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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN  
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL  
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

**An Economic and Investment Plan for the Western Balkans**

{SWD(2020) 223 final}

## **Commission Communication on An Economic and Investment Plan for the Western Balkans**

### **I. Introduction**

The **Western Balkans are an integral part of Europe** and a geostrategic priority for the European Union. As set out by President von der Leyen in her State of the Union speech of 14 September 2020, “the future of the *whole* region lies in the EU”. During the **COVID-19** pandemic, **the close relations between the EU and the Western Balkans** were clearly demonstrated. While the EU itself has been heavily affected by the pandemic, it has provided **essential and unparalleled support to the Western Balkans, as set out in the Commission’s Communication of 29 April<sup>1</sup>** and the **Zagreb Summit** declaration of 6 May 2020.

COVID-19 is having **massive disrupting effects on the economies** of the Western Balkans, which were already **lagging behind in terms of economic convergence** with the EU. The region faced continued challenges from weak competitiveness, high unemployment and significant brain drain. The need to step up convergence efforts through implementing structural reforms, overcoming structural weaknesses, strengthening innovation potential, and accelerating the green and digital transition, also in light also of their future in the EU, is more pressing than ever.

This **Economic and Investment Plan** aims therefore **to spur the long-term recovery** - backed by a green and digital transition - leading to sustained economic growth, implementation of reforms required to move forward on the EU path, and bringing the Western Balkans closer to the EU Single Market. It aims **to unleash the untapped economic potential of the region** and the **significant scope for increased intra-regional economic cooperation and trade.**<sup>2</sup> With a population of nearly 18 million people, the region is an important market for the EU and a transit area for European and international goods, with a skilled workforce for companies ready to invest. The **Western Balkans** have therefore a key role to play in the **global value chains that supply the EU**, and this role could be further reinforced. In the long term, this will also contribute to the EU's strategic autonomy.

This **Economic and Investment Plan** sets out a **substantial investment package for the region**. It is built on the foundations of a performance-based and reform oriented proposal for an Instrument for Pre-accession Assistance III (IPA III)<sup>3</sup> and reinforced instruments to foster public and private-sector investment.

Subject to the adoption of the next Multi-annual Financial Framework and the related legal bases, the Commission proposes to mobilise **up to EUR 9 billion of IPA III funding for the period 2021-2027** to support economic convergence with the EU primarily through **investments and support to competitiveness and inclusive growth, sustainable connectivity, and the twin green and digital transition**. The Commission proposes that the

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<sup>1</sup> COM (2020) 315 final on “Support to the Western Balkans in tackling COVID-19 and the post-pandemic recovery”

<sup>2</sup> World Bank, Western Balkans Regular Economic Reports, fall 2019: “If CEFTA were to be further expanded with provisions on movement of capital, consumer protection, labour market regulation, and environmental laws, growth in trade and real GDP would rise by an estimated 2.5 percent. A 6.7 percent gain could be achieved if the countries deepened their commitment to the level of those between EU members.”

<sup>3</sup> COM(2018) 465 final - Proposal for a Regulation of the European Parliament and of the Council establishing the Instrument for Pre-accession Assistance (IPA III)

large majority of this support would be directed towards **key productive investments and sustainable infrastructure in the Western Balkans**. The investment capacity of the region in addition should be boosted by the mobilisation of a **new Western Balkans Guarantee facility**<sup>4</sup>, with the ambition to **potentially raise investments of up to EUR 20 billion**

**Better connecting the economies of the Western Balkans - within the region and with the EU** – is a priority. This requires a strong commitment from the Western Balkans to implementing fundamental reforms, deepening regional economic integration and **developing a common regional market** on the basis of the EU *acquis* in order to **make the region a more attractive investment area**. The EU will strive to bring the region closer to the EU Single market. Moreover, the Western Balkans stand to benefit enormously from enhanced efforts aimed at **overcoming the legacy of the past**, not least with respect to a normalisation of relations between Serbia and Kosovo\*, and a successful conclusion of the EU-facilitated dialogue.

The **European Green Deal**<sup>5</sup> offers a blueprint for joint action to tackle the challenges of **green transition**, climate change, biodiversity loss, and excessive use of resources and pollution, decoupling economic growth from resource use and environmental degradation. Particular attention will be paid to the EU commitment to reach **climate neutrality** by 2050. In light of this ambition and their future in the EU, the countries of the Western Balkans – with support from the EU – will have to strengthen their efforts in this regard.

The Western Balkans will need to pursue the implementation of the 2030 Agenda for Sustainable Development and its Sustainable Development Goals, the Paris Climate Agreement and internationally agreed biodiversity goals. Acting ambitiously and joining forces in pursuit of this agenda, will provide the EU and the Western Balkans a first-mover advantage in the international economic arena, increasing their competitiveness in the growing global markets for sustainable and green technologies. Our existing cooperation platforms provide opportunities to strengthen mutually beneficial alliances and ensure a level playing field around new sustainable technologies, such as renewable hydrogen, advanced solar and wind, batteries, and carbon capture, as well as around critical raw materials for these technologies, such as rare earths.

Based on the approach of the European Green Deal, a *Staff Working Document setting out a Green Agenda for the Western Balkans* accompanies this Communication. It sets out relevant actions and recommendations, including alignment with the EU standards and the *acquis*.

In the same vein, the Western Balkans should use the EU's **digital strategy**<sup>6</sup> as the guiding principle for a human-centric digital transformation of their economies and societies. This will make them better positioned to integrate into the EU's higher added-value supply chains and, in the future, join a rapidly evolving EU digital single market. Building on the 2018 Digital Agenda for the Western Balkans, this investment plan offers an opportunity to

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<sup>4</sup> The Western Balkans Guarantee Facility will be established under the post-2020 EU External Action Guarantee and the European Fund for Sustainable Development Plus. It will include provision of EU budgetary guarantees to the European Investment Bank as well as to other implementing partners, for the benefit of financing operations and investment programmes that implement the policies established in IPAIII and this Economic and Investment Plan.

\* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

<sup>5</sup> COM(2019) 640 final

<sup>6</sup> COMMUNICATION on Shaping Europe's digital future COM/2020/67 final

accelerate the digitalisation of governments, public services and businesses, in a manner consistent with the EU's values and legal framework.

Sustained competitiveness inevitably rests on the region's ability to build its **human and entrepreneurial capacity to innovate** and develop an economic niche. Thus, investing in the future also means investing in research, innovation, health, education, culture, youth and sport. These are powerful tools to boost not only the region's economic development, resilience and competitiveness, but also its social cohesion, meaning full economic participation for all its citizens, including the Roma. The integration of Roma people into society by supporting their full participation in education and in the labour market is of particular importance and will be a key priority of the EU integration process<sup>7</sup>.

In order to support reaching the goals of this Economic and Investment Plan and to ensure the sustainability of investment in the region, the Commission will therefore soon propose a dedicated **Agenda for the Western Balkans on Innovation, Research, Education, Culture, Youth and Sport** ("Innovation Agenda for the Western Balkans"). This comprehensive, long-term strategy for cooperation in these fields with the Western Balkans will be essential for enhancing human capital development, stopping brain drain and encouraging brain circulation, as well as fostering the development of a long-term sustainable innovation ecosystem and the transition to a knowledge-based economy. It will lay the foundations for evidence-based policy making and promote inclusive and high quality education and training systems thus providing better perspectives for the youth in the region.

This plan is an **integral part of the support to the Western Balkans on the path to the EU**. Economic development and implementation of fundamental reforms should be mutually reinforcing and contribute to partner countries meeting the well-established requirements of the accession process. This includes the implementation of the rule of law reforms and structural economic reforms, in particular those identified in the Economic Reform programmes<sup>8</sup> which will maximise the potential impact of this investment package.

A major factor for the existing structural weaknesses is **poor governance** and, in particular, limited progress in addressing **shortcomings in the rule of law** and in tackling corruption. The rule of law and respect for fundamental rights, functioning of democratic institutions and public administration are not only at the heart of the accession process, but also the main engines for the economic recovery of the region and enhancing resilience to potential future crises and economic shocks. Respect for the rule of law is also necessary to protect EU funds, and ensure that they are used to support the development of the Western Balkans.

## **II. Good governance as the foundation for sustainable economic growth**

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<sup>7</sup> The plan will also contribute to the implementation of the European Commission's communication on an 'EU Roma strategic framework for equality, inclusion and participation' (COM (2020) 620), part of the EU ambitious agenda on equality and towards a Union that strives for more when it comes to social fairness and prosperity.

<sup>8</sup> To reap the benefits of investment supported under IPA III and deliver sustainable economic growth, the Western Balkans need to address and implement reforms jointly agreed in the course of Economic and Financial dialogue with the EU under the Economic Reform Programmes (ERP) and recommended in the annual Enlargement package. Policy and structural reform priorities identified in this context confirm the need for strengthening administrative capacity for the planning, selection and management of investment projects, improving the business environment and labour market policies. Progress with economic governance reforms is essential in order to realise the expected large increase in investment in a timely and efficient manner. Moreover, the ERP dialogue should provide important guidance for investment decisions under the Economic and Investment Plan and a careful planning and prioritisation of resources.

**Boosting investment and economic growth** will therefore only be possible if the Western Balkans **firmly commit to and implement fundamental reforms in line with European values**. Whether structural **socio-economic reforms**, in particular those identified in the Economic Reform Programmes and the joint policy guidance, strengthening the **rule of law**, **respect for human rights**, or improving **public administration**, these reforms are essential for an environment favourable to entrepreneurship, job creation and sustainable investment. Western Balkans leaders must deliver **more credibly** on their commitment to implement the fundamental reforms required and with clearer political commitment, in line with the revised enlargement methodology<sup>9</sup>.

The **rule of law** is a crucial aspect of democratic transformation and the key benchmark against which progress towards membership is assessed by the EU. In this respect, progress among the countries of the Western Balkans has varied considerably. The Western Balkans' operational cooperation with EU Member States and EU agencies has continued to improve. However, credible progress in the rule of law area remains a significant challenge, which often correlates with a lack of political will, continuing existence of clear elements of state capture, and limited progress on judicial independence.

The **2020 Enlargement package**<sup>10</sup>, adopted in parallel to this communication, provides a detailed overview of the state of play of fundamental reforms and guidance on these reform priorities, which remain at the heart of the EU accession process.

Citizens have a key interest in a functioning system of checks and balances in which a visibly empowered and independent, impartial and effective judiciary ensures that all state institutions abide by the law, maintain integrity and that citizens are protected from arbitrary decisions and can exercise their rights fully. Businesses need legal certainty, absence of corruption and efficiently functioning administrations to be able to set up their operations and rely on efficient and independent institutions to enforce their economic rights. Foreign investors need reassurances on a level playing field that will protect their investments. Alignment with the EU public procurement rules and enhanced transparency and oversight is key, in particular for the sound financial management of major public investments, including those proposed in this Plan, and to prevent corruption in this area. A strategic approach towards effective dismantling of criminal organisations and their economic basis needs to be established, including improved results in financial investigations and asset confiscation. Cooperation among the partners in the region as well as with the EU is essential to address specific security challenges, such as countering terrorism and extremism, money laundering, illicit trafficking of weapons, human trafficking and migrant smuggling.

In order to avoid any gap in the protection of EU funds it is imperative that Western Balkan partners ensure that fraud, corruption, money laundering, and misappropriation are addressed with effective, dissuasive and proportionate criminal sanctions. Western Balkan partners that are parties to international agreements on mutual legal assistance should accept the European Public Prosecutor's Office (EPPO) as a competent authority of the Member States participating in the EPPO for the implementation of those agreements.<sup>11</sup> Cooperation between

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<sup>9</sup> COM(2020) 57 final "Enhancing the accession process - A credible EU perspective for the Western Balkans."

<sup>10</sup> COM(2020) 660/2

<sup>11</sup> Pursuant to Art. 104(4) of [the EPPO Regulation]

the EPPO and Western Balkan partners should be facilitated by the conclusion of working arrangements.<sup>12</sup>

**Building high quality public administration** is a foundation for a well-functioning state. It is essential for an efficient and effective civil service that delivers quality services to citizens and businesses. In terms of investment management, the state needs strong capacity in order to identify, prioritise, develop and manage future oriented infrastructure and other strategic investment projects, in close consultation with citizens and other stakeholders. A professional civil service also plays a key role in contributing to the prevention of corruption, including through increased transparency and use of e-governance. Public procurement needs to be aligned with EU rules and fully implemented; exceptions to public procurement procedures should be applied restrictively, including limiting the use of inter-state agreements. This will help to ensure that corruption in procurement does not impede economic development, distort the market and create inefficiencies reducing competitiveness, trade and investment. These reforms will also strengthen safeguards against any misuse of EU funds.

The EU will continue to provide significant funding and support to reforms addressing good governance and the fundamentals to at least current levels. In line with the principle of conditionality reflected in the revised enlargement methodology, where countries move on reform priorities this should lead to increased funding and investments – including through a performance-based and reform-oriented Instrument for Pre-accession. However, there is equally a need for decisive measures sanctioning any serious or prolonged stagnation or backsliding. These measures include that on the basis of the Commission’s assessment of progress in its annual reports the scope and intensity of EU funding could be adjusted downward.

### III. A substantial investment package

**The Commission’s proposal for an Instrument for Pre-Accession Assistance (IPA III)**<sup>13</sup> amounts to over EUR 14 billion<sup>14</sup> over 2021-2027, of which the lion’s share is destined for the Western Balkans.

IPA III will present a solid **policy-driven approach**, with **strategic and dynamic deployment of assistance**, putting the fundamental requirements of EU membership at the core of EU support. By further focusing EU financial assistance on key priorities, IPA III will provide even greater leverage for supporting reforms that foster sustainable socio-economic development and bring the partners closer to the Union’s values and standards.

At the heart of this Economic and Investment plan is a **substantial investment package** for the region with the large majority of support to be directed towards **key productive investments and infrastructure**. This will reflect and support the twin green and digital transition and the development of connected, competitive knowledge-based, sustainable, innovation oriented and thriving economies in the Western Balkans, with an increasingly

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<sup>12</sup> Pursuant to Articles 99(3) and 104(1) of the Council Regulation (EU) 2017/1939 of 12 October 2017 implementing enhanced cooperation on the establishment of the European Public Prosecutor’s Office (‘the EPPO’)

<sup>13</sup> COM (2018) 465 final Proposal for a Regulation of the European Parliament and of the Council establishing the Instrument for Pre-accession Assistance (IPA III)

<sup>14</sup> Financial amounts are given in current prices. The Commission proposal for IPA III is EUR 14.5 billion, whereas the conclusions of the European Council of 17–21 July 2020 reduced the amount to EUR 14.162 billion, subject to the agreement by the European Parliament.

dynamic private sector. The investment package will be a key driver for facilitating increased public and private investment in the region by the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and other International Financial Institutions (IFIs), Development Finance Institutions of EU Member States (DFIs), the Western Balkans governments and private investors, including foreign direct investment, as well as integrating markets.

A first set of projects articulated around ten **investment flagships are set out in annex**. These **project suggestions** are based on the results of preliminary consultations with the governments of the region and their political and economic reform priorities. A first step in implementing this Economic and Investment Plan could be a package of **infrastructure projects** frontloaded for **funding in 2021-22 with the expectation that these would unlock significant investments. This would allow mature project proposals** particularly in the areas of **digital, transport, energy transition and environment, after appropriate assessment, to be completed or** substantially advanced by 2024.

**Further IPA funding could subsequently support infrastructure projects and productive investments** with a strong focus on the twin **green and digital transition** for the region, boosting circular economy and biodiversity and jointly implementing the upcoming Green Agenda for the Western Balkans. Investments could also be supported in rural areas and agriculture, in the cultural and creative sectors, in health and human capital development, including education, and to boost cross border cooperation, including on innovation.

**In addition to** the EU's **significant grant funding** to the region, **the EU can provide guarantees** to help reduce the cost of financing for both public and private investments and to reduce the risk for investors: Support through **the proposed Western Balkans Guarantee Facility** is expected to mobilise approximately **EUR 20 billion of investments** in the next decade.

The **Western Balkans Investment Framework** (WBIF), including its private sector platform the **Western Balkans Enterprise Development and Innovation Facility** (WB EDIF) and the **Western Balkans Guarantee Facility**, gathering Western Balkans partners, bilateral donors and International Financial Institutions will be the main vehicle to ensure swift deployment of the investment package to:

- strengthen core infrastructure links, in particular main transport and energy connections, which are instrumental for economic development, market integration and cross-border trade within the region and with the European Union<sup>15</sup>;
- support the green and digital twin transitions;
- increase competitiveness of the private sector, boost innovation and the development of essential social sectors;
- connect economies through strengthened regional economic integration and integration with the EU.

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<sup>15</sup> This is why **since the 1990s the EU has contributed over EUR 11 billion to transport and energy infrastructure** development in the region, through grants and loans, resulting in investments of almost EUR 22 billion. The commitment was further strengthened with the introduction of the Connectivity Agenda in 2015, pledging a further EUR 1 billion by 2020 – which is on target to trigger EUR 4 billion in investment and create more than 45 000 jobs.

In order to maximise the long-term impact of investments, implementation of structural economic and governance reforms by partner countries will be essential, including connectivity reform measures and increasing statistical capacity. Progress in the area of the fundamentals should continue in parallel with implementation of the flagship initiatives. The EU will also support capacity-building measures where relevant, to enhance the public procurement and the public investment management capacity to prepare, manage and supervise project implementation. The EU will cooperate with the Western Balkans in ensuring that investments in projects of common strategic interest are appropriately screened to identify, assess and mitigate potential risks for security or public order, in line with relevant EU and WTO rules.

Final decisions on indicative project and funding proposals set out in this plan will be taken forward in full respect of the decision making procedures, programming process and the performance-based and reform-oriented approach of the future IPAIII regulation currently under discussion by the co-legislators, in particular progress on the EU enlargement agenda, relevance and maturity and in compliance with relevant EU rules. The green oath to “do no harm” should be respected. To maximise the leverage of this Economic and Investment Plan, the EU, in the spirit of the Team Europe approach, will also reach out to its partners as well as existing regional initiatives such as the Berlin process in order to create maximum complementarity between EU, other multilateral, and bilateral actions.

#### **IV. Investing in sustainable transport**

The EU will prioritise projects and programmes on the indicative extension of the Trans-European Transport Network (TEN-T) **core network** which are of strategic interest to the region and to the EU. Action will be taken to speed up construction of new transport infrastructure and the upgrading of existing infrastructure, with the **objective of bringing the core transport network up to EU standards**.

**Fast and efficient transport links**, both within the region and with the neighbouring EU Member States, and sustainable transport with further investment in rail and inland waterways are **crucial**. In this context, to further spur regional cooperation and integration, connecting capitals in the region and with the EU will be an important priority, as well as promotion of multimodal transport solutions and modal shift, and reducing transport related pollution.

The creation of these links will drive investment, facilitate regional trade **and deliver sustainable economic growth**, improving the daily lives of people in the region. Advantage will be taken of new digital technologies, with improvements to information systems, prioritising road safety (and eliminating high-risk road sections and level crossings with railways), and assisting in the design and implementation of maintenance schemes. **Work with the Transport Community will be further intensified** to support the creation of a fully integrated regional transport market based on the European Union’s legislation and standards. This will greatly speed up the implementation of technical standards and **connectivity reform measures, including aligning and simplifying border crossing procedures**, and following through on rail reforms (including rail unbundling and third party access), especially to overcome the legacy of fragmented networks. It will pave the way to a seamless integration of the Western Balkan transport markets into the EU, which will in turn offer new business opportunities for companies and people in the region.

From the Western Balkan side, these investments should be supported by:

- Adoption and implementation of the regional rail, road safety, transport facilitation and road action plans prepared by the Transport Community;
- Speedy progress on transport connectivity reform measures to accelerate integration with the TEN-T, the EU *acquis* and its digital and clean energy technologies; and
- Progressive adoption and implementation of all EU transport legislation and technical standards and transparent tendering procedures in the field of transport including accelerated alignment with the EU's public procurement rules in order to facilitate market integration

The Commission envisages increasing its co-financing rates for road transport projects up to 40%. Sustainable mobility is an essential element in building a transport infrastructure that is fit for the future. For each road infrastructure project, the Commission will promote developing green multimodal transport solutions. The aim should be to connect the partners in the region and between the region and the EU through the integration of sustainable and smart elements in road transport (such as electric charging stations and multimodal connection points to rail and waterway networks where applicable). This focus stimulates innovation, as well as targeted and properly-dimensioned investments. The Commission will also promote the implementation of sustainable urban mobility plans in the region's cities that connect to the network.

## V. Investing in clean energy

Support in the field of **energy** will be reinforced. Strong emphasis will be put on energy market integration, decarbonisation and clean energy, just transition, increased digitalisation of the system and smart grids, energy efficiency, including modernisation of district heating, and energy security. Decarbonisation is a key pillar of this Economic and Investment Plan in line with the aims of the European Green Deal. Enhanced connectivity and extension of the Energy Union to the Western Balkans will also be instrumental for a successful clean energy transition in the region.

The increased use of **renewable energy sources** should be supported, in line with the region's potential and climate change adaptation plans. This can include environmentally sound investments in hydro, solar, wind and geothermal sources. The roll-out of clean and modern energy technologies needs to be accompanied by a better investment environment, under a comprehensive regulatory framework based on competitive procurement rules. This will mitigate the risks of a lock-in effect of the Western Balkan economies to highly unsustainable and increasingly more expensive new coal-based electricity generation.

**Transition from coal to sustainable and clean energy will be key**, in view of reducing both carbon dioxide emissions and air pollution. The initiative "**Coal regions in transition platform in the Western Balkans and Ukraine**" is being set up, mirroring the initiative within the EU. It will support transition strategies which are inclusive and leave no one behind, offering at the same time cleaner alternatives to coal and supporting custom-designed projects for these coal-dependent regions.

For those countries which are heavily reliant on coal key for moving away from coal in the **short to medium term** could be a switch to **modern, low emission gas infrastructure**. This can offer the region a widely available, secure and affordable source of energy that will **keep the region competitive** on an international scale, while **significantly improving air quality and lowering emissions**.

At the **heart of new gas infrastructure must be new pipelines**, including the **extension of the Trans Adriatic Pipeline**, which could be an opportunity for diversifying the gas sources to the European market and bring gas to the region to speed-up transition from coal in energy production. Any new pipeline in the Western Balkans must fully respect EU rules, in line with the Energy Community Treaty and demonstrate its long term viability. A growing global role of liquefied natural gas (LNG) should also be taken into account as an opportunity to diversify gas supplies in the region via LNG terminals in Greece and Croatia.

In the **longer term**, these gas infrastructure investments will provide the basis for the next step in environmental protection, as they will allow for the introduction of **decarbonised gas** once available and competitive, allowing further reductions in carbon dioxide and the impact of air pollution. Therefore, these investments will future-proof the region's energy supply.

Efforts to increase **energy efficiency** will be facilitated. In the context of the EU Green Deal, the Commission proposes to expand the “**EU renovation wave**” to the Western Balkans. A refurbished and improved building stock will help pave the way for a decarbonised and clean energy system, as the building sector is one of the largest energy consumers in Europe. For this purpose the EU will use, among others, the existing platforms such as Green for Growth Fund and Regional Energy Efficiency Programme which have so far enabled green investments of a total of EUR 700 million.

**Prioritisation of energy interconnections** is already taking place in the framework of the Energy Community with the Projects of Energy Community Interest and Projects of Mutual Interest. The partner countries in the Western Balkans will need to implement market reforms in order to accelerate integration with central eastern and south eastern European gas and electricity markets. Under Central and South Eastern Europe energy Connectivity (CESEC), the Commission will continue to closely monitor market reforms in Western Balkan countries in order to accelerate the integration of Central and South Eastern European gas and electricity markets.

The **Innovation Agenda for the Western Balkans** will further boost technology transfer<sup>16</sup>, and facilitate access to world-class research infrastructure, knowledge centres, competence centres, and on-line platforms, as well as access to advanced computer simulations through for example the European High Performance Computing joint undertaking (EuroHPC)<sup>17</sup>. It will support the transition to clean and efficient energy generation and use, including through promoting Open Science and cutting-edge, research infrastructure such as South East European International Institute for Sustainable Technologies (SEEIIST).

On the side of the Western Balkans, these investments need to be supported by:

- Swift progress on **energy connectivity reform measures** to set up a regional energy market, and further integration with the EU energy market working closely with the Energy Community Treaty Secretariat.
- **Finalisation of the Energy Community Treaty reform and adoption of the EU Clean Energy Package** by the Energy Community.
- Strengthening the Energy Community 2030 target-setting process by adopting 2030 energy and climate targets in line with EU decarbonisation ambition, taking into account the Contracting Parties' relevant socio-economic differences

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<sup>18</sup> COMMUNICATION on Shaping Europe's digital future COM/2020/67 final

<sup>18</sup> COMMUNICATION on Shaping Europe's digital future COM/2020/67 final

## VI. Greening the Western Balkans – Investing in the environment and climate

The **European Green Deal** is underpinned by policies designed to develop modern, resource-efficient and competitive economies where growth is decoupled from emissions of greenhouse gases, resource use and waste generation, where climate resilience is pursued.

The European Green Deal can only be fully effective if the EU's immediate neighbourhood also takes action at an early stage. This is all the more valid for the Western Balkans given their European perspective. The Commission is therefore presenting, together with this Communication, a **Green Agenda for the Western Balkans**, as foreseen in the European Green Deal. The Green Agenda is expected to be endorsed by the Western Balkans Leaders at the summit in Sofia in November. This **Agenda** is informed by the **five broad areas covered by the Green Deal: decarbonisation, depollution** of air, water and soil, **circular economy, farming and food production**, and protecting **biodiversity**. Economic growth and new business opportunities will be linked to more sustainable consumption and production patterns, including promotion of a circular economy, conservation of scarce resources, and better re-use of waste products, linked to all economic sectors, including urban and rural perspectives, and building on ecosystem sustainability as a precondition for success. Already existing platforms, such as the EU Strategy for the Adriatic-Ionian Region (EUSAIR) and the EU Strategy for the Danube Region (EUSDR), where the Western Balkans countries play an important role, can help the implementation of this process on the ground, as in these areas coordinated and joint actions are key.

**Air pollution is a key concern** in the Western Balkans. Widespread use of coal and wood for energy production, as well as polluting trucks and cars, leads to cities and towns in the region registering air quality levels among the worst in Europe during winter. The 16 coal-fired electricity plants in the region emit more sulphur dioxide than the entire 250 similar plants in the EU. In this region decarbonisation and depollution go hand in hand. Moving away from coal would improve the quality of life of citizens and bring important health-related annual savings to the Western Balkan budgets.

Sustainable mobility is another element that will be essential to the clean energy transition. The EU should promote the implementation of **sustainable urban mobility plans** in the region's cities, developing **green multimodal transport solutions**. With regard to the road network, the aim should be to connect the partners in the region and between the region and the EU through the integration of sustainable and smart elements in road transport (such as electric charging stations) to stimulate innovation, as well as targeted and properly-dimensioned investments.

Given the EU perspective of the region, EU targets, including to **reduce greenhouse gas emissions** by at least 55 % by 2030, must frame the systemic modernisation of the region and its future growth. This means a transition from fossil fuels to renewable energy and investment in infrastructure that supports cross-sectoral transformation towards a climate neutral economy and avoids stranded assets. In order to promote decarbonisation, the EU should also continue to assist the Western Balkans partners in developing and implementing **Long-term Climate Strategies and National Energy and Climate Plans** aimed at complying with EU *acquis* requirements. **An assessment of the socio-economic impact of decarbonisation in the region** will also be undertaken.

**Economic operators are key to the success of the green transition.** The Green Agenda will include a private sector dimension, aimed at boosting private companies active in the green and **circular economy** and moving all sectors of the economy towards sustainability, whether in energy, mobility, or agriculture. The EU should engage with the region to promote

**sustainable production patterns and food systems.** Defining and implementing action plans for circular economy, waste prevention and recycling strategies, and regional cooperation in reducing plastic pollution will ensure steady progress of the region towards a green economy and EU *acquis*.

**The region should embrace innovative green and digital technologies** that create new business models, allow industry to be more productive, provide workers with new skills and support the decarbonisation of the economy. Research and innovation systems will require increased public funding in order to play a key role in these efforts. The Commission will promote funding schemes for businesses operating in the field of green innovation and technologies to further this objective.

The region also needs to shift towards the **circular economy**, where recycling and reuse are the rule while the use of natural resources is significantly reduced. The European Institute of Innovation and Technology will play an important role in this regard by reinforcing cooperation with its knowledge and innovation communities, in particular those dealing with energy, raw materials, food management and urban mobility. This would help further develop the thematic innovation ecosystems in the region, and support the involvement of Western Balkan partners in European strategic value chains, including attention to **sustainable production patterns and food systems**.

Primary **food production and the processing sector**, together with **forestry and fisheries**, still account for a large share of GDP and work force in the region (up to 40% of workers in Albania), with a large potential for further sustainable economic development. This would make communities more attractive, and reduce migration of young people to urban centres and the EU. Despite the rich natural resource base, however, farm size, labour productivity and yields are low, with poor technology and continuing subsistence agriculture. Major efforts are still necessary for food safety, animal welfare and the transition towards sustainable food systems which is increasingly important in view of the necessary alignment with the EU food safety *acquis* and the EU Farm to Fork Strategy. IPARD will boost rural economies, the restructuring of agri-food sectors, and reduction of waste. It will contribute to the circular and bio-economy, and making rural areas more vibrant spaces to live while also more resilient to challenges such as climate change and loss of biodiversity.

The protection of **biodiversity** and restoration of the natural capital, as well as efficient waste collection systems and preventing environmental pollution, should also be addressed. This can help exploit the huge **tourism potential of the region's natural environment**, catering both to the local and the European markets and the increasing demand for sustainable tourism.

In the **area of waste management**, attention must be paid to proper waste collection and separation of key waste streams. Greater efforts are needed to reduce **water** pollution and to address water conservation and flood protection. Marine litter is a global concern, affecting all the oceans of the world and rivers in the West Balkan region carry disproportionate amounts of litter to the seas and oceans.

## **VII. Investing in a digital future**

Digitalisation represents an opportunity for the economies and societies in the region, with digital solutions contributing to a sustainable, climate-neutral and resource-efficient

economy, and better governance and public services to the citizens<sup>18</sup>. Digital services represent an increasing share of exports from the Western Balkans. With the support of the EU and the Regional Cooperation Council, since 2018 the Western Balkans are implementing a **Digital Agenda for the Western Balkans**. The Western Balkans should take stock of implementation to date, identify where work needs to be accelerated as well as broaden the scope and ambition of the region's digital transformation. Support provided in particular for **digital skills development, e-government, e-procurement and e-health services** would make public authorities more transparent and accountable, reduce costs and improve service delivery for citizens and businesses, while also addressing the social dimension.

Digital business opportunities can be fully exploited, through **support to digital start-ups and scale-ups** and to **digital skills**. Through actions such as the **Digital Education Action Plan**, the EU is supporting the **development and uptake of digital skills** in the Western Balkans to make the digital transformation as comprehensive and inclusive as possible. **Further participation in EU-wide initiatives**, such as SELFIE<sup>19</sup>, HEInnovate<sup>20</sup>, the Digital Education Hackathon, the EU Code Week and the pan-European data network for the research and education community (the GEANT network) would help link the region more closely to the cutting-edge world of digital research and innovation. The region should also develop and implement their digital education strategies while supporting teacher training as well as online education learning and content initiatives.

The Digital Agenda's aim to work towards **lowering the cost of roaming** within the region is based on working with relevant stakeholders to also significantly lower the cost of roaming to and from the EU. This exercise takes place in an open, inclusive and transparent manner. The preparation of a roadmap is a shared responsibility amongst governments, regulators and telecom operators whilst the Regional Cooperation Council and the EU can act as facilitators. Lowering the roaming tariffs requires action by the operators active in the region in the context of stable, predictable and competitive markets under the supervision of independent national regulatory authorities.

Ways in which the Western Balkans can enjoy the benefits of **the EU Digital Single Market** will be further explored to improve access to digital goods and services, create a level playing field and maximise the growth potential of the digital economy.

It is important that a broad range of sectors benefit from digital innovations in an open and transparent manner while respecting privacy aspects. Support should be provided to build **cybersecurity capacities** in the region, developed based on a needs assessment to be conducted in 2021.

It is estimated that EUR 3.7 billion of capital expenditure (planning and construction) in the next 5 years (up to 2025)<sup>21</sup> are needed to ensure the necessary levels of digital connectivity. The private sector will play an important role in the digital transition of the Western Balkans including 5G and EU guarantees can act as an important enabler. EU support for **investments in digital infrastructure** should be significantly increased also to deploy **ultra-fast and secure broadband with a view to ensure universal access**.

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<sup>18</sup> COMMUNICATION on Shaping Europe's digital future COM/2020/67 final

<sup>19</sup> SELFIE (Self-reflection on Effective Learning by Fostering the use of Innovative Educational technologies) is a free, easy-to-use, customisable tool to help schools assess where they stand with learning in the digital age

<sup>20</sup> HEInnovate is a self-assessment tool for Higher Education Institutions who wish to explore their innovative potential.

<sup>22</sup> COM(2016)0179 final EU eGovernment Action Plan 2016-2020 Accelerating the digital transformation of government

The Western Balkans should focus on the following **reform priorities**:

- Speed up alignment and implementation of the **EU *acquis*** that will create an **investment friendly environment** (including on data protection); and complete implementation of Regional Roaming Agreement.
- **Prioritise and mainstream digitalisation** in national policy with a focus on enterprise, education, health, energy, Research & Innovation, smart growth. Boost innovative digital transformation through encouraging the deployment of platforms and policies such as e.g. eGov, eHealth, e-commerce, digital access to culture and cultural heritage, digital skills in education, Open Access to research data and results, Investments into broadband, and the inclusion of all economies into the European High-Performance Computing Joint Undertaking (EuroHPC).
- Foster the development of regional **Digital Innovation Hubs** and their linking to the Science and Technology Parks, and the European Institute of Innovation & Technology Knowledge Innovation Communities (EIT KICs) as one-stop-shops supporting companies to boost their competitiveness using digital technologies especially in the take up of artificial intelligence in the business sector (notably for SMEs) in line with EU efforts and guidelines; promote the digital skills development and virtual learning in the region.
- Enhance **cybersecurity** capacity and the fight against cybercrime, especially by implementing the EU toolbox regarding cybersecurity risks to 5G networks.
- Ensure the ethical use of technologies, including **artificial intelligence** for surveillance purposes, in line with the EU Charter of Fundamental Rights and in view of a dynamic alignment with future EU legislation in this area.
- Implement the **Declaration on e-Government**, endorsed in Belgrade in 2019, to further accelerate work in line with the EU e-Government action plan<sup>22</sup>, in support of Public Administration Reform.

### **VIII. Boosting the private sector**

Since the 1990s, the Western Balkan economies have achieved remarkable growth while reducing poverty. Living standards have increased across the region and access to public services has improved. However, the Western Balkans still need to undertake important efforts to meet the key economic requirements for EU membership: to ensure functioning market economies and demonstrate the capacity to cope with the competitive pressure and market forces within the European Union. This requires reform of their economic governance systems and implementation of economic structural reforms. The Economic Reform Programme (ERP) process remains the key instrument through which the EU and the Western Balkans jointly identify reform priorities. The Commission is providing significant support to this end. For the purposes of this plan, focus will be put on developing a stronger private sector and investing in human capital.

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<sup>22</sup> COM(2016)0179 final EU eGovernment Action Plan 2016-2020 Accelerating the digital transformation of government

The development of a **robust private sector** is essential for socio-economic development and regional integration, and to improve the region's competitiveness and job creation. The role of small and medium-sized enterprises (SMEs) is particularly important considering that they represent 99% of all enterprises in the Western Balkans, generate around 65% of total business sector value added and account for 73% of total business sector employment<sup>23</sup>. In this context, particular focus should be put on supporting start-ups and SMEs in **strategic sectors** identified by the countries, such as tourism and digital, where they have a comparative advantage or a particular potential through their historical and natural conditions. This will pave the way to economic growth through innovation and enhanced competitiveness.

In order to unlock the potential of the private sector, the EU should increase financing for businesses through substantial allocations for guarantees under the Western Balkans Guarantee Facility and by doubling grants provided under the Western Balkans Enterprise Development and Innovation Facility, the EU-led platform which is part of the Western Balkans Investment Framework. The EU will improve access to finance and risk capital for micro-, small and medium-sized companies, also to overcome difficulties arising from COVID-19.

The combination of grants and guarantees should reinforce open, innovative, business friendly ecosystems in the region based on a "triple helix" approach. This will facilitate the identification, development and promotion of innovative entrepreneurial ideas and provide support to SMEs in order to improve their adjustment capacity to the changing socioeconomic and policy circumstances in facing a broad range of challenges:

- Raising the **quality standards of companies** and the availability of export-oriented investments in order for the region's private sector to benefit from greater market integration and trade within the region and with the EU.
- Unlocking adequate diversified **finance and training for entrepreneurship** (micro, small and medium enterprises, social enterprises) in order to create and grow businesses.
- Strengthening the **competitiveness of SMEs** through investments to support start-ups and the scaling up of innovative companies, as well as programmes to support financial and digital literacy, digitising of companies, incubators and fintechs.
- Supporting the economies to grow through **Smart Specialisation Strategies** building on the region's strengths and potential, as well as strengthening research, innovation and technology transfer.
- Enabling investments into sustainable agricultural production and research to support balanced rural development and to strengthen the competitiveness and viability of the **agri-food sector**.
- Fostering **green growth and the circular economy**, by scaling up investments in green technologies and reducing their costs of deployment in the region. For this purpose the EU will use, among others, the existing platforms such as Green for Growth Fund and Regional Energy Efficiency Programme.

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<sup>23</sup> Source: [OECD SME policy Index: Western Balkans and Turkey 2019](#)

The countries of the region should also continue to benefit from access to EU programmes such as Horizon Europe, COSME and EIC to support innovation and economic development in the period 2021-2027.

## **IX. Investing in human capital**

Fairness and inclusiveness are important in ensuring that the benefits of recovery and growth are shared by everyone and that no one is left behind. A well-functioning labour market and a well-trained and productive workforce are crucial for a resilient economy. The Commission will strengthen the dialogue with the Western Balkans to foster the implementation of the European Pillar of Social Rights <sup>24</sup>(EPSR) in the region. The **EU aims to support the development of human capital by increasing IPA funding**, in particular as regards the reform priorities identified in the Economic Reform Programme process and joint policy guidance in the areas of education and skills, employment, and social protection and inclusion. Emphasis will also be put on youth, health, culture and sport.

The EU will support the wider involvement of the civil society and the private sector by encouraging innovative solutions, promoting social entrepreneurship to tackle social challenges. Financial instruments will be used to attract private funds that target social needs (impact finance), in close partnership with International Financial Institutions (IFIs).

In the **education sector**, the EU will continue to support the development of evidence-based policies and reforms to address the main challenges and priorities of the education system in terms of governance, financing, quality, equality and relevance, with a focus on adapting education systems to the digital transformation and to knowledge based economies. Special focus will be given to reforms promoting appropriate supply of relevant knowledge, skills and competences to tackle the existing mismatch between skills supply and labour demand, including through development of work-based learning in vocational education and training.

Support will continue through the Erasmus+ programme, with enhanced opportunities for academic mobility and capacity building, including in the vocational education and training sector. Through its update of the Skills Agenda for Europe, and the Digital Education Action Plan, and the European Education Area, the EU will target the Western Balkans as a priority in its international dimension. The EU will intensify cooperation with the Western Balkans in the implementation of its 2018 Framework for Action on Cultural Heritage and boost participation in the Creative Europe Programme. The partners of the region should continue to participate to other EU programmes such as Erasmus+ and the European Solidarity Corp to enhance mutual exchange and cooperation on volunteering, training and youth.

Improving **labour market participation, especially of young people and women, disadvantaged groups and minorities, in particular Roma<sup>25</sup>**, will be a priority and can strongly contribute to economic growth. Addressing the needs of the **young population** is a particular priority, not least given the high number of young people not engaged in employment, education or training (NEETs). **Interventions based on the example of EU Youth Guarantee** are ever more necessary in times of crisis to provide young people with an

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<sup>24</sup> In its Communication *A Strong Social Europe for Just Transitions*, the European Commission reaffirmed its intention to strengthen the dialogue with the Western Balkans to foster EPSR implementation in the region.

<sup>25</sup> In July 2019, the Western Balkans prime ministers adopted a Declaration on Roma integration in the EU enlargement process, committing themselves to the concrete improvement of the situation of Roma, including in employment. The EU will continue to support its objectives, including through the implementation of the EU Roma strategic framework for equality, inclusion and participation.

offer of employment, further education, an apprenticeship or a traineeship thereby also offering solutions and perspectives for young people and contributing to tackling brain drain. Attention will also be given to capacity building of social partners and the development of social dialogue and collective bargaining.

These investments also need to be made in an inclusive manner addressing those that are experiencing high poverty rates and low employment opportunities such as persons with disabilities. These investments shall respect the obligations under the UN Convention on the Rights of Persons with Disabilities.

Reforms of **social protection and inclusion** systems, including social care services, will be a priority considering the human development gap with the EU. Development of active inclusion strategies will be supported.

**Health systems reform**, strengthened health insurance and the resilience of public health systems will be supported, also in the light of lessons learnt from the tackling of the COVID-19 pandemic. There is a need to reduce costs and ensure all citizens have access to better treatment. Regional cooperation needs to be reinforced to tackle cross-border threats to health security. Continued support to strengthen the Western Balkans public health systems preparedness and resilience will therefore be ensured.

There is scope for exploiting economic opportunities in the **creative and cultural sector and its contribution to the region's sustainable tourism potential**. The EU will intensify cooperation with the Western Balkans in the implementation of its 2018 **Framework for Action on Cultural Heritage**. The region itself should step up cooperation on the preservation and promotion of cultural heritage within sustainable tourism strategies. To support this sector, the EU will also encourage the integration of cultural and creative industries from the region into European professional networks and value chains.

The implementation of the Innovation Agenda for the Western Balkans will contribute to the strengthening of the human capital base in the region.

## **X. Regional economic integration and integration with the EU**

The objectives of this economic and investment plan will be greatly facilitated by enhanced regional cooperation in the Western Balkans, including stepping up effort towards tighter regional economic integration.

The Western Balkans should develop a **Common Regional Market**, as a stepping-stone to **integrate the region more closely with the EU Single Market** already before they accede to the Union. This is key for the region to **leverage its privileged relation with the EU**. According to a World Bank study<sup>26</sup>, such an **enhanced market integration of the Western Balkans could bring an additional 6.7% GDP growth to the region**.

### **➤ A common regional market...**

As highlighted in the Communication *Support to the Western Balkans in tackling COVID-19 and the post-pandemic recovery*<sup>27</sup>, the COVID-19 pandemic has brought to the forefront the **high level of market integration and the inter-dependence between the EU and the Western Balkans economies**, as well as amongst the latter themselves. Ensuring an unobstructed flow of goods has been a key focus throughout the crisis. To do so, the Western Balkans have swiftly and efficiently established green lanes at critical border crossing points.

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<sup>26</sup> Regular economic report on the Western Balkans, World Bank, fall 2019

<sup>27</sup> COM(2020) 315 final

Inclusive regional organisations – the Regional Cooperation Council, the Transport Community, and the Central European Free Trade Area (CEFTA) have been instrumental in deploying this response. They coordinated efficiently with all Western Balkan partners, amongst themselves and with the EU. In difficult times, such regional cooperation has proven to be essential.

The Declaration of the Zagreb Summit (6 May 2020),<sup>28</sup> adopted by the EU and endorsed by the six Western Balkan partners, mentioned that “*the EU will continue to support such inclusive regional cooperation and urges the Western Balkans leaders to fully exploit the potential of regional cooperation to facilitate the economic recovery after the crisis. This requires strong commitment by the entire region to continue deepening regional economic integration, building on EU rules and standards and thereby bringing the region and its companies closer to the EU Internal Market. Developing this dimension, including through the Regional Economic Area (REA), can help make the region more attractive for investment*”.

To put this commitment into motion, the Western Balkans have to **embrace the objective of building a Common Regional market**, based on EU rules. Such an approach secures integration both within the region and with the EU, and is an important milestone for preparation for the EU accession. This Common Regional Market should build on the achievements of the **Regional Economic Area (REA), which has been a successful initiative**: a regional investment reform agenda has been agreed, mobility of higher education has been fostered thanks to recognition of qualifications, and roaming charges in the region have been reduced. It also led to the adoption of ambitious agreements to facilitate trade in goods and liberalise trade in services. It will contribute to putting the region on the map for global investors seeking to reduce the distance to the EU markets and diversify their suppliers.

The implementation of **sectoral agreements in this regional framework** will be taken into account in the assessment of how prepared the Western Balkans partners are for **participation in the EU single market in the given sector**: successful regional economic integration will help to pave the way to a deeper economic integration with the EU single market.

The EU **calls upon the Western Balkan governments to develop an ambitious and inclusive roadmap to build this Common Regional Market**. This roadmap should concentrate on identifying key deliverables around the four freedoms (goods, services, capital and people), and identify future-proof economic sectors of common interest for which the region can present an attractive value proposition to the global market. The EU should encourage the region to develop a properly functioning inclusive framework allowing for such deepened regional economic integration.

### **Building a Common Regional Market**

As part of their preparations for the deepened Regional Economic Area, the Western Balkans should focus on key deliverables that will bring tangible results to companies and citizens of the region such as:

- **Connecting economies**

<sup>28</sup> <https://www.consilium.europa.eu/media/43776/zagreb-declaration-en-06052020.pdf>

Building on green lanes initiative- ensuring 24/7 full operational capacities at key Border Crossing Points (BCPs)

Setting up a monitoring tool (Galileo) of border-crossing waiting times at all BCPs located on the “green lanes” network

Sign and implement bilateral BCPs agreements in road and rail

■ **Free movement of goods**

Mutual recognition of certificates for fruits and vegetables and other agricultural goods

Free movement of industrial goods on the basis of compliance with the essential EU requirements

Authorised Economic Operators recognised within the region

■ **Free movement of services**

Mutual recognition of professional qualifications

Mutual recognition of licences in a pilot sector (tourism)

Trade liberalisation package (extension of Market Access and National Treatment commitments including mutual recognition of licences in more sectors such as construction, postal services or transport)

■ **Free movement of capital**

Cutting the costs for regional cross border payments

Prepare for joining the Single Euro Payment Area (SEPA)

■ **Regional investment space**

Memoranda of Understanding (MoUs) between investment agencies to deal with investment retention / promotion of key regional value chains

Adoption of regional standards for Foreign Direct Investment screening mechanism at national level

Attract at least 100 investors in promising regional value chains.

■ **Regional innovation space**

Create a Regional Diaspora Knowledge Transfer Initiative to tap into potential of the region’s diaspora and encourage brain circulation

■ **Participation of the Western Balkans in the European Research Area Digital market**

Establish a regional e-commerce and digital content market by adopting core harmonised rules and internal market principle, by facilitating customs clearance of parcels and by removing geo-blocking

Regionally coordinated approach for personal data protection, privacy, cybersecurity, and other rights, aligned with EU *acquis*.

Regional agreement on recognition of trust services, including e-signature

Regionally coordinated process of spectrum harmonisation of European 5G pioneer bands, coordinated approach in the process of awarding of 5G radio frequencies and regional 5G piloting, including safeguards against emerging risks based on the EU security toolbox

■ **Mobility of people**

Mobility of students

Mobility of individuals on the basis of IDs

Mobility of researchers and professors

■ **European Value Chains**

*Tourism:* develop a packaged offer for the region and jointly promote it (based on joint standards, mutual recognition of licenses, etc.)

*Automotive:* upgrade value chains to be ready to seize new trends (electric car, autonomous car, etc.), based on regional assets and raw materials

Programme for *Green & Circular economy:* build new regional value chains to seize untapped potential (circular use of raw materials, collection and treatment of electronic waste, renewable energy value chains, etc.)

➤ .... as a stepping stone to integrate the region more closely with the EU

For all of the **Western Balkan** partners, the EU is the first trade partner accounting for **over 69.4% of the region's total trade** in 2019. In terms of foreign direct investment (FDI), **EU companies are by far the leading investors in the region, accounting for approximately 65.5% of total FDI stock in the region** in 2018.

In line with the revised Enlargement methodology<sup>29</sup>, if a government implements reform priorities agreed with the EU, this should lead to a closer integration of that country with the European Union, accelerated integration and “phasing-in” to individual EU policies, the EU market and EU programmes as part of the accession process.

The EU should therefore explore possible ways that could advance integration of the Western Balkans with the EU in the period preceding accession. This will be an important political signal to the region that its future is in the EU and bring a significant boost to economic performance and investments. Given the important scope for increased trade between the EU and the region, **particular attention will be paid to analysing and addressing non-tariff barriers** and removing technical barriers to trade, while ensuring a level playing field.

Meeting EU norms and standards is essential for exporting to the European Union. In addition, the Western Balkans should take up or match recent EU policy developments aimed at protecting the EU’s security and public order – such as the FDI screening mechanism.

**Integrating the Western Balkans more closely with the EU**

The Commission will work with its Western Balkan partners to accelerate the EU integration process ahead of accession in the following ways:

- Support the adoption of EU standards and the upgrade of the quality infrastructure<sup>30</sup> in the Western Balkans, in order for them to implement the EU *acquis* on **industrial and consumer goods**, which would **facilitate integration with the EU Single Market**. To the extent possible, provide EU IT solutions to ensure the region’s **market surveillance** authorities can communicate between themselves and with their counterparts in the EU.
- Facilitate trade between the EU and the Western Balkans through **customs**

<sup>29</sup> COM (2020) 57 - *Enhancing the accession process - A credible EU perspective for the Western Balkans*

<sup>30</sup> Accreditation, conformity assessment, market surveillance, legal metrology, standardisation

**cooperation** to enable where possible, electronic issuance and transmission of customs documents such as origin proofs; ensure coordination in the planning and execution phases of EU investment in border facilities across the region.

- Facilitate **eCommerce**, including purchasing goods and services online, cheaper cross-border parcel deliveries, protection of online customer rights and promoting cross border access to online content from the EU and the Western Balkans. Facilitate the uptake of **common EU standards on data protection, cybersecurity, and trust services**.

- Support the availability of **digital key performance indicators** in the Western Balkan in line with the European Digital Economy and Society Index (DESI) and with the Local and Regional Digital Indicators' framework (LORDI) and the eGovernment Factsheets.

- Support implementation of **national Authorised Economic Operator programmes** and build up trader membership, continue to support CEFTA in implementing regional mutual recognition. Move towards the mutual recognition of such national programmes as appropriate; adopt a single set of preferential rules of origin (PEM+) and support the participation of the whole region in the Common Transit Convention.

- **Facilitate trade in agricultural products** (including processed agricultural products) in line with the EU sanitary and phytosanitary requirements, via the EU's Integrated Management System for Official Controls. Assist integration into the relevant EU systems (TRACES, RASFF, Europhyt, AAC) and cooperate in the fight against animal diseases and antimicrobial resistance.

- Facilitate **integration of sustainable industrial value chains** between the Western Balkans and the EU, in particular by supporting sustainable production and processing of raw materials, including critical raw materials<sup>31</sup>, ensuring undistorted trade and investment, in compliance with EU social, environmental and transparency standards.

- **Full association to Horizon Europe** – Europe's ambitious EUR 100 billion research and innovation programme.

- Encourage the Western Balkans to match recent initiatives aiming at **protecting Europe's security and public order** - such as establishing national Investment Screening Mechanisms for third countries investments, based on the EU mechanism.

- Facilitate **contact with the European Payment Council** and support the region in view of participation in the **Single Euro Payments Area (SEPA)**.<sup>32</sup>

- Support the Western Balkan administrations to provide **state-of-the-art digital public services for businesses and citizens**. Promote their participation in ISA2 programme<sup>33</sup>. Promote the use of **open standards** developed by the Connecting Europe Facility (CEF) programme<sup>34</sup>.

- Provide **dedicated support to regional organisations** to move forward the regional economic integration agenda including **establishing a platform between the European Commission, the Regional Cooperation Council and CEFTA** where dialogue on the

<sup>31</sup> In line with the Action Plan on Critical Raw Materials COM(2020) 474 final

<sup>32</sup> In line with the Retail Payments Strategy for the EU, COM(2020) 592 final

<sup>33</sup> The EU programme for interoperability solutions for public administrations, businesses and citizens.

<sup>34</sup> This programme has financed a set of generic and reusable Digital Service Infrastructures (DSI), which offer basic capabilities and can be reused to facilitate the delivery of digital public services across borders and sectors. Currently, there are eight Building Blocks: Big Data Test Infrastructure, Context Broker, eArchiving, eDelivery, eID, eInvoicing, eSignature and eTranslation

regional market and its compatibility with EU rules will take place.

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Brussels, 6.10.2020  
COM(2020) 641 final

ANNEX

**ANNEX**

*to the*

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN  
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL  
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

**An Economic and Investment Plan for the Western Balkans**

{SWD(2020) 223 final}

## ANNEX

In the context of the twin Green and Digital transition the Commission will examine the costs the benefits and the impact of the following priority investment flagships and their corresponding project proposals with a view to taking them forward actively and expediently.

In the area of transport, the Commission foresees the following **investment flagships** to be completed or advanced by the end of this Commission's mandate:

### **FLAGSHIP 1 - CONNECTING EAST TO WEST**

**Major east to west connections will be completed or advanced by 2024:**

- The **“Peace Highway” in Kosovo\*** (linking Pristina with Niš in Serbia) **will be finished with the Serbia section substantially advanced.**
- While the (core network of the) road corridor (Corridor X) south-east from Hungary through the region to Bulgaria, Greece and beyond has been practically completed, including with EU support, the parallel rail corridor will be fully modernised. In particular, the Niš railway bypass in Serbia will be finalised in this timeframe. The project on Corridor X to upgrade the rail connection between Serbia and Croatia, which is a vital link in terms of rail freight, will be considerably advanced, as will the project to upgrade the rail link to North Macedonia.
- **Rail Corridor VIII between Skopje and the Bulgarian border** will be substantially advanced to connect Skopje and Sofia.
- **Demining of the Sava river and addressing bottlenecks on the Danube river** will be completed or advanced to improve the sustainable transport mode of these important waterways as part of the TEN-T network, and to facilitate further development of intermodal exchanges.

### **FLAGSHIP 2 - CONNECTING NORTH TO SOUTH**

**Major north to south connections will be completed or advanced by 2024:**

- **75% of the main north-south road corridor** linking central Europe capitals through Sarajevo in Bosnia and Herzegovina to the port of Ploče on the Adriatic coast (**Corridor Vc**) **will be completed to motorway standards.** The rail connection along the same corridor will also be upgraded.
- **Rail Route 4 linking Belgrade to Podgorica to the Montenegrin port of Bar** will be fully rehabilitated from the Serbia border to the sea. **The parallel road corridor will be further advanced, in particular the Podgorica bypass.**
- **The Sarajevo to Podgorica capital to capital connection will be enhanced,** linking further to the existing and planned networks in Bosnia and Herzegovina, and providing more direct links between neighbours.
- **Railway Route connecting Belgrade with Pristina will be further upgraded** through construction works in Kosovo and by preparing the necessary technical documentation for the rehabilitation works in Serbia.

### **FLAGSHIP 3: CONNECTING THE COASTAL REGIONS**

The following will be **completed or advanced by 2024**:

- The **Rail Route 2 linking the capitals of Tirana and Podgorica, and extended to the port of Durres**, is a key project for the region and will be enhanced through the rehabilitation of 120 km of railway line in Albania towards the border with Montenegro.
- Major steps will be taken to complete the “**Blue Highway**” along the coast **from Croatia down to Greece**: the **Tirana road bypass** will be completed and **two further sections in Albania** plus the **Budva bypass in Montenegro** will be substantially advanced.

In the area of **energy**, the Commission suggests the following **investment flagships**:

### **FLAGSHIP 4 – RENEWABLE ENERGY**

Increased use of **renewable energy sources** will be supported, in line with the region’s potential and national preferences.

The following concrete projects could be supported:

- The **Fierza Hydro Power Plant rehabilitation in Albania** will be completed, and the construction of the **Skavica Hydro Power Plant** advanced, in order to increase the potential for the country and ultimately the region with view to increase export of electricity from clean energy.
- The Piva Hydro Power System in Montenegro will be expanded with the start of the construction of the **Komarnica Hydro Power Plant**.
- Preparations for the construction of the **Ibër-Lepenc Hydro System Phase II in Kosovo** will be accelerated.
- **Wind park and solar power plant investments in North Macedonia** will be substantially advanced and serve as an example for future proof investments making use of the renewable energy potential of the region.

### **FLAGSHIP 5 - TRANSITION FROM COAL**

The transition from highly polluting coal to more sustainable and green sources of energy production will be key for the region to meet its commitments under the Paris Agreement. Future-proof gas pipelines supportive of the low carbon transition and transit of decarbonised gas and hydrogen will play a key role, as well as performant electricity transmission lines and smart grids for increased use of renewable energy sources in line with the region’s potential.

The following concrete projects could be supported:

- **As part of the Trans Adriatic Pipeline, the construction of the Fier-Vlora gas pipeline in Albania** will be completed, and the Ionian-Adriatic pipeline along the coast will be prioritised, facilitating a major diversification of the sources of gas supply to the Western Balkans region and beyond
- The **Gas-interconnector Bosnia and Herzegovina – Croatia**, complementing the above diversification, and increasing the potential and diversification of the existing gas distribution system in the country, will be completed

- The **North Macedonia – Kosovo Gas Interconnection**, and extending the already ongoing investment of the North Macedonia – Greece interconnector, would start construction.
- The **North Macedonia – Serbia Gas Interconnection** will be prepared for construction.
- The **Trans-Balkan Electricity Transmission Corridor in Serbia** as part of interconnection between Serbia, Montenegro, and Bosnia and Herzegovina will be completed to provide the backbone for the electricity distribution of the whole region and towards the EU.

#### **FLAGSHIP 6 – RENOVATION WAVE**

The Commission proposes to expand the “**EU renovation wave**” to the Western Balkans.

The building sector accounts for over 40% of total energy consumption<sup>1</sup> in the Western Balkans. Renovating public and private buildings to meet minimal energy performance standards can make a very significant contribution to the reduction of greenhouse gas emissions, improve the living standards of citizens, as well as their health. A building renovation wave implemented with the help of the Energy Community will assist the Western Balkans in decarbonisation of public and private building stock, with a strong emphasis on digitalisation and taking into account energy poverty. The EU together with international financing institutions, will support the efforts of the Western Balkans partners to triple the current renovation rate and energy savings in existing buildings and achieving nearly-zero energy and emission standard in new buildings.

In the **environment sector**, the Commission foresees the following **investment flagship**:

#### **FLAGSHIP 7 – WASTE and WASTE WATER MANAGEMENT**

Sustainable and reliable ways of managing water supply, waste water and waste disposal are crucial for the protection of the environment and of the health of citizens and can have positive impacts on tourism in the region. This is essential for the green perspectives of the region, and safeguarding the health and welfare of its people

The following concrete projects should be supported:

- Construction of **wastewater treatment plants in Skopje and Pristina will be completed**. These projects have a high transboundary impact and improving the living conditions of the population.
- The implementation of an **environmental investment programme in Serbia**, comprising modernised waste water treatment projects for large and medium sized towns, will be undertaken
- Integrated **regional waste management systems in Albania, Montenegro, North Macedonia and Serbia**, going hand-in-hand with the closure of non-compliant landfills, will be established. Similar investments elsewhere in the region should also be supported in the future, including better management of waste in cross-border areas.

<sup>1</sup> Source: Energy Community Secretariat - WB6 Energy Transition Tracker, July 2020: [https://www.energy-community.org/dam/jcr:2077a2ba-805a-4ca2-afcb-91c90ecc0878/EnC\\_WB6\\_072020.pdf](https://www.energy-community.org/dam/jcr:2077a2ba-805a-4ca2-afcb-91c90ecc0878/EnC_WB6_072020.pdf)

- Support for the establishment of proper **air and water monitoring systems and pollution prevention measures**.

In the digital field, the Commission foresees the following **investment flagship**:

### **FLAGSHIP 8 – DIGITAL INFRASTRUCTURE**

The following concrete projects should be supported:

- The development and roll-out of **national broadband infrastructure in the six Western Balkans partners** will continue – with the completion of the most advanced investment projects in the region by 2024. The preparation of further investments elsewhere will be accelerated with particular focus on connecting rural areas.
- Setting up secure, energy-efficient and trustworthy data centres, edge and cloud infrastructures while ensuring alignment with EU’s rules and fundamental values, including data protection, as well as linking to EU initiatives on high performance computers, digital incubators and innovation hubs.
- Building on ongoing initiatives such as the Balkan Digital Highway, synergies with other connectivity areas such as transport and energy should be fully explored in the context of infrastructure-sharing. In addition, using technology and data purposefully to make better decisions has a high potential to deliver a better quality of life for the citizens in the region. Support will also be provided for adapting to the rapid transformative technological development in order to remain prosperous and competitive. The EU will promote cooperation in digital education globally through the renewed Digital Education Action Plan (DEAP) and promote equality in access, in particular for disadvantaged groups, including Roma.

To support the private sector, the Commission proposes the following **flagship**:

### **FLAGSHIP 9 – INVESTING IN THE COMPETITIVENESS OF THE PRIVATE SECTOR**

The development of a robust, innovative and competitive private sector is essential for the socio-economic development of the Western Balkans and its regional integration. This requires, in particular, increased investments in SMEs and their capacity to innovate, scale-up and grow. In order to unlock the potential of the private sector, the EU should:

- Plan to **increase the grant amount** to support the private sector under the Western Balkan Investment Framework. 50% of EU private sector funding should be dedicated to innovation and green growth.
- Plan to **increase the guarantee capacity supporting investments to, primarily to strengthen the competitiveness of SMEs** and enhance employment creation, particularly catering to young people, through the **Western Balkans Guarantee Facility**.
- Mobilise assistance for sustainable transformation of **agri-food systems and rural development** in the region.

To support employment and offer solutions and perspectives for young people at local level, the Commission proposes the following **flagship**:

## **FLAGSHIP 10 – YOUTH GUARANTEE**

The Youth Guarantee is an activation scheme to ensure that all young people receive a good quality offer of employment, continued education, apprenticeship or traineeship within a period of four months of becoming unemployed or leaving formal education.

The Youth Guarantee flagship should be implemented by Western Balkan governments in line with the EU Youth Guarantee. It is proposed to implement it in four phases, which could all potentially benefit from EU support:

- Phase 1 – **Implementation plan**: identification of planned measures and their timelines, budget, necessary changes to legal framework, definition of a central coordinating body and the roles of relevant public authorities (line ministries and their agencies, including employment services and centres for social work, education and training institutions including VET schools, etc.) and stakeholders (employers and trade unions, chambers of commerce, youth organisations, NGOs, etc.)
- Phase 2 – **Preparatory work**: building commitment at political level; building the commitment and capacity of public authorities and stakeholders, staffing and infrastructure development; changes to legal framework, preparation of monitoring and evaluation frameworks
- Phase 3 – **Pilot phase**: implementation in a limited number of localities/regions, monitoring and evaluation
- Phase 4 – **Progressive/General deployment**: implementation in more regions/countrywide, monitoring and evaluation

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