sector Approach oriented on learning by doing

European Commission defines sector approach as process aiming to increase ownership of government and state over public sector policy and decisions on resources allocation within the sector. This increases conherency between sector policy, public spending and outcomes. It

would be ideal if sector approach would include state bodies that make state sector programs aiming at implementing a whole package of public policies at given level, sectoral but also thematic level.

Since the powers of EU institution especially seen in coordination of economic policies of the member countries the Council is therefore authorised to issue broadly formulated integral guidelines (Mintas, Hodak, Lj., autori, 2010). The purpose of the Guidelines referred to current seven-year EU budget period for Western Balkan countries is to support further sector approach development in providing financial support, i.e., to provide guidance to the beneficiary countries regarding the planning, programing and implementation of IPA support within the sector approach.<sup>4</sup> During the programing period 2014-2020 every beneficiary country is expected to improve state sectoral policy/strategies quality and to develop necessary administrative capacities for their successful implementation. Guidelines help to the EC in evaluating and assessing the maturity of individual sectors and assessing readiness to adopt sector approach, help the beneficiary country to identify areas in which improvements need to be made to develop state sectoral programs (policy/strategies) and support beneficiary country's authorities in development of sectoral support program (ie. description of sectoral support program). However, experiences of previous enlargements have shown that many candidate countries, especially during the first years after accession, faced with many difficulties of absorption of the funds from the EU budget. Problems related to use of funds are mostly caused by lack of comprehensive long-term strategy of national development at the state level, lack of funds for co-financing of projects, inefficient and in some cases non-existing horizontal and vertical coordination between ministries and different government

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<sup>4</sup> The main goal of the Guidelines is to help personnel in General Directorate for Enlargement, EU delegations and beneficiary countries of IPA in preparation of sectoral support programs for financing within the scope of IPA II. Beside the mentioned, this Guidelines gave guidance for preparation of Strategic document for the beneficiary country. Strategic documents are made for all Western Balkan countries and they set priorities for EU financial support for 2014-2020. Strategic document for BiH is prepared in the partnership with the BIH authorities, state and entity prime minister, national coordinator for IPA (DIPAK), the ministries at the state and entity level and civil society representatives.

levels in the country and finally lack of skilled human resources engaged in EU funds management at the state, federal, regional and local administration. Practical experiences of EU member countries from the fifth enlargement (2004 and 2007) in the EU fund management show that preparation phase is very important for creating efficient and adequate capacities for absorption of EU funds in the country (Knežević, I. 2010).

EU development policy requires a balanced development of European territory. To achieve that balance with main priorities of EU structural policy it is necessary to prepare internal multi-annual development strategies that will direct economic and political activities toward sustainable employment, human resources improvement, social cohesion achievement and development of urban and rural areas. The following table shows allocation in the countries for the period 2007-2013 (amounts are in billions of euros)

Table 3. Allocation of the funds from the EU support programs for the period 2007-2013

BG	CZ	EST	HU	LV	LT	POL	ROM	SK	SLO
6,7	26,3	3,4	24,9	4,5	6,8	65,3	19,2	11,4	4,1

Source: European Commission, General Directorate for Regional Policy

Although – as it can be seen in the table above – the largest amount of funds is allocated to Poland as the largest and most populated country, than a new member country, we we speak about efficient use of funds among the countries of Central and Eastern Europe Latvia and Lithuania are largely ahead.<sup>5</sup>But in all countries EU support programs

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<sup>5</sup> Namely, according to statistical data this two Baltic countries agreed by the end of 2010 approximately 70 percent of total amount of allocated funds from structural instruments. Countries that proved to be relatively successful on this criterion and agreed between 50 and 60 percent of total allocated funds are Estonia, Slovakia, Czech Republic and Poland, while countries that agreed less than 50 percent of allocated funds are Hungary, Slovenia, Romania and Bulgaria. By the percentage of funds paid to the final beneficiaries, i.e. of the funds considered to be spent, again at the top are Latvia and Lithuania with about 30 percent of paid total available allocation, following with Slovenia, Czech Republic, Estonia and Slovakia with about 20 percent, Hungary and Poland with about 15 percent, Bulgaria with 10

have left marks on infrastructure, institution and market development. It is evident that countries should not expect from EU to solve their economic problems but they have to have quality development strategy that EU support will be just one part of it that will monitor and help realisation of the set goals (Bilas, Franc, Cota 2011.)

The main criteria for identification of sectors eligible for sector approach within the IPA II are:

- the sector needs to be defined by the government and it should be relevant for EU accession and/or social and economic development of the country. That means that sectoral policy goals should be referred to certain political and/or legal and/administrative reforms identified in the previous Progress Reports as necessary for the alignment of the country with the Copenhagen criteria.
- sector should be wide enough to have significant contribution to the EU accession and /or social and economic development objectives, but in the same time to be sufficiently narrow to focuses on the multi-annual financing and reflects institutional coherency (limiting the number and extent of involved institutions and areas)
- in the sector there should be clearly defined institutional framework, institutional leadership and authorities; in the ideal case there should be one leading institution in the country
- sector should have clear connection with the budgetary process in the country. That means that sectoral budget must be recognized in the state budget. The extent and nature of sectoral budget should be such to adequately reflects sectoral policies and objectives. In this regard it should take into account what kind of budget classification system is used, what is total amount of sector financing and whether the share of sectoral expenditures increases in the total state expenditures?

It is very important existence of national sector monitoring system, ie. conditions based on criterion of performance as well as framework for impacts evaluation that should be connected with the IPA monitoring

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percent and Romania that managed to spend only 7 percent of total available funds by the end of 2010.(Source: *EU FUNDS in Central and Eastern Europe, Progress Report 2007-10, KPMG*).

system. The criteria for assessing the maturity of the sector can be seen through the public finance management, ie. through existence of the reform public finance governance program, audit of the public finance governance and public finance governance mechanism in the sector. Also it is very important the macroeconomic context ie. are there any measures that could eventually improve macroeconomic policy of the beneficiary country. In the end there is comprehensive assessment that answers the question whether the problems rated negatively could resolve with domestic/IPA/other donor funds, and could they mitigate before the mid-term review 2014-2020.

### **3. STRATEGIC FRAMEWORK AS A REQUEST FOR IPA II MANAGEMENT**

Following the consecutive accessions of the new members there are more clearer differences between their economic development deepen even more with the process of economic integration within the Union by the time. According to same indicators and analyses of European Commission Croatia is one of the least efficient countries in the previous withdrawal of funds from EU funds, ie. total payments in relation to allocation of IPA 2007-2013 reached 16.1% by the end of July 2012, and 23.9% by the December 2012. Today, Croatia has the chance to use in average one billion euros per year for 2014-2020 perspective, while in IPA program that is just preparation for use of benefits of cohesion policy, has little bit smaller amount for all seven-year period.<sup>6</sup> To achieve balance with the main priorities of EU structural policy it is necessary to prepare integral multi-annual development strategies that will direct economic and political activities to sustainable employment, human resources improvement, social cohesion achievement and development of urban and rural areas. For understanding modalities of financing from structural funds it is necessary to know objectives that want to be achieved, and that are convergence ie. economic development and employment stimulation in the least developed EU countries and their regions

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<sup>6</sup> <http://www.hgk.hr/fondovi-eu/alokacije-i-iskoristenost-eu-fondova>

through different investments in all sectors<sup>7</sup>, regional competitiveness and employment and European international cooperation. Regional competitiveness and employment should be achieved by series of economic and social changes, innovation encouragement, entrepreneurship, investments in the environmental protection and labour market development in the regions that are not covered by convergence objective achievement, while European cooperation refers to strengthening of cooperation at cross-border, transnational and inter-regional level through various local and regional initiatives.

Since the purpose of regional policy is to encourage regional development and help to certain regions as Western Balkan region, when it is used appropriately (Kandžija, V.; Cvečić, I. 2011) is inevitable instrument of regional development, continuous expansion and balance in the European Union.

Contribution from EU funds is very often mentioned as the biggest advantage of EU integration, although Croatia that has just accessed, as well as Western Balkan countries that just have to access, are most likely to benefit from the new approach in running national development policy aiming to ensure greater efficiency, effectiveness and transparency in the spending of public investment funds. Furthermore, accession to the EU creates conditions for use of substantial funds from structural and cohesion fund that multiple exceed amounts from pre-accession funds. Funds from structural and

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<sup>7</sup> Convergence achievements is financed by the European Social Funds, European Fund for Regional Development and Cohesion Fund. The most-favored is goal with about 80 percent of available funds from this Funds. The European Social Funds (ESF) that supports regions affected by high unemployment rates is the main Fund, ie. financial instrument for achievements of employment policy. Not less important is European Fund for Regional Development (ERDF) that helps to reduce disparities in the development of certain geographical areas or between certain social groups. Mostly it is focused on infrastructure investments, production investments aiming creation of jobs and local development and SME development. Cohesion Fund (CF) finances large infrastructure projects that are improving environment and developing transport infrastructure as a part of Trans-European Transfer Network with the possibility to invest outside the mentioned networks. As a part of Common Agriculture Policy numerous investments are made in fisheries and agriculture through European Fisheries Fund (EFF) and European Agricultural Fund for Rural Development (EAFRD). Source: <http://www.eu-projekti.info/>

cohesion funds may become main financing source for public investments in the Western Balkan countries, but for abundant funds they have to prepare adequately through the pre-accession support instrument that will support sectors with existing strategies, ie. reforms in the preparation for the EU membership and related institution and capacity building, socio-economic and regional development, employment, social policy, education, gender equality promotion and human resources development, agriculture and rural development and regional territory cooperation. Thus, the Western Balkan countries created in cooperation with the EC, in order to adequately and accessible use and spend financial funds from IPA II, *indicative strategic documents* that clearly set priorities for EU financial support for the period 2010-2020 where meaningful and realistic objectives are determined together with key activities and stakeholders and clearly described expected results and supports as well as resulted progress and way of measurement and monitoring. The background to this document is Common Strategic Framework that describes political priorities of the enlargement policy for the entire programming period and the way how financial support can contribute to the countries included in the EU enlargement policy within every sector of sectoral policy in implementation of this support. The Documents links specific objectives from IPA II with the Copenhagen Criteria.

### **3.1. Strategic framework - Albania**

The Government of Albania has prepared the draft of National Strategy for Development and Integration (NIPP) for the period 2010-2020. NIPP provides strategic framework of all sectors and inter-sectoral strategy and is a backbone of the integrated planning system that ensures planning of state policy to be compatible with the budget. Albania will be eligible for budgetary sectoral support provided that four following conditions are met: stable macroeconomic framework, credible and relevant program for improvement of public finance management, transparency and budget monitoring, relevant strategies of sectors that are in accordance with the strategy of EU accession.<sup>8</sup>

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<sup>8</sup> <http://ec.europa.eu/enlargement/instruments/funding-by-country/albania/>



Table 4. Indicative alloaction for Albania (in billion euros) by policy areas and sectors

Albania	2014	2015	2016	2017	2018-2020	Total	Of which climate change relevant (%)
						2014-2020 (*)	(**)
<b>a. Reforms in preparation for Union membership</b>	78.7	59.9	12.7	74.9	94.3	320.5	
Democracy and governance	157.2				66.3	223.5	
Rule of law and fundamental rights	69.0				28.0	97.0	
<b>b. Socio-economic and Regional development</b>	0	18.0	50.0	0	100.0	168.0	
Environment	34.0				34.0	68.0	66%
Transport	18.0				38.0	56.0	27%
Energy	0.0				0.0	0.0	
Competitiveness and innovation	16.0				28.0	44.0	9%
<b>c. Employment, social policies, education, promotion of gender equality, and human resources development</b>	5.0	0	14.0	0	50.0	69.0	
Education, employment and social policies	19.0				50.0	69.0	
<b>d. Agriculture and rural development</b>	0	9.0	13.0	18.0	52.0	92.0	
Agriculture and rural development	40.0				52.0	92.0	26%
<b>TOTAL</b>	<b>83.7</b>	<b>86.9</b>	<b>89.7</b>	<b>92.9</b>	<b>296.3</b>	<b>649.4</b>	

### 3.2. Strategic framework – Macedonia

The Macedonian Government follows five strategic goals through existing four-year program (2014-2018) namely: to increase economic growth and employment, to integrate the country into EU and NATO, how to fight corruption and criminal and enforce the laws effectively, how to maintain good inter-ethnic relations based on principles of mutual tolerance and ultimately how to invest in education, science and information technology to base their society on the knowledge. But all this is not enough because country has to have strategic development plan that will include all sectoral strategies to be actively involved in the European integration process to which important contribution will be financial support of EC through IPA II.<sup>9</sup>

<sup>9</sup> <http://ec.europa.eu/enlargement/instruments/funding-by-country/former-yugoslav-republic-of-macedonia/>

Table 5. Indicative allocation for Macedonia (in billion euros) by policy areas and sectors

	2014	2015	2016	2017	2018-2020	Total 2014-2020	Of which climate change relevant (%)
<b>a. Reforms in preparation for Union membership</b>	39.7	17.9	35.6	26.9	85.8	205.9	
Democracy and governance	66.1				56.8	122.9	
Rule of law and fundamental rights	54.0				29.0	83.0	
<b>b. Socio-economic and Regional development</b>	41.0	38.7	38.0	46.0	135.1	298.8	
Environment and climate action	61.3				51.6	112.9	100%
Transport	56.4				56.5	112.9	60%
Competitiveness and innovation	46.0				27.0	73.0	
<b>c. Employment, social policies, education, promotion of gender equality, and human resources development</b>	0.0	14.0	13.0	0.0	26.2	53.2	
Education, employment and social policies	27.0				26.2	53.2	
<b>d. Agriculture and rural development</b>	5.0	18.3	5.0	22.0	56.0	106.3	
Agriculture and rural development	50.3				56.0	106.3	10%
<b>TOTAL</b>	85.7	88.9	91.6	94.9	303.1	664.2	

### 3.3. Strategic framework – Kosovo

Kosovo also does not have comprehensive development strategy. Kosovo started to develop multi-annual strategies in the most sectors, but many have limited extend or duration and do not follow the budget. Relation between sectoral strategies and mid-term expenditures is still weak. The Government of Kosovo will have to agree on the budgetary frameworks with development plans, ensure coordination mechanisms and monitoring as well as schedule that ensures evaluation of results and impacts.<sup>10</sup>

<sup>10</sup> <http://ec.europa.eu/enlargement/instruments/funding-by-country/kosovo/>

Table 6. Indicative allocation for Kosovo (in billion euros) by policy areas and sectors

Kosovo	2014	2015	2016	2017	2018-2020	Total	Of which climate change relevant (%) (**)
						2014-2020 (*)	
<b>a. Reforms in preparation for EU approximation</b>	37.3	34.0	31.0	35.2	99.1	236.6	
Democracy and governance	64.4				46.0	110.4	
Rule of law and fundamental rights	73.1				53.1	126.2	
<b>b. Socio-economic and Regional development</b>	20.0	37.9	33.0	30.0	114.1	235.0	
Energy	46				54	100.0	80%
Competitiveness and innovation	74.9				60.1	135.0	
<b>c. Employment, social policies, education, promotion of gender equality, and human resources development</b>	14.5	7.0	10.0	16.7	46.0	94.2	
Employment, social policies, education, promotion of gender equality, and human resources development	48.2				46.0	94.2	
<b>d. Agriculture and rural development</b>	12.0	7.0	14.7	10.0	36.0	79.7	
Agriculture and rural development	43.7				36.0	79.7	20%
<b>TOTAL</b>	<b>83.8</b>	<b>85.9</b>	<b>88.7</b>	<b>91.9</b>	<b>295.3</b>	<b>645.5</b>	

### 3.4. Strategic framework – Montenegro

Planning the IPA II assistance for the period 2010-2020 for Montenegro it will try to support national strategy of Montenegro implementation in accordance with set priorities as well as opening of certain negotiation chapters. Beside comprehensive strategic documents, relevant strategy focused on reforms and development for every single sector is also defined. In certain cases, action plans are already prepared for the strategy implementation. The main strategic guidelines of Montenegro are: harmonisation of legislation and administrative capacities to accept obligations for membership, starting the vision of socio-economic development through the national development plan including measures for smart, sustainable and inclusive development, identification of three development priorities (tourism, energeticy and agriculture and rural development) and all together should be solved through interventions in eighteen individual sectors. Delegation of the EC in Podgorica currently manages the implementation of pre-accession assistance program (withn the IPA component I-IV), while Directorate for the implementation of existing IPA programs prepares necessary structure and administrative capacities.<sup>11</sup>

<sup>11</sup> [http://ec.europa.eu/enlargement/pdf/key\\_documents/2014/20140919-csp-montenegro.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2014/20140919-csp-montenegro.pdf)

Table 7: Indicative allocation for Montenegro (in billion euros) by policy areas and sectors

Montenegro	2014	2015	2016	2017	2018-2020	Total 2014-2020	Of which climate change relevant (%)
<b>a. Reforms in preparation for Union membership</b>	18.8	15.8	12.8	13.3	38.5	99.2	
Democracy and governance	29.1				17.8	46.9	
Rule of law and fundamental rights	31.6				20.7	52.3	
<b>b. Socio-economic and Regional development</b>	14.8	8.4	14.8	13.3	39.4	90.8	
Environment and climate action	18.8				18.7	37.5	80%
Transport	20.2				11.8	32.1	80%
Competitiveness and innovation	12.3				8.9	21.2	
<b>c. Employment, social policies, education, promotion of gender equality, and human resources development</b>	3.5	4.0	3.9	4.0	12.8	28.1	
Education, employment and social policies	15.3				12.8	28.1	
<b>d. Agriculture and rural development</b>	2.5	7.4	5.9	8.9	27.7	52.4	
Agriculture and rural development	24.7				27.7	52.4	10%
<b>TOTAL</b>	<b>39.5</b>	<b>35.6</b>	<b>37.5</b>	<b>39.6</b>	<b>118.5</b>	<b>270.5</b>	

### 3.5. Strategic framework - Serbia

In the document Strategic programming of national priorities for international assistance in the Republic of Serbia 201-2017 with the projections by 2020 are set priorities focused on systematic reforms necessary to fulfill criteria for membership and creation of attractive economic environment that will for sure focus economic and social development. That strategic document defines nine sectors that closely reflect priorities for EU related to financial support in the next seven years. Serbia will be eligible for budgetary sectoral support provided the following conditions: stable macroeconomic framework, credible and relevant programme for improvement of public finance management, transparency and budget monitoring and credible and relevant sector strategies in accordance with the strategy of EU accession (it was stated that in many points strategies of different sectors coincide). However, sector that can ensure good strategic support for reform implementation will be supported.<sup>12</sup>

<sup>12</sup> [ec.europa.eu/enlargement/instruments/funding-by-country/serbia/index\\_en.htm](http://ec.europa.eu/enlargement/instruments/funding-by-country/serbia/index_en.htm)

Table 8: Indicative allocation for Serbia (in billion euros) by policy areas and sectors

Serbia	2014	2015	2016	2017	2018-2020	Total 2014-2020	Of which climate change relevant (%) (**)
<b>a. Reforms in preparation for Union membership</b>	95.1	61.4	77.9	78.4	230.2	543.0	
Democracy and governance	177.8				100.2	278.0	
Rule of law and fundamental rights	135.0				130.0	265.0	
<b>b. Socio-economic and Regional development</b>	85.0 <sup>5</sup>	75.0	85.0	80.0	240.0	565.0	
Environment and climate change	85.0				75.0	160.0	80%
Transport	90.0				85.0	175.0	
Energy	80.0				45.0	125	40%
Competitiveness and innovation	70.0				35.0	105.0	
<b>c. Employment, social policies, education, promotion of gender equality, and human resources development</b>	15.0	40.0	20.0	27.0	88.0	190.0	
Education, employment and social policies	102.0				88.0	190.0	
<b>d. Agriculture and rural development</b>	0	25.0	25.0	30.0	130.0	210.0	40%
Agriculture and rural development	80.0				130.0	210.0	
<b>TOTAL</b>	<b>195.1</b>	<b>201.4</b>	<b>207.9</b>	<b>215.4</b>	<b>688.2</b>	<b>1508.0</b>	

### 3.6. Strategic framework – Turkey

At national level Turkey has a well developed multi-annual planning process through National Development Plan (NDP) covering 2014-18 adopted by Turkish Grand National Assembly in July 2013. NDP states development goals of the country and defines strategic priorities in all areas important for IPA II support. The Supreme Council for Regional Development of Turkey also created the new National Strategy of Regional Development (SRR RH) that is used as some kind of background for regional development and helps to ensure coordination of regional development and regional competitiveness and to increase coherence between urban development and socio-economic development. Even though action plans and sectoral working groups are agreed with Turkish authorities and relevant national strategies still there are some disadvantages that Turkey faces with just like Serbia. First of all there is too much overlapping between the strategies, and in some cases action plans are outdated, and insufficient time for activities mentioned in the action plans, and lack of clear relation between national strategies/plans and national budgetary processes. Turkey will also be eligible for budgetary sectoral support provided the following condition: stable macroeconomic framework, credible program for improvement of public finance management,

credible and relevant sector strategies that are in accordance with the strategy of EU accession.<sup>13</sup>

Table 9: Indicative allocation for Turkey (in million euros) by policy areas and sectors

Turkey	2014	2015	2016	2017	Total 2018-2020	Total 2014-2020	Of which climate change relevant (%)
<b>a. Reforms in preparation for Union membership</b>	355.1	196.6	240.3	137.2	652.2	1,581.4	
Democracy and governance	540.2				416.3	956.5	
Rule of law and fundamental rights	388.9				236.0	624.9	
<b>b. Socio-economic and Regional development</b>	155.8	265.8	247.0	261.4	595.3	1,525.3	
Environment and climate action	297.1				347.5	644.6	70%
Transport	386.0				56.8	442.8	60%
Energy	59.0				34.4	93.5	70%
Competitiveness and innovation	187.8				156.6	344.4	10%
<b>c. Employment, social policies, education, promotion of gender equality, and human resources development</b>	37.4	62.9	65.9	68.9	199.9	435.0	
Education, employment and social policies	235.1				199.9	435.0	
<b>d. Agriculture and rural development</b>	72.0	100.9	77.0	158.1	504.2	912.2	
Agriculture and rural development	408.0				504.2	912.2	10%
<b>TOTAL</b>	<b>620.4</b>	<b>626.4</b>	<b>630.8</b>	<b>636.4</b>	<b>1,940.0</b>	<b>4,453.9</b>	

### 3.7. Strategic framework – Bosnia and Herzegovina

For Bosnia and Herzegovina there are strategies for most sectors, but at the canton and entity level, while very few of them are at state level, so the most strategies are not in accordance with and do not ensure implementation of *acquis* at the whole state level and are not based on the strategy of country development or European integration strategy, do not include planned funds nor mid-term expenditures as well as performance management frameworks.<sup>14</sup> In the absence of comprehensive coordination mechanism assistance for Bosnia and Herzegovina will be directed towards sectors with agreed strategies and enough coordination within the sector taking into account absorption capacities of Bosnia and Herzegovina, and possibility to ensure long-term, more agreed and more sustainable approach in order to ease cooperation between donors and eliminate eventual duplication of activities and achieve greater efficiency and effectiveness.

<sup>13</sup> [http://ec.europa.eu/enlargement/instruments/funding-by-country/turkey/index\\_en.htm](http://ec.europa.eu/enlargement/instruments/funding-by-country/turkey/index_en.htm)

<sup>14</sup> Indicative strategic document for Bosnia and Herzegovina (2010-2017)

Table10. Indicative allocation for Bosnia and Herzegovina (in million euros) by policy areas and sectors

Bosnia and Herzegovina	2014	2015	2016	2017	Total 2014-2017	Of which climate change relevant (%)
<b>a. Reforms in preparation for Union membership</b>	<b>11</b>	<b>17</b>	<b>18</b>	<b>18</b>	<b>64</b>	<b>0</b>
Democracy and governance	31				31	
Rule of law and fundamental rights	33				33	
<b>b. Socio-economic and Regional development</b>	<b>24.7<sup>1</sup></b>	<b>11.7</b>	<b>13.7</b>	<b>13.7</b>	<b>63.8</b>	<b>0</b>
Competitiveness and innovation: local development strategies	63.8				63.8	
<b>c. Employment, social policies, education, research and innovation, promotion of gender equality, and human resources development</b>	<b>4</b>	<b>11<sup>2</sup></b>	<b>11<sup>2</sup></b>	<b>12<sup>2</sup></b>	<b>38</b>	<b>0</b>
Education, employment and social policies	38				38	
<b>TOTAL</b>	<b>39.7</b>	<b>39.7</b>	<b>42.7</b>	<b>43.7</b>	<b>165.8</b>	<b>0</b>

As a first step for further programming and application of sector approach in the process of using IPA II the obligation of Bosnia and Herzegovina is to prepare sectoral planning documents for the following sectors: democracy and management (public administration reform, public finance management, statistics), justice and fundamental rights (efficiency and independence of courts, access to justice, quality of criminal sanctions implementation, protection of fundamental human rights) and for the field of law enforcement (fight against organised criminal and corruption, cooperation of police agencies and prosecutors' office, fight against new forms of crime, integrated border management, illegal migrations, the issue of asylum).

#### 4. SECTOR POLICIES AND STRATEGIES AS A CONDITION FOR FINANCIAL SUPPORT

It is clear from the above that European Commission assistance will be directed towards sectors with agreed strategies and sufficient coordination within the sector. Assistance should be planned on agreed and comprehensive way in order to respond the best at the needs of citizens, and especially minorities and vulnerable people, civil society and private sector.

The following explains difference between IPA national and IPA sector program:

- IPA national program – IPA state programs are generally adopted by European Commission at the annual basis based on the sectoral support program and individual projects (ie. projects that are not included in SAA) OR exclusively based on individual projects.
- IPA sector program – IPA sector program are generally adopted by European Commission at the multi-annual basis exclusively based on sector support program for given sector(s).

Table 11. IPA National and Sector Programme

<p>IPA National Programme</p>	<p>IPA national program consists of the following:</p> <ul style="list-style-type: none"> <li>- Financing Decision - FD</li> <li>- Financing Proposal (FP), that is integral part of Financing Decision</li> <li>- Description of sector support programme fiche (SSPF) (one or more) and/or project fiche (PF) (one or more) that are not integral part of FD</li> </ul> <p>National programmes include few (all) selected sectors in the given country that are implemented through sector support and individual projects OR exclusively through individual projects.</p> <p><i>Examples:</i></p> <p>Country X National Programme = FS + FP + SSPF „Justice“ + SSPF „Public administration reform“ + PF „Statistics“</p> <p>Country Y National Programme = FD + FP + PF „Fight Against Corruption“ + PF „Private Sector Development“ + PF „Custom“</p>
<p>IPA Sector Programme</p>	<p>IPA Sector Programme includes the following:</p> <ul style="list-style-type: none"> <li>- Financing Decision (FD);</li> <li>- Sector Support Programme Fiche (s) that is integral part of FD</li> </ul> <p><i>Examples:</i></p> <p>Sector Programme Transport = FD + SSPF „Transport“</p> <p>Sector Programme Transport and Environment = FD + SSPF „Transport“ + SSPF „Environment“</p>

Source: [www.dei.gov.ba](http://www.dei.gov.ba), Sector approach in Pre-Accession Assistance

A well prepared sector policy document should:

- identify leading institution(s) and clear responsibilities for implementation,<sup>15</sup>

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<sup>15</sup> Previous experience has shown that good practice is to create sector support programmes for those sectors (relevant for accession) that have strong political support and where there is recognized leading role of limited number of institutions.



- show all extent of institutions involved in policy implementation,
- contain an action plan that shows detailed timing and sequence of planned actions/operations and clearly show responsibilities of institutions for the mentioned,
- present detailed programme of existing and planned legislation that represents support to sector policy.

Table 12. Policy areas and indicative sector policies (combination)

<b>IPA II policy areas/sectors combination</b>	<b>Indicative sectors</b>
1. Transition process and capacity building	Public management reform Public finance management Justice and internal affairs Human rights and minorities
2. Regional development	Transport Energetics Environment Private sector development Competitiveness and innovation
3. Employment, social policies and human resources development	Education and human resources development Labour market and employment Social policies
4. Agriculture and rural development	Agriculture Rural development
5. Regional and territorial cooperation	Regional cooperation in mentioned sectors Territorial cooperation does not refer to mentioned

Source: [www.dei.gov.ba](http://www.dei.gov.ba); Sector approach in pre-accession assistance

EU assistance is just one way to achieve necessary improvement. When deciding on priorities for action it should take care about own

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This is especially case with the leading institutions that have wide mandate and concentration of responsibilities. For example, Ministry of Agriculture that is responsible for foreign direct investments, SME development, innovations, tourism and employment services, would be a good platform for integrated sector support programme for economic development. Source: [www.dei.gov.ba](http://www.dei.gov.ba), Sector approach for Pre-Accession Assistance.

funds of beneficiary countries as well as support that is provided through other EU instruments and by other participants, especially bilateral donors and international financial institutions (IMF). In that sense, priority will be given to the financial assistance within the sector approach where it is applicable to ensure long-term, agreed and sustainable approach, greater participation and to ease cooperation between donors, eliminate duplication of activities and achieve greater efficiency and effectiveness. AS quality strategic management is crucial for total long-term organisation success (Sikavica P., Šiber F.B., Vokić N.P.; 2008), it seems that a quality strategic management at the national communities level should direct that institutions towards future and which will reflect changes and proactive activities as presumptions of sustainable development. Advantage of strategic management should be clearly accepted in planning and programming EU assistance from IPA funds as necessary precondition for EU. It provides to the beneficiary country an objective view at problem of the institutions that have a management role, ensures framework for improvement of coordination and activity control, ensures efficient resources allocation, integration of individual and group behaviour in the total effort and activities, but also provides one cooperative, integrated, proactive and enthusiastic approach to the problem and opportunities. (Sikavica P., Šiber F.B., Vokić N.P.; 2008).

To obtain support through sector approach existing strategies should be based on the budget, mid-term expenditures and frameworks for performance management and be focused at coordination of sectors and donors. Successful strategy according to the group of authors Sikavica, Šiber and Vokić (2008.) needs to:

- be consistent with the conditions in the competitive environment, it should use existing or foreseen opportunities and minimize main threats impact (*in the case of Bosnia and Herzegovina it should ease harmonised implementation of acquis in the whole country*)
- to set real demands on the organisation resources (*None of the sectors in Bosnia and Herzegovina for which the support is provided within the new instrument IPA II for now does not seem appropriate for sector approach support, what is clear message of Indicative Strategic Document is created by Bosnia and Herzegovina institutions with European*

*Commission. Despite this, EU will continue to provide support in preparation and gradual implementation of appropriate strategies).*

- *carefully done (In particular, EU has the aim to create capacities for strategic planning and preparation to support the sector. As long as sectors are not ripen for sector approach support, assistance will be provided through individual activities prepared in accordance with applicable strategies)*

## 5. CONCLUSION

EU Enlargement can cause, and we are witnessing that, serious problems, especially if the level of economic development of new members and candidate countries much lower than of “old” EU member countries. For this new member countries, huge transfers of financial assistance from EU are needed to bring their economic development at satisfactory level. It is important for accession of new members, beside of economic development criteria, whether potential new member countries could fulfil fundamental principles of freedom, democracy, human rights respect and rule of law. Thus, for the Western Balkan countries that want to come in “European family” pre-accession funds mostly are used for resolution of problems caused by lack of money of the countries, regions, cities, municipalities and citizens as well. Instrument for Pre-Accession Assistance – IPA is financial instrument that European Union uses since 2007 for the candidate countries and potential candidates for the support in the process of EU accession. Bosnia and Herzegovina is one of the Western Balkan countries that still has potential candidate country status and for which along with other countries from the region (Serbia, Kosovo, Macedonia, Albania and Turkey) are available funds from IPA components to all together can solve numerous regional disparities. The legal basis for approach to this programmes, that is also basis for financing, is signing pre-accession partnership (Stabilisation and Accession Agreement) each of these countries with the EU, creation of Common Strategic Framework that describes political priorities of the enlargement policy for the entire programming period and the way how financial assistance to the countries included in EU enlargement policy within every area of

sector policy can contribute to the implementation of this assistance and Indicative Strategic Document for beneficiary countries that clearly describes how will each country use financial assistance. But, for beneficiary countries to be able to “pull” funds from pre-accession funds they must plan strategically. During the period of programming 2014-2020 every beneficiary country is expected to improve the quality of national sector policies/strategies and to develop necessary administrative capacities for their successful implementation when sector and not project approach to the problem solving is preferred. That kind of approach implies meaningful sector policies that have clear connection with the budget and that should be supported by sector strategies with detailed schedule of planned measures/operation that will be used to achieve sector objectives that in the final must be compatible with the plans of national socio-economic development and requests for EU accession.

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