

Financial Instruments for Funding the Cross Border Western Balkan Regions in the Period 2007-2013

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Summary: The paper presents an analysis of the possibilities for funding projects in the cross border Western Balkan region offered by two EU-funded cross-border programs and the SIGMA program. There are several financial instruments for EU assistance to the Western Balkans. The paper is focused on the possibilities for financing offered by the European Regional Development Fund, especially through the cross-border cooperation mechanism. Analytical description is given of the strategic objectives and scope of the basic programming documents for funding the cross-border western Balkan region in the period 2007 – 2013, their objectives, priority axes and intervention areas, as well as the amount of the European and national financing for their implementation. The paper also outlines the importance of the Sigma EU/OECD framework, its role, priority activity areas, working partners, regional networks, working methods and delivery mechanisms.

Key words: Western Balkans, cross-border programs, SIGMA.

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The trans-border cooperation between Bulgaria and Macedonia and Bulgaria and Serbia is supported by the budget of the EU through the European Regional Development Fund (ERDF) and the Instrument for Pre-Accession Assistance (IPA). While the ERDF is a familiar and widely used instrument in all member states, IPA is a new financial instrument, offering assistance to the candidate countries for EU membership in their accession process for the period 2007-2013. The basic objective of IPA is to enhance the efficiency and coherence of aid by means of a single framework in order to strengthen the institutional capacity, *cross-border cooperation*, economic and social development and rural development. Pre-accession assistance supports the stabilization and association process of the candidate countries while respecting their specific features and the process in which they are engaged.

1. The essence of the instrument for Pre-Accession Assistance (IPA) instrument

The IPA is the financial instrument funding the European Union pre-accession process for the period 2007-2013. Assistance is provided

on the basis of the *European Partnerships* of the potential candidates and the *Accession Partnerships* of the candidate countries – the Western Balkan countries and Turkey. The IPA is intended as a flexible instrument, providing assistance which depends on the progress made by the beneficiary countries and their needs¹.

The IPA forms part of *the revised external aid framework for the 2007-2013 financial perspective*, in particular in terms of efficiency and coherence. It also takes into account the specific features of pre-accession aid. The IPA is consistent with development aid, but its primary aim is to prepare the beneficiary countries for accession in the not too distant future. The main characteristic of pre-accession aid is its bridging function, since it is designed to prepare countries for the period after accession. The IPA therefore provides a unique and rationalised framework. As such it had replaced, from 1 January 2007, the programs for the period 2000 – 2006, namely:

- the programs for candidate countries: Phare, SAPARD and ISPA, Phare Cross-Border Cooperation (CBC) and Coordination, pre-accession financial assistance for Turkey;
- the program for potential candidate countries CARDS (Community Assistance for Reconstruction, Development and Stabilization of the Western Balkans).

There are two categories of **beneficiary countries**, depending on their status as either candidate countries under the accession process or potential candidates under the stabilisation and association process, namely:

- candidate countries²: the former Yugoslav Republic of Macedonia, Croatia, Turkey;
- potential candidate countries³: Albania, Bosnia and Herzegovina, Montenegro, Serbia including Kosovo as defined by the United Nations Security Council Resolution 1244/1999.

Exceptionally, and in the interests of coherence and efficiency, other countries may also benefit from measures financed under the IPA in case these measures are part of a regional, cross-border, trans-national or worldwide framework and do not duplicate other programs under Community external aid instruments.

The IPA is designed so as to meet the needs of the beneficiary countries within the context of pre-accession policy in the most appropriate way. Its main aim is to support institution-building and the rule of law, human rights, including the fundamental freedoms, minority rights, gender equality and non-discrimination, both administrative and economic reforms, economic and social development, reconciliation and reconstruction, and regional and cross-border cooperation.

To ensure targeted, effective and coherent action, the IPA comprises **five components**, covering priorities defined according to the needs of the beneficiary countries. Two of these components concern all beneficiary countries:

- **“support for transition and institution-building”** component financing capacity-building and institution-building;
- **“cross-border cooperation”** component supporting the beneficiary countries in the

¹ This is explained in the European Commission's evaluations and strategy papers.

² The candidate countries are defined in Annex I of the Regulation Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA), OJ L 210, 31.7.2006, p. 82–93. The annex will be amended as and when changes in the status of the countries occur, pursuant to a Council decision adopted by qualified majority on a proposal from the Commission.

³ The potential candidate countries are defined at the Santa Maria da Feira European Council of 20 June 2000 (Annex II of the Regulation 1085/2006). The annex will be amended as and when changes in the status of the countries occur, pursuant to a Council decision adopted by qualified majority on a proposal from the Commission.

area of cross-border cooperation between themselves, with the EU Member States or within the framework of cross-border or inter-regional actions.

The other three components are aimed at candidate countries only:

- “**regional development**” component supporting the countries’ preparations for the implementation of the Community’s cohesion policy, and in particular for the European Regional Development Fund and the Cohesion Fund;
- “**human resources development**” component prepares the candidate countries for participation in cohesion policy and the European Social Fund;
- “**rural development**” component prepares the candidate countries for the common agricultural policy and related policies and for the European Agricultural Fund for Rural Development (EAFRD).

Candidate countries are preparing for full implementation of the Community *acquis* at the time of accession, while potential candidates benefit from support to align themselves to the Community *acquis*. Potential candidates may however benefit from similar measures as those provided under the last three components under the framework of the first component. The difference is in the way these measures are implemented, since for the three components preparing for implementation of the structural and agricultural funds the beneficiary country is required to manage Community funds in a decentralised manner.

The IPA is based on **strategic multi-annual planning** in accordance with the broad political guidelines defined in the Commission’s enlargement package, which includes a **Multi-annual Indicative Financial Framework (MIFF)**. The MIFF is a table comprising the Commission’s

intentions for the allocation of funds for the three forthcoming years, broken down by beneficiary and by component, on the basis of the needs and the administrative and management capacity of each candidate country and in compliance with the Copenhagen accession criteria. The strategic planning is made up of **multi-annual indicative planning documents** and the MIFF constituting the reference framework. They are established for each beneficiary country and cover the main intervention areas envisaged for that country. **Annual or multi-annual programmes** (depending on the component) based on the indicative planning documents, are adopted by the European Commission and implemented by centralised, decentralised or shared management.

Assistance under the IPA can take the following **forms**:

- investment, procurement contracts or subsidies;
- administrative cooperation, involving experts sent from the Member States;
- participation in Community programmes or agencies;
- measures to support the implementation process and management of the programmes;
- budget support (granted exceptionally and subject to supervision).

The rules of **participation in** and implementation of the programmes launched under the IPA are relatively flexible, thus ensuring that the instrument is effective. Participation in procurement or grant contracts is open to all natural persons who are nationals of a Member State, to legal persons established in any EU Member State or any European Economic Area (EEA) state, a country that is a beneficiary of the IPA or a country that is a beneficiary of the European Neighbourhood and Partnership Instrument (ENPI), and to international organisations. Participation is also open to natural and legal persons from countries

other than those mentioned above where these countries enjoy reciprocal access to Community external assistance. Reciprocal access is based on a country's (or regional group of countries') status as a donor and is subject to a Commission decision adopted after consulting the IPA Committee. All supplies and materials needed to implement such contracts must comply with the rules of origin. That means that they must originate in the EU or a country from the list mentioned above. Experts are not subject to the nationality condition. In some exceptional cases however, the European Commission may depart from these rules. Operations may be co-financed by the EU and a regional organisation, a Member State or a third country (subject to reciprocity), or financed by the EU and implemented via an international organisation. In this case the natural or legal persons eligible for financing from the above co-financiers are also entitled to IAP financing.

The management of funds complies with the general management conditions for Community funds set out in Regulation (EC, Euratom) No 1605/2002. The European Commission is responsible for the implementation (management, monitoring, evaluation, reporting) of the funds. The management also complies strictly with the rules on protection of the Community's financial interests. In this context the Commission and the Court of Auditors can audit all contractors and subcontractors. These audits can be documentary, on the spot, ex ante and ex post.

The European Commission is assisted by **committees**. The purpose of the IPA Committee (set up by Regulation (EC, Euratom) No 1605/2002) is to ensure coordination and coherence between assistance granted under the different components. For implementing the "regional development", "human resources development" and "rural development" components, the Commission is assisted by

committees established within the framework of each structural fund.

The application of the IPA is subject to a **suspension clause**, applying to all beneficiary countries failing to comply with the principles of democracy, the rule of law, human rights and minority rights, and the commitments contained in the partnership (accession partnership or European partnership) or that fail to make sufficient progress towards fulfillment of the accession criteria or, for the Western Balkan countries, towards the reform process. The Council may then take appropriate measures, acting by qualified majority on a proposal from the Commission, after informing the European Parliament.

2. Funding for the European Cross-Border Cooperation between Bulgaria and the Western Balkan Countries

Funding for European cross-border cooperation between Bulgaria and the Western Balkan countries for the period 2007 -2013 is provided by two IPA cross-border cooperation programs. The financing of the cross-border programs between Bulgaria and the Western Balkan countries Serbia and Macedonia is provided according to the following rule: 50 % of the financing is provided by the "European territorial cooperation" Objective in the framework of the ERDF and 50 % of the financing is provided by the IPA (Table 1).

The EU funding for the cross-border programs between Bulgaria and the Western Balkan countries Macedonia and Serbia amounts to 85 % and the national public co-financing is 15 % of the total amount of the (Table 2).

European territorial cooperation financed by the European Regional Development Fund supports

Table 1. Comparison of the funding for the cross-border cooperation programs between Bulgaria and the Western Balkan countries for the period 2007-2013 and the cross-border cooperation programs between Bulgaria and Greece, Romania and Turkey, euro

	Bulgaria – Macedonia	Bulgaria – Serbia	Bulgaria – Turkey	Bulgaria – Romania	Bulgaria – Greece
	ERDF (50 %) IPA (50 %)	ERDF (50 %) IPA (50 %)	ERDF (50 %) IPA (50 %)	ERDF (100 %)	ERDF (100 %)
2007	1 440 692	2 524 310	2 194 560	32 528 986	15 170 492
2008	2 461 422	4 312 780	3 749 406	28 602 880	14 654 527
2009	2 690 518	4 714 194	4 098 380	28 646 754	14 952 524
2010	The funding for the 2010 – 2013 period will be specified according to the progress of the respective Western Balkan countries towards EU membership			30 454 255	15 524 630
2011				30 740 998	16 137 851
2012				32 528 091	16 781 396
2013				34 321 793	17 496 520
TOTAL	6 592 632	11 551 284	10 042 346	217 823 757	110 735 958

Source: Programs for European territorial trans-border cooperation Bulgaria – Macedonia, Bulgaria – Serbia, Bulgaria – Greece, Bulgaria – Romania and Bulgaria – Turkey for the period 2007 – 2013, www.mrrb.government.bg

the harmonious and balanced integration of the EU territory by stimulating cooperation in regions of high importance for the EU at cross border, as well as transnational and interregional levels. Therefore the cross border, transnational and interregional programs for cooperation aim to give a territorial dimension to the Lisbon and Gothenburg strategies by contributing to a better geographic distribution

of growth, innovations and labour force in the eligible cross border or transnational areas and the EU as a whole. They provide integrated joint actions for sustainable development of the participating countries. The Programs for cross-border cooperation of the internal borders of the EU – Bulgaria-Greece and Bulgaria-Romania are financed by the European Regional Development Fund.

Table 2. Breakdown of the budget for the cross-border cooperation programs between Bulgaria – Macedonia and Bulgaria – Serbia for the period 2007 – 2013 by source of funding

	European financing (a)	National public financing (b)	Total financing (c)	Percentage of co-financing (a/c*100):(B/c*100)
Bulgaria – Macedonia	6 592 632	1 163 406	7 756 038	85:15
Bulgaria – Serbia	11 551 284	2 038 462	13 589 746	85:15

Source: The Programs for European territorial trans-border cooperation Bulgaria – Macedonia and Bulgaria – Serbia for the period 2007 – 2013, www.mrrb.government.bg

The Programs for cross-border cooperation of the external borders of the EU – Bulgaria-Turkey, Bulgaria-FYRoM and Bulgaria-Serbia are financed both by the European Regional Development Fund and by the EU Instrument for pre-accession aid. The cross-border

cooperation programs between Bulgaria and the Western Balkan countries for the period 2007-2013 are based on the experience gained in the implementation of the former bilateral and multilateral programs PHARE cross-border cooperation, INTERREG III B, CADSES,

Table 3. Strategic objectives and priority axes of the Bulgaria – Macedonia cross-border program for the period 2007-2013

GLOBAL OBJECTIVE of the PROGRAMME		
Sustainable Development in the Border Region in Support of the Wider European Cooperation and Integration Efforts		
SPECIFIC OBJECTIVES OF THE PROGRAMME		
1. To foster the sustainable economic growth in the cross-border region 2. To promote social cohesion and cross-border cooperation 3. To further develop the attractiveness and quality of life in the cross-border area		
MAJOR EXPECTED IMPACTS		
<ul style="list-style-type: none"> - Social impact(improvement of the standard of living and decrease in the unemployment) - Economic impact (contribution to local economies and stimulation of infrastructure investment) - Horizontal issues(environmental, cultural and gender) 		
PRIORITY AXES		
1: Economic development and social cohesion	2:Improvement of the quality of life	3:Technical assistance
AREAS OF INTERVENTION		
1.1: Economic development 1.2: Social cohesion 1.3: Project preparation	2.1: Utilization of eco resources 2.2: Utilization of cultural resources	3.1: Overall administration and evaluation of the Programme 3.2: Publicity and communication
Total Funding for Priority 1: 3 102 415 EUR	Total Funding for Priority 2: 3 078 019 EUR	Total Funding for Priority 3: 775 604 EUR
Total funding for Bulgaria –Macedonia cross-border Program: 7 756 038 EUR		
Guiding principles of implementation of the programme:		
<ul style="list-style-type: none"> • Sustainable Development: social, economic and environmental Sustainability; • Equal opportunities: at every stage of the project realisation; • Cross-border partnership: projects should focus on joint vision; stable growth on both sides of the border; needs of the local population; building cross-border institutions and capacities for regional development and cultural exchange on a long-term basis. 		

Source: the information in the table is derived from the Bulgaria – the former Yugoslav Republic of Macedonia IPA cross-border programme, 2007, www.mrrb.government.bg

INTERREG IIIC. They tackle the current challenges at regional and local level and the general European policies and strategies in the context of the European Spatial Development

Perspective from 1999 and the platform “Regions for economic change”. The programs under Objective 3 of the cohesion policy do not finance high-cost and long-term investment

Table 4. Strategic objectives and priority axes of the Bulgaria – Serbia cross-border program for the period 2007 – 2013

GLOBAL OBJECTIVE of the PROGRAMME		
To strengthen territorial cohesion of the Bulgarian–Serbian cross-border region, its competitiveness and sustainability of its development through co-operation in the economic, social and environmental area over the administrative borders		
SPECIFIC OBJECTIVES OF THE PROGRAMME		
<p>1. To bolster the infrastructure enabling social and economic development and improvement of the environment on both sides of the border</p> <p>2. To increase economic synergy in the region and improve the capacity to jointly make use of common regional potential for improving regional well being</p> <p>3. To promote the principles of sustainable development of the cross-border region in all matters pertaining to increased mutual understanding and respect</p>		
PRIORITY AXES		
1:Development of small-scale infrastructure	2:Enhancing capacity for joint planning, problem solving and development	3:Technical assistance
AREAS OF INTERVENTION		
1.1: Physical and information infrastructure 1.2: Infrastructure concerning environmental issues 1.3: Assistance for project preparation	2.1: Links and networks on national, business and educational levels 2.2: Sustainable development through efficient utilization of regional resources 2.3: People to people actions	3.1: Overall administration and evaluation of the Programme 3.2: Publicity and communication
Total Funding for Priority 1: 6 749 873 EUR	Total Funding for Priority 2: 5 453 898 EUR	Total Funding for Priority 3: 1 358 975 EUR
Total funding for Bulgaria – Serbia cross-border Program: 13 589 746 EUR		
Guiding principles of implementation of the programme:		
<ul style="list-style-type: none"> • Sustainable Development: social, economic and environmental Sustainability; • Equal opportunities at every stage of the project realisation; • Cross-border partnership: projects should focus on joint vision; stable growth on both sides of the border; needs of the local population; building cross-border institutions and capacities for regional development and cultural exchange on a long-term basis. 		

Source: the information in the table is derived from the Bulgaria – Serbia IPA cross-border programme, 2007, www.mrrb.government.bg

projects (like Objective 1 programs), they finance soft, low-scale activities of the “people-to-people” type. The projects should demonstrate a clear impact beyond national borders, multi-sectoral approach, clear level of each partner’s inclusion, and territory not eligible for financing within the framework of the sectoral programs. Therefore, although the priorities of these programs correspond to certain national and European sectoral policies, unlike the sectoral policies, the territorial cooperation programs support activities of a completely different type. The projects contribute to an integrated territorial development through the wide partnership approach and should meet at least two of the following four criteria: joint project development, joint implementation, joint team and joint financing. Under Objective 3 “European territorial cooperation” Bulgaria participates together with the Western Balkan countries in several main areas of cooperation:

- Stimulation of the entrepreneurship, development of SMEs, tourism, culture and cross border trade;
- Improvement of the joint preservation and management of the natural and cultural resources, as well as prevention of natural and technological risks;
- Support for the relations between the urban and rural areas;
- Minimizing the isolation of certain areas by improving the access to transport, information and communication networks and services and by cross border systems and equipments for water, waste and energy;
- Elaboration of the cooperation, capacity and joint use of infrastructure, esp. in sectors like health services, culture, tourism and education;
- Stimulation of the development of cross border labour markets, local initiatives for employment, gender equality and equal opportunities, education and social inclusion;
- Elaboration of the institutional and administrative capacity at regional and local level

and giving technical assistance to the preparation of new projects.

The Bulgaria – the former Yugoslav Republic of Macedonia IPA cross-border programme has been approved by the European commission on 14 december 2007. On 21 august 2010 in Sofia the minister of the Regional development and public works of Bulgaria and the minister of Local self-government of Macedonia signed a Memorandum for understanding for the implementation of the cross-border cooperation programme between Bulgaria and the former Yugoslav Republic of Macedonia. On the 21 december 2010 the European Commission gave a positive compliance assessment of the systems for management and control of the CBC Programme Bulgaria – Macedonia. The approval of the systems for management and control will speed up the absorption of the European funds by the beneficiaries.

3. Possibilities for funding of the Western Balkan region by the SIGMA program

SIGMA is a joint initiative of the OECD and the European Union, principally financed by the EU. SIGMA supports European Union candidates, potential candidates and European Neighbourhood Policy partners in their public administration reforms. As a Division of the OECD’s Directorate for Public Governance and Territorial Development, SIGMA relies on the OECD’s expertise and networks of public management experts and decision-makers in OECD member countries.

The SIGMA initiative was firstly launched in 1992 by the OECD and the European Commission’s Phare Programme to support 5 Central European countries in their public administration reforms. In parallel with the expansion of the Stabilisation

and Association Process, SIGMA support has been extended to other countries, including the ten 2004 and the two 2007 EU entrants.

In 2010, SIGMA is working with the 4 EU candidate countries (Croatia, the former Yugoslav Republic of Macedonia, Montenegro and Turkey) and with the 4 EU potential candidates (Albania, Bosnia and Herzegovina,

Serbia and Kosovo under UNSCR 1244/99). For activities supporting these beneficiaries, SIGMA's main counterpart is the Directorate-General for Enlargement⁴ of the European Commission and the main funding instrument is the EU's **Instrument for Pre-Accession Assistance**.

Since June 2008, SIGMA has been working, under the **European Neighbourhood and Partnership**

Box 1.

The difference between SIGMA and Six Sigma

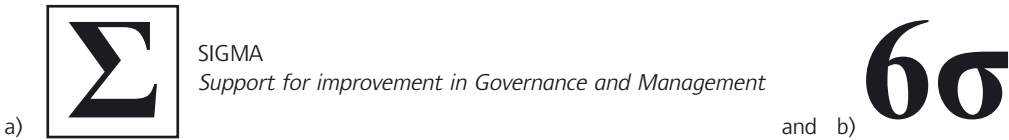


Figure 1. The logos of SIGMA (a) and Six Sigma (b)

Six Sigma is a *business management strategy* originally developed by the US company Motorola in 1986⁵. Nowadays it is used in many sectors of industry, although its use is not without controversy. Six Sigma aims to improve the quality of process outputs by identifying and removing the causes of defects (errors) and minimizing variability in manufacturing and business processes. It uses quality management statistical methods and creates a special infrastructure of people within the organization ("Black Belts", "Green Belts", etc.) who are experts in these methods. Each Six Sigma project carried out within an organization follows a defined sequence of steps and has quantified financial targets (cost reduction or profit increase).

The term *six sigma* originated from terminology associated with manufacturing and statistical modelling of manufacturing processes. The maturity of a manufacturing process is described by a *sigma* rating, or the percentage of defect-free products it creates. A six-sigma process is one in which 99.99966 % of the products are statistically expected to be free of defects (3.4 defects per million). Motorola set a goal of "six sigmas" for its manufacturing, and this goal became a byword for the management and engineering practices used to achieve it.

In Six Sigma, a defect is defined as any process output that does not meet customer specifications. Bill Smith first formulated the methodology in 1986. He was inspired by the quality improvement methodologies of quality control, TQM, and Zero Defects, based on the work of pioneers such as Shewhart, Deming, Juran, Ishikawa, Taguchi and others.

⁴ SIGMA coordinates its activities with other EC Directorates-General of the European Commission (including DG Budget, DG Internal Market and Services, and DG Enterprise, as well as with special bodies such as the European Anti-Fraud Office (OLAF) and the European Court of Auditors).

⁵ Tennant, Geoff (2001), *SIX SIGMA: SPC and TQM in Manufacturing and Services*, Gower Publishing, p. 6.

Instrument (ENPI), with countries covered by the European Neighbourhood Policy⁶. According to an agreement with the European Commission, priority has been given to activities in Armenia, Azerbaijan, Egypt, Georgia, Jordan, Lebanon, Moldova, Morocco, Tunisia and Ukraine. For work in these countries, SIGMA's main EC counterpart is EuropeAid.

The working methods used by SIGMA to support its partners in their efforts to improve governance and management are:

- Assessment of the reform progress and identification of the priorities for reform against baselines set by the good European practices and the existing EU legislation (*acquis communautaire*);
- Support of the institution-building and the establishment of legal frameworks and procedures meeting the European standards and good practices;
- Facilitation of the assistance from the EU and other donors by helping to design projects preconditions and implement action plans.

SIGMA uses a variety of operational mechanisms to deliver its assistance such as:

- Advice on reforms, design and implementation of strategic development plans;
- Peer reviews/assistance;

- Analysis and assessment of legal frameworks, methodologies, systems and institutions;
- Methodological, technical and strategic input to optimise Commission assistance;
- Support to networks;
- Drafting of handbooks and other reference material;
- Training.

SIGMA's working framework is based on a partnership with beneficiaries. Its procedures are **flexible** to ensure a **quick and adequate response** to the priorities identified by each partner and to their specific requests for support. Activities are undertaken on both an individual and multi-country basis, and in response to specific needs and priorities. SIGMA's working methods are **adaptable** to the specific needs and priorities of each partner. For example, one partner may require intensive support in developing a professional civil service, another may focus on strengthening the public internal financial control systems and for a third partner may need support for the design of public administration reform programmes. Permanent collaboration between SIGMA and partner institutions and practitioners is vital to ensure that priority actions match priority needs.

Projects can be initiated by the partners, the European Commission or SIGMA. The only absolute requirement for each project is that it

Table 5. Basic areas of assistance of the SIGMA programme

Legal Framework, Civil Service and Justice	Financial Control and External Audit	Public Procurement	Policy-Making
Administrative Law Civil Service Public Integrity	Public Expenditure Management Public Internal Financial Control External Audit		Policy-making and Coordination Regulatory Management Administrative Environment of Business

⁶ ENPI countries are: Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, Occupied Palestinian Territory, Syria, Tunisia, Ukraine & Russia.

should reflect the reform priorities of the SIGMA programme and to support institution-building. As soon as the project document is developed by the parties involved, it is submitted to the EC for *ex ante* approval. Following a short turnaround cycle of 10 days, the project can be launched. SIGMA provides assistance in 4 main areas (Table 5).

SIGMA's support for the establishment of professional **civil services** is focused on structural elements, such as civil service legislation, salary systems, and human resources management. Assistance in drafting and passing civil service legislation is based on a comparative approach using expertise from EU Member States. SIGMA also assists partner countries in developing their civil service management systems and tools. Support in this area includes assistance in developing the administrative legal framework. SIGMA promotes an exchange of professional expertise and offers advice on the organisation and functioning of the public administration. SIGMA also advises on improving the quality of administrative performance and on methods for the delivery of public services.

SIGMA activities in **financial control** focus on two main areas: public internal financial

control (PIFC), including internal audit, and the development of anti-fraud structures to protect EU financial interests.

In supporting the development of **public internal financial control (PIFC)** systems and procedures, including internal audit arrangements, SIGMA applies the processes of peer reviews and peer assistance to strengthen audit institutions. The peer review assesses the strengths and weaknesses in PIFC, with a view to addressing the gap between current practices of control and audit in spending-units and the existing or newly adopted laws (or other framework documents). SIGMA work focuses on:

- Drafting and re-drafting of PIFC legislation and regulations
- Preparation and implementation of PIFC policy papers and Strategic Development Plans
- Financial management and control systems within budget spending-units
- Central functions to harmonise methodologies on internal control and internal audit
- Internal audit
- Risk management
- Financial control activities at central and local levels
- Budget control and accounting.

Box 2.

Example of SIGMA's support for Public Integrity in Bulgaria

In 2004 SIGMA carried out a project in Bulgaria for the development of a Public Sector Ethics Resource (PSER), a comprehensive set of multimedia resource materials for building public service capacity to strengthen ethics and integrity and to identify and prevent corruption practices. The Bulgarian PSER served as a model for subsequent PSERs developed in Estonia, Latvia and Lithuania. Video materials and a range of country-specific materials – relevant legislation, policy and case studies – were included in the PSERs. In developing the PSERs, SIGMA's experts worked in partnership with relevant civil service agencies, anti-corruption organisations and institutes of public administration. After pilot testing and evaluation, these materials supported the development of a national strategy for training of public officials and for the transmission of anti-corruption information to the general public.

At the request of the European Commission's Directorate General Enlargement and the European Anti-Fraud Office (OLAF), SIGMA carries out in-depth assessments of **anti-fraud systems and structures** – in particular the Anti-Fraud Co-ordinating Service (AFCOS) in the EU candidate countries. As a follow-up of a multi-country project to assess anti-fraud systems, SIGMA assisted partner countries in drafting their anti-fraud strategies and project proposals and in improving legal frameworks to strengthen their AFCOS. The strengthening of the anti-fraud structures is a follow-up of the SIGMA's support for decentralization of the management of EU pre-accession funds. An important element in the anti-fraud chain of measures concerning the EU funds was the focus of SIGMA work in Bulgaria and Romania. To further strengthen capacity in this area, SIGMA prepared a policy paper "Recovery of Unduly and Wrongly Paid Sums" that focused on the recovery of debts in cases of fraud concerning the state budget and EU funds from various points of view (administrative recovery, civil actions for freezing and confiscating assets, and criminal procedures).

SIGMA's expertise in **public expenditure management** covers two main areas: treasury and budget and resource allocation. More specifically, SIGMA focuses on:

- Budgetary development and analysis
- Medium-term budgetary framework
- Budget development systems
- Budget execution
- IT support for budget execution
- Government accounting systems
- Cash management
- Debt management.

SIGMA collaborates with the Centre for Excellence in Finance (CEF) in Ljubljana (Slovenia) since 2003. The centre provides short-term training services for the CARDS

countries, Bulgaria, Romania and Moldova in various aspects of public management. SIGMA participates in the meetings of the CEF Advisory Board and provides trainers and materials for seminars in internal control, public procurement, and internal audit. The high level of participation in these seminars is an indication of the need in the region for a better understanding of public finance issues and for training in public expenditure management.

SIGMA supports partner countries in building and strengthening their supreme audit institutions (SAIs) to enable them to progress towards full compliance with the good European audit practices and with international standards for public external audit. Following a peer assistance review process, SIGMA supports the development of a Strategic Development Plan setting prerequisites for the establishment of a well functioning **external audit** body.

Since 1998 in coordination with the European Court of Auditors SIGMA provides assistance to meetings, working groups, expert groups, audit activities (both joint and pilot audits), and technical workshops of the networks of partner country SAIs. This support includes joint activities of the SAI network, SAI network of EU candidate and potential candidate countries and the SAI network of EU Member States.

Support in the area of **public procurement** constitutes an important component of Sigma's operations, involving the analysis of national public procurement systems and the maintenance of an open, ongoing dialogue with partner countries on the reform of their public procurement systems. As accession to the European Union is a priority for all partner countries, Sigma's efforts are devoted to facilitating the accession process by helping countries to comply with EU requirements and enabling them to operate effectively within the context of the internal market. Sigma

support in public procurement takes the following forms:

- Advice to governments on the design and implementation of public procurement reform plans
- Legal advice and support for public procurement legislation
- Institution-building and implementation support, including assistance in the organisation and operation of public procurement offices
- Capacity-building through the organisation of multi-country conferences, seminars, workshops and training courses, and the production of training materials and publications
- Advice on appropriate systems for control and complaints review, including external and

internal audit, and administrative and judicial review

- Promotion of ethics in procurement.

SIGMA assists partner countries to strengthen their **policy-making** and strategic capacities and to set up co-ordination mechanisms at the centre of government. Activities in this area aim to ensure coherence among sectoral policies of ministries and consistency of government policy-making and policy implementation. To support these activities, SIGMA produces papers devoted to policy-making and co-ordination. For example, SIGMA's Paper No. 37 on "Enlargement of the European Union, An Analysis of the Negotiations for Countries of the Western Balkans" aims to help the

Box 3.

SIGMA's Regional meetings of senior procurement officials from the Western Balkans

Sigma has organised multi-country meetings of senior public procurement officials from Western Balkan countries. These meetings aim to increase regional understanding of public procurement issues, establish a regional network of public procurement officials, and foster links with relevant institutions in EU Member States. Several meetings of the type have been held:

- Ohrid, former Yugoslav Republic of Macedonia (September 2004): The meeting identified reform needs in public procurement processes, with particular reference to the Stabilisation and Association Process and EU harmonisation.
- Sarajevo, in co-ordination with the Public Procurement Agency of Bosnia and Herzegovina (April 2006): The meeting focused on the new EC Directives and the role of policy-making centres (public procurement offices).
- Dubrovnik, in co-ordination with the Croatian State Commission for Supervision of Public Procurement Procedures (May 2007): The meeting focused on remedies systems, in particular the specific requirements of the EC Remedies Directives, the EC Treaty, and the case law of the European Court of Justice.
- Tirana, in co-ordination with the Albanian Ministry of Economy, Trade and Energy (December 2007): The topic of the meeting was concessions and public-private partnerships.
- Pristina, in co-ordination with the Kosovo Public Procurement Regulatory Commission and the Public Procurement Agency (September 2008). The topic of this meeting was «Public Procurement Reform in the Western Balkans: Key Challenges and Priorities for Change».

Western Balkan countries understand the need for professionalism in negotiations and for improving their legal framework, institutional set-up, implementation and enforcement of the Stabilisation and Association Process (SAP) and eventual EU negotiations. SIGMA's Paper No. 35 on "Co-ordination at the Centre of Government: The Functions and Organisation of the Government Office" examines the structure and tasks of the Government Office or Prime Minister's Office (i.e. the administrative organ supporting the collective work of the Council of Ministers) and provides comparative information on government offices in OECD countries and in the countries of Central and Eastern Europe and the Western Balkans.

The **regulatory framework** of business is a key determinant of their competitiveness, growth and employment patterns. One of the key objectives of the European Union's Enterprise Policy is to ensure that the regulatory environment is simple and of high quality. To ensure that regulation is used only when necessary and that the burdens they impose are proportionate to their aim, the Commission has a number of processes and tools in place. In 2002 the EU adopted a policy on Better Regulation for its institutions. Key elements of this policy are that regulations should be made in accordance with a set of principles (necessity, proportionality, subsidiarity, transparency, accountability, accessibility and simplicity), making full use of impact assessments and consultation as tools of good governance.

The OECD has undertaken studies of regulatory reform in more than 20 OECD countries under the aegis of its Working Party on Regulatory Management, in which the European Commission participates. From these studies and other OECD reports, the European Commission has developed a good understanding of the development of better regulation-type policies in EU Member States. These policies are described as "Better Regulation" and appear as either

explicit policies designed to improve the quality of policy-making and regulation or as part of wider programmes on governance or public administration reform. For example, in 2004 the European Commission asked SIGMA to undertake a study of the regulatory management capacities of seven new EU Member States (Cyprus, Estonia, Latvia, Lithuania, Malta, Slovakia and Slovenia). The study was extended in 2005 to the Czech Republic, Hungary and Poland. Peer reviews were carried out in all ten countries in 2005 and 2006. Detailed country reports and a synthesis report were finalised in December 2006. Orientations for regulatory management in the participating countries can be found in SIGMA Paper No. 42: Regulatory Management Capacities of Member States of the European Union that Joined the Union on 1 May 2004. SIGMA organizes seminars as well to raise awareness of better regulation issues in the new EU Member States and candidate countries. In 2007 SIGMA launched peer reviews of regulatory management capacities in Bulgaria and Romania and the final peer reports were forwarded to the DG-Enterprise of the European Commission EC in March 2008. In May 2008 SIGMA co-organised with the Turkish Prime Ministry a seminar on "Administrative Simplification: An overarching policy to maintain a balance between the public interest and the needs of business", which was attended by policy-makers and decision-makers from central management agencies and line ministries.

In **EU candidate and potential candidate countries**, Sigma supports governments in designing and implementing **public administration reform strategies and programmes**. As Public Administration Reform (PAR) is a process that encompasses all spheres of government and is closely interlinked with the EU accession and association, Sigma helps partner countries to establish the institutions and strengthen the capacities required to implement and monitor reform progress. Typical

Sigma support includes analysis of the current state of public institutions, assessment of development needs, advice on strengthening policy formulation capacities, and assistance in applying principles and meeting standards set in the European Administrative Space.

Sigma also assists the European Commission's DG "Enlargement", European Commission's Delegations and offices of the European Agency for Reconstruction (EAR) in elaborating PAR assistance projects in candidate countries and potential candidate countries. At the request of the EC, Sigma provides substantive input to project fiches and terms of reference (ToR) and participates as an independent expert in the tendering process. In conclusion, Sigma works with policy-makers and practitioners from partner administrations, offering expertise and critical review to strengthen modernisation efforts of governments. Sigma supports other EU projects and the work of other donors as well, contributing additional expertise and providing comparative perspectives. Sigma's activities complement other EU institution-building initiatives.

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