



Regional Convention on
European Integration
of the Western Balkans



IMPLEMENTATION OF **BERLIN PROCESS** IN THE WESTERN BALKANS COUNTRIES

Project - “Together for EU Enlargement - V4 and WB Strengthening
Cohesion of EU Integration and Berlin process”



GOVERNMENT OF
MONTENEGRO





European Movement
Montenegro

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INTRODUCTION

Dear friends,

In the fifth year of the Regional Convention of the European Integration of the Western Balkans, we are coming to the successful end of another line of activities, fully dedicated to exploring of the structure, aims, achievements and capacities related to EU integration of the Western Balkans

in all six countries of the region, as well to exploring of different ways and levels of engagement of Visegrad 4 countries to all aspects of this process.

Our policy study **“Implementation of Berlin process in the Western Balkans countries”** that is in front of you is a result of deep and committed work of all our partners and colleagues within the project, and it represents general overview of major facts within the analyzed area.

This particular study was conducted within the project **“Together for EU Enlargement - V4 and WB Strengthening Cohesion of EU Integration and Berlin process”**, and it relates to assessing capacities and achievements of the institutions, approaches, priorities, regional and national mechanisms and funding specifications that have been either created or improved in relation with the Berlin Process dynamics. Special attention was paid to the connectivity argument with reference to the contribution of concrete projects to growth and prosperity in the country, and related funding opportunities – including available and potential ones. Finally, specific recommendations have been drawn for each category of the involved stakeholders, in order to take out the most from the Berlin Process. Special attention was also paid to the contribution of connectivity to the engaged WB6 reforms and to the advancement of the WB6 countries in the EU membership path.

We would like to thank our partners on the project which directly contributed to the development of 6 studies for each of the WB countries: (Cooperation and Development Institute from Albania, European Movement in Serbia, European Movement in Montenegro, CRPM North Macedonia, Kosova Democratic Institute and Transparency International BiH), as well as to other local, regional and EU external partners that have supported our project in different capacities, with special gratitude to the Government of Montenegro.

Finally, and above all, this study and entire realization of the project would not be possible without support of the International Visegrad Fund, that was generously supporting our ideas and work since the very beginning of creation of the Regional Convention on European Integration of the Western Balkans.

We hope that we have justified the trust and hopes of our partners, friends and supporters and that following pages will find a practical use in the work of various structures, organizations and institutions that are dealing with Berlin process, as well to relations between Western Balkans and Visegrad 4 countries in various aspects of the EU integration in general.

Momčilo Radulović
President, EMIM



Regional Convention on European Integration
of the Western Balkans

**MONTENEGRO IN THE BERLIN PROCESS:
IMPORTANT STRIDES MADE, MAJOR
IMPACT YET TO BE VISIBLE**

*Developed by: European Movement in Montenegro
Authors: Marko Lubarda and Momčilo Radulović*

Background

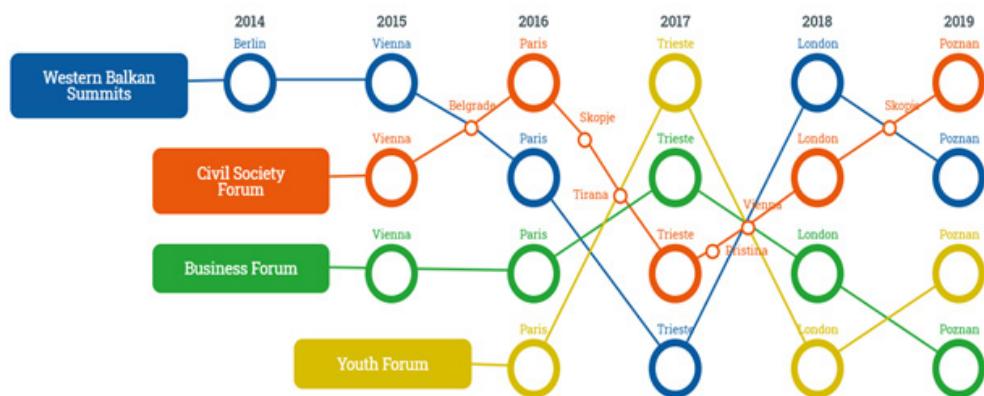
For years, Montenegro has been keeping the bragging rights of being the undisputable leader in the EU integration process compared to other WB6 countries, despite having the second smallest economy and population in the region. Since regaining its independence in 2006, Montenegro has excelled in all areas used as measuring sticks by the international community to assess a country’s progress – GDP, rule of law, human rights and freedoms, openness to business etc. An overview of key milestones in the Montenegrin accession progress can be shown as follows:¹

<p>DECEMBER 2008</p> <p>Application for EU membership</p>	<p>MAY 2010</p> <p>Entry into force of the Stabilisation and Association Agreement</p>	<p>JUNE 2012</p> <p>EU Accession Negotiations opened</p>	<p>DECEMBER 2019</p> <p>After seven years of accession negotiations 33 out of 35 negotiating chapters have been opened. of which 3 are provisionally closed</p>
	<p>DECEMBER 2010</p> <p>Candidate country status granted</p>		

Then, in 2014, along came the Berlin Process, aiming to reaffirm the EU perspective of the region as a whole, by improving cooperation, economic stability and especially insisting on the process of “connectivity”, which are, in fact, investments in the infrastructure through which jobs and business opportunities can blossom. Three main platforms can be recognized, through which the Berlin Process is being implemented, and Montenegro has been active in all of them: high-level meetings among the officials (Western Balkan

¹ Montenegro Foreign Investment Council, “White Book: Investment Climate in Montenegro 2019”, March 2020

Summits and other events), multi-layered investment projects (spearheaded by Western Balkans Infrastructure Framework grants) and P2P connectivity among non-governmental actors, such as businesses, civil society and youth (through the Civil Society Forum, Business Forum, Youth Forum etc.). With the interplay of these platforms, the goal was to create high-level political connections, reconcile societies by stimulating youth exchange and education projects and resolve outstanding bilateral disputes, while ensuring civil society participation in the whole process.²



Montenegro in the Western Balkan Summit

It is safe to say that the Berlin Process improved communication at the diplomatic level between the Western Balkans leaders. Prime examples include the WB leaders signing the Declaration on the Resolution of Bilateral Disputes, avoiding the mutual blocking of the European path and solving three bilateral disputes, out of which 2 have significance for Montenegro (the Kosovo-Montenegro border demarcation and the Bosnia and Herzegovina– Montenegro border agreement). During the London Summit in 2018, the Joint Declaration on Regional Cooperation and Good Neighborly Relations within the Berlin Process was signed, as well as the Joint Declaration on Missing Persons and the Joint Declaration on War Crimes. Montenegro also committed itself to implement anti-corruption activities. As part of its commitments from the Berlin Process Summit in London, Montenegro participated in the meeting on bilateral issues in the context of the Joint Declaration on Regional Cooperation and Neighborhood Relations (Vienna, November 16, 2018) and hosted the first Steering Group on Security within the Berlin Process (Podgorica, November 21, 2018).³

Prior to the London Summit, Montenegro participated in the meeting of Ministers of Economy (Vienna, July 4, 2018) and at meetings of Foreign Ministers and Ministers of the Interior (London, July 9, 2018). On that day, the Ministers of the Interior signed a Joint Declaration on the Principles of Exchange information on Law Enforcement and adopted

2 The Berlin Process Information Center <https://berlinprocess.info/>

a Franco-German initiative to ban the illegal possession, use and sale of weapons in the region by 2024 and support the Call for Action to end forced labor, modern slavery and trafficking in the Western Balkans. 4 Montenegro also hosted a two-day (November 29-30, 2018) meeting of Western Balkan Ministers of Foreign Affairs in Budva. The topics of the meeting included implementation of the Berlin Process obligations, preparation and expectations from the forthcoming meeting in Poznan as well as the importance of the European Integration process in the context of stability and further cooperation in the region. 5

The following year, Poland held the Summit of the Berlin process in Poznan, with emphasis on the key factors for stimulating and sustaining economic growth and entrepreneurship development with a focus on exchanging experience and lessons learned during the implementation of reform programs in both the Western Balkans and the Berlin Process. During the Ministerial Meeting on the topic - Multiannual Plan of the Regional Economic Community, Montenegro presented its activities in order to improve regional cooperation and achieve the goals within the Multiannual Action Plan for Regional Economic Area. 6

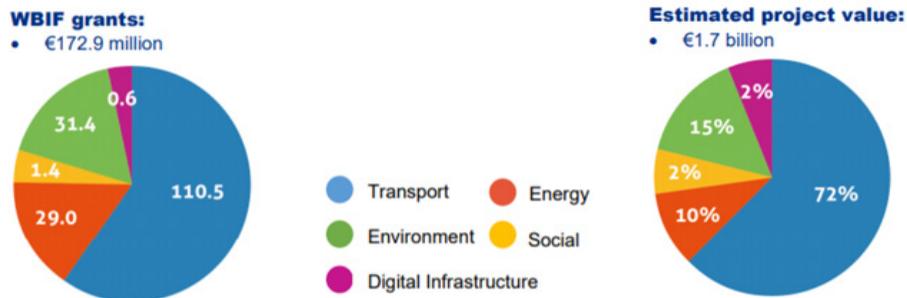
In any case, Montenegro has taken a visible and pro-active stance in Western Balkans Summits within the Berlin Process, even hosting several meetings on a high level, with the specific purpose of reaching an agreement on further connectivity with its regional neighbours. Some analysts would refer to these meetings as “a travelling circus”⁷, with the emphasis on form over substance. The following pages will try to reveal to what extent is such epithet applicable with regards to the benefits for Montenegro.

Montenegro and the Western Balkans Investment Framework

The high-level meetings among WB6 politicians and their EU Member States’ counterparts, along with official and publicized events, would hold little practical purpose without the main financial catalyst of the Berlin Process – the Western Balkans Investment Framework. It represents a financing facility launched in December 2009 by the European Commission, along with the Council of Europe Development Bank (CEB), the European Bank for Reconstruction and Development (ERBD), the European Investment Bank (EIB), KfW, World Bank Group, AFD, Bilateral Donors, as well as Western Balkans beneficiaries with the purpose to provide funding for various investment projects. The WBIF is tasked with combining grants, loans and beneficiary contributions for infrastructure development in several sectors.

As for Montenegro, the WBIF has so far supported 18 projects, with an estimated value of 1.7 billion EUR, implemented within 45 grants for technical assistance and investment works with an overall value of 172.9 million EUR, out of which 148.5 million EUR from the EU and 24.4 million EUR from other donors. Moreover, Montenegro has secured additional 227 million EUR in loans from the WBIF financial institutions, signed for 6 projects.³ The distribution of WBIF grants and estimated project value per each supported sector can be shown as follows:

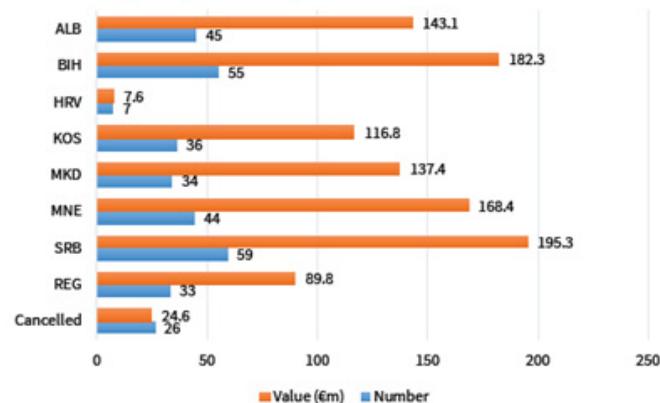
3. Montenegro and the Western Balkans Investment Framework, WBIF, December 2019. https://www.wbif.eu/storage/app/media/Library/3.%20Beneficiaries/Montenegro%20and%20the%20WBIF_Jan%202020.pdf



This data demonstrates that the bulk of the grants has gone into the transport sector, with projects value of the 72% of total estimated, followed by the environment and energy. How does the number of projects, their estimated value and prioritization among the sectors in Montenegro fare against other WB6 countries?

According to the data from the end of 2019⁴, Montenegro is the 3rd largest recipient among the WB6 countries when it comes to the grant amounts allotted, behind Serbia and Bosnia & Herzegovina. With 172.9 million EUR in grants, Montenegro has received 16,54% of the total WBIF amount granted to all 7 countries, including Croatia, which had used the funds during the 2011-2014 period. The graph below does not include the latest 4.5 million EUR project for co-financing the project Construction of infrastructure for water supply and wastewater disposal on the Adriatic coast – Bay of Kotor, phase II, approved in 2020:

Distribution of grants by beneficiary



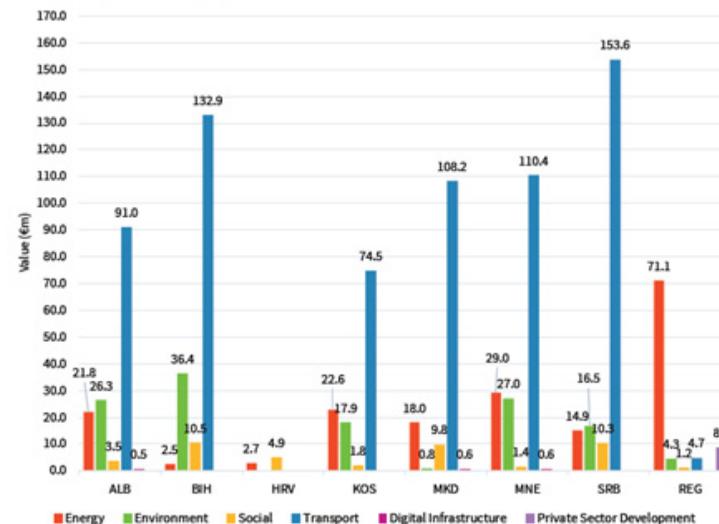
As far as the distribution of the grants per sector, in Montenegro, as in other 6 countries, the transport sector is by far the most dominant. However, it is interesting to point out that Montenegro has the highest percentage of the energy sector participation, with

4. WBIF Monitoring Report, November 2019 <https://wbif.eu/library/page/wbif-monitoring-report-november-2019>

5. Ibid, page 12

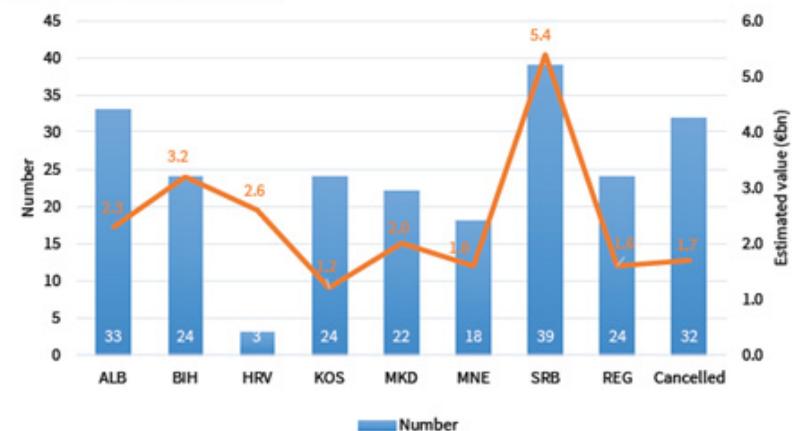
the 29% of the total sum received from the WBIF. Also, it has the second highest share of projects participation in the environment sector, with 27%. It will be interesting to provide an analysis later how well have the projects developed overall, especially in the transport, energy and environment sectors, compared to the rest of WB6:

Value of grants per beneficiary by sector



Regarding the number of the projects and the total project value, including all other donors and lenders, Montenegro is last, with only 18 projects approved, with, for example Serbia and Albania having over 30. Logically, this pertains to Montenegro having the second smallest estimated total value, behind Kosovo:

Projects supported by beneficiary

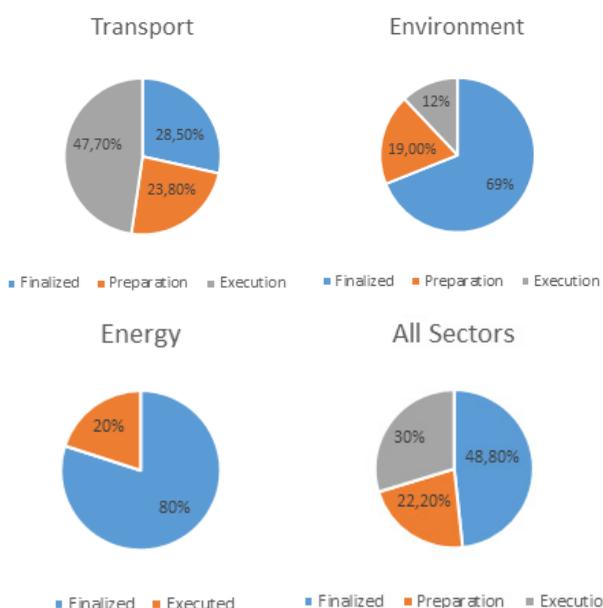


6. Ibid, page 11

7. Ibid

Monitoring the dynamics of the implementation of 18 projects and 45 grants in Montenegro can yield in the assessment of the capacity of Montenegrin administration to manage all tasks at hand. Out of 48 grants, only 3 have been cancelled, out of which 2 in the environment sector (Wastewater Treatment Plant and Network in Danilovgrad and Monenegro Solid Waste project documentation preparation), as well as 1 in the energy sector (Pljevlja Renewable Energy Heating Project). By the end of 2019⁸, 48.8% of the total number of grants received since 2009 have been finalized. What's more, in by far the largest sector - transport, only 28.5% of grants have been finalized, which may contribute to the low visibility of WBIF influence among the general Montenegrin public. On the other hand, almost 50% of these grants are in the execution phase, with the first results expected to be visible in 2021, 2022 and 2023.

Sector	Number of grants	Preparation	Execution	Finalized
Digital Infrastructure	1	1	/	/
Energy	5	/	1	4
Environment	16	3	2	11
Social	2	1	/	1
Transport	21	5	10	6
Total	45	10	13	2



8. Ibid, pages 38-41

A brief introspection in some of the most prominent grants in each of the three sectors can provide further insight on the visibility of WBIF grants and the dynamics of their implementation.

Transport

The largest project in the transport sector of Montenegro concerns the rehabilitation of the R4 of the Orient/East-Med Corridor: Belgrade-Bar Railway line, project code PRJ-MNE-TRA-004, with the total grant amount of 49,650,600 EUR (with EIB as the lead IFI). The project consists of the following grants:

Title of operation ⁹	Grant amount (EUR)	Status	Completion date
Reliability of Safety Improvement of Bar-Vrbnica Railway Line (Rail Route 4)	1,005,000	Finalized	29/06/2016
Special Inspection of 106 Tunnels and Development of the Main Designs for their Rehabilitation	2,512,500	Finalized/Execution	10/10/2020
Orient/East-Med Corridor (R4) Reliability and Safety Improvements Phase 2 (Concrete bridges)	3,015,000	Execution	30/10/2019
Orient/East-Med Corridor (R4): Montenegro-Serbia Rail Interconnection, Section Bar-Vrbnica	20,400,000	Execution	30/09/2020
Rehabilitation of the Vrbnica-Bar Railway Line in Montenegro Along the Main Belgrade-Bar Railway (R4)	1,507,500	Execution	31/05/2020
Orient/East-Med Corridor, Route 4, Railway Line Vrbnica-Bar, Replacement of the Signal-Safety System in the Northern Part: Connection to Central Command and Main Design for Rehabilitation of Landslide Ratac	1,929,600	Execution	31/11/2020
Orient/East-Med Corridor: Montenegro-Serbia R4 Rail Interconnection, Bar-Vrbnica Section	16,266,000	Preparation	01/12/2022
Orient/East-Med Corridor, Route 4, Golubovci – Bar Section of the Bar-Vrbnica Railway Line: ESIA, Preliminary Design, Detailed Design, PIU Support, Other.	3,015,000	Preparation	30/09/2022

9. WBIF Monitoring Report, November 2019.

These grants are a part of the “2015 Connectivity Project”, aiming to rehabilitate the most important section of the Montenegrin rail network, carrying about 20% of all passenger and about 60% of cargo. So far, only the special inspection of tunnels, main designs for their rehabilitation and a reliability study have been finalized. The construction of 29 concrete bridges is being executed, as well as the replacement of the signal-safety system.

This means that the first tangible results of the largest WBIF investment in Montenegro are to be seen by the end of 2020, while the whole project will not be completed sooner than the end of 2022.



The second largest project is the construction of the **Mediterranean Corridor (Road R1)/ Adriatic-Ionian Highway**, project code PRJ-MNE-TRA-003, with the total grant amount of 47,233,075 EUR (with KfW as the lead IFI). The project consists of the following grants:

Title of operation ¹⁰	Grant amount (EUR)	Status	Completion date
Mediterranean Corridor (Road R1), Adriatic-Ionian Highway, Construction of Budva Bypass: Preliminary design	2,512,500	Execution	09/07/2021
Mediterranean Corridor, Montenegro – Croatia – Albania R1 Road Interconnection, Budva Bypass: Preliminary design, ESIA	2,125,575	Execution	09/07/2021
Mediterranean Corridor, Montenegro – Croatia – Albania R1 Road Interconnection, Budva Bypass	42,095,000	Preparation	31/12/2023
Priority Bypass on the Montenegrin Coast	500,000	Finalized	31/12/2017

10. Ibid

The Budva bypass is part of an EU driven initiative to develop a modern transport route on the extension of the Mediterranean Core Network Corridor in the Western Balkans. Also known as the Adriatic–Ionian Expressway or the Blue Highway, the new development will create a seamless route from Trieste in Italy to Greece, while branching out to Slovenia, Croatia, Montenegro, and Albania. The new 14 km road, built to expressway standards, is expected to significantly decrease travel time along the Croatia – Montenegro – Albania route and bring other tangible benefits, such as better living conditions for more than 60,000 people living in Budva and nearby areas by reducing emissions, reduction in the accident rate and vehicle operating costs, creation of 350 jobs during the construction and operation and maintenance periods, and improved trade flows with countries in the region and thus a positive impact on the broader economy of Montenegro, to name but a few. **However, the tangible results of this project are to be visible no sooner than 2024, with only Priority Bypass in Budva realized so far.**



Comprehensive network (Road R2b): Scepan Polje (B&H border) – Pluzine, project code PRJ-MNE-TRA-001, with the total grant amount of 4,971,692 EUR (EIB and EBRD as main IFIs). The project consists of the following grants:

11. Completion of the EU-funded Preliminary Design and Environmental and Social Impact Assessment for Budva Bypass, 24.01.2019. <https://wbif.eu/news-details/completion-eu-funded-preliminary-design-and-environmental-and-social-impact-assessment-budva-bypass>

Title of operation ¹²	Grant amount (EUR)	Status	Completion date
Reconstruction of Main Road Scepan Polje – Pluzine (B&H border)	150,000	Finalized	01/06/2010
Construction of Main Road Scepan Polje – Pluzine (B&H border)	550,000	Finalized	01/04/2014
Detailed design and Tender Documents for Reconstruction of the Scepan Polje – Pluzine Road	4,271,692	Execution/ Pending ToR	31/08/2020

The connecting road is the shortest connecting line between the two capitals: Sarajevo and Podgorica. So far, the technical documentation has been prepared for the construction / reconstruction of the 20km long section of the new border crossing of Paklice to Pluzine. For the 3km length from the Paklice to the new bridge over the Tara River (not including the bridge itself) at the border between Montenegro and Bosnia and Herzegovina, the project documentation is only prepared at the level of the conceptual solution, so further development is required, including environmental impact assessment¹³. Again, the tangible results of this grant, besides preparatory road upgrades are yet to be visible to the general public.

Environment

In this sector, an improvement is evident regarding the visibility and salience of projects supported. As it was mentioned before, Montenegro is the WB6 country with the second highest share of grants going towards this sector, and the investment projects are mainly related to rehabilitation and construction of water and sanitation infrastructure, wastewater treatment plants, Drina and Sava river basin water resource management.

Even though the 69% of grants in this sector are finalized, the most expensive projects in this sector are yet to be completed and therefore of use to the broader public. Truth be told, the largest project in the sector - **Rehabilitation and Construction of Municipal Water and Sanitation Infrastructure**, project code PRJ-MNE-ENV-001, grant amount 11,080,000 EUR, is being implemented, with most grants finalized apart from “Montenegro Wastewater and Water Supply Projects – Technical Assistance in Preparation of Project Documentation” (being executed) and “Montenegro, Bijelo Polje Wastewater Treatment Plant” (preparation stage). The project entailed the construction

12. Ibid

13. Ministry of Transport and Maritime Affairs, Main project and tender documentation for reconstruction of the main road Šcepan Polje-Plužine, 14.12.2018. <http://www.msp.gov.me/en/news/195020/Main-project-and-tender-documentation-for-reconstruction-of-the-main-road-scepan-Polje-Pluzine.html>

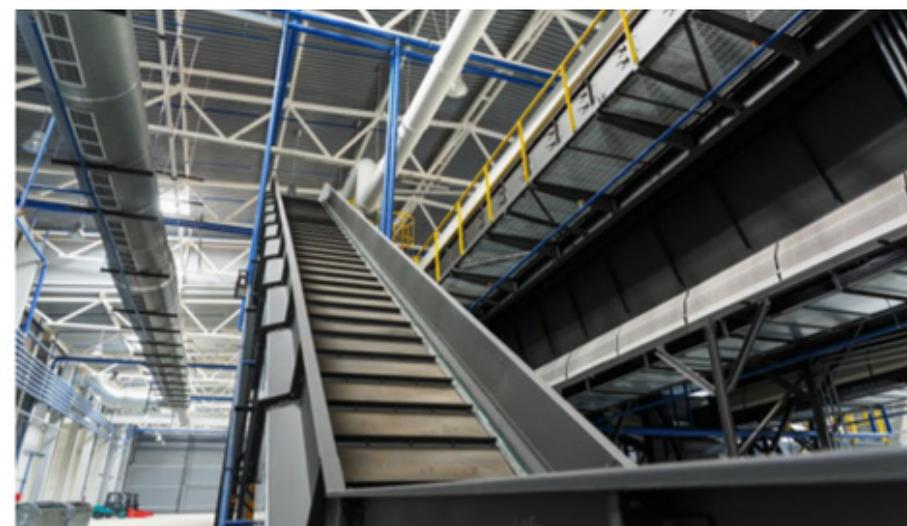
of water and wastewater systems in six medium municipalities in Montenegro – Bijelo Polje, Cetinje, Berane, Plav, Ulcinj and Andrijevica.

However, the second most expensive project, (PRJ-MNE-ENV-002: **Construction of Wastewater Treatment Plan in Podgorica**, 10,145,834 EUR), will not be finished before 2024. What’s more, the planned continuation of this project will not be completed before 2040, when primary collector and secondary sewerage network and house connections (approx. 72 km), as well as an increase in treatment capacity of the wastewater treatment plant to 235,000 PE are expected to be built.

Other notable projects from this sector include construction of regional landfills in Pljevlja and Zabljak (finalized), while the anticipated construction of Wastewater Treatment Plant in Podgorica and Boka Bay Water Supply and Wastewater Collection are in the preparation stage, with the results not expected to be visible before 2023.

Energy

The WBIF grants for Montenegro in this sector consist of only 4 projects and 5 grants, but totalling around 29m EUR, with the largest share for this sector out of the total grant amount per WB6 country. By far the most important project in this sector is Trans-Balkan Electricity Corridor: Grid Section in Montenegro, project code PRJ-MNE-ENE-001, with the grant amount of 26,850,000 EUR (92.5% of the total grant value for energy sector in Montenegro), with the monitoring IFI being KfW.

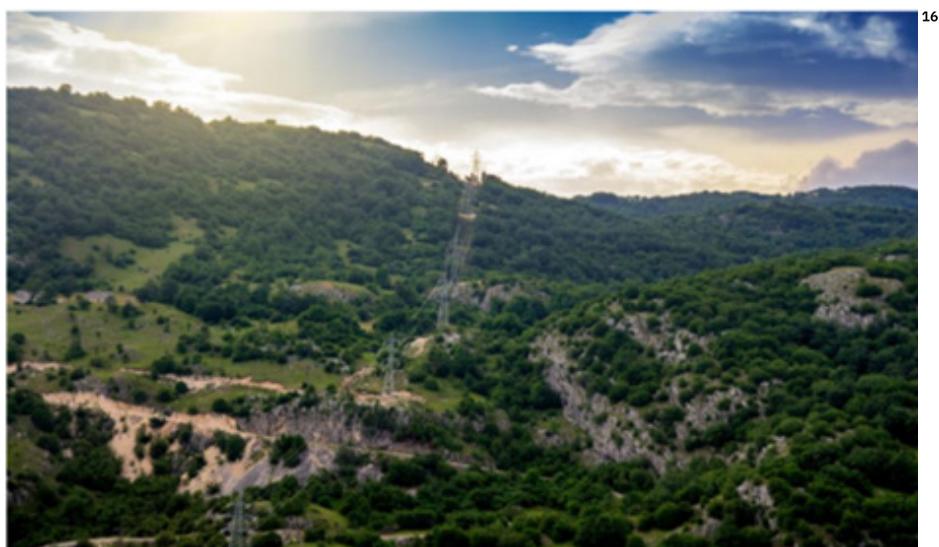


Regional sanitary landfills for Pljevlja, Zabljak, Niksic, bar and Cetinje municipalities and leachate treatment plant for Livade landfill in Podgorica. The WBIF has contributed €1 million in EU grants for project preparation and environmental impact assessments. The EU has provided a further €4.4 million grant from IPA National for construction works.

14. Montenegro and the Western Balkans Investment Framework https://www.wbif.eu/storage/app/media/Library/3.%20Beneficiaries/Montenegro%20and%20the%20WBIF_Jan%202020.pdf

The project contributes to the establishment of a Western Balkans regional electricity market through the creation of a 400 kV transmission corridor between Montenegro, Serbia and Bosnia and Herzegovina. The corridor would be further linked to the European Union via the Italy - Montenegro submarine cable. The investments in Montenegro comprise the construction of a new 400 kV transmission line from Lasta to Pljevlja and then to the border with Serbia, including the construction of a new substation in Lastva, the grid connection from Lastva substation to the existing 400kV Podgorica – Trebinje line, and the upgrade of the 400/220/110 kV substation in Pljevlja. The project includes the cost of dismantling the existing 220 kV overhead lines between the substation in Pljevlja and the Montenegro/Serbia border.

The project is still in the process of implementation, with ground broken for the new transmission line in 2016.¹⁵ However, as with the previous two sector, the general public will have to wait for the actual benefits of this grant for a few year, concretely, this project is estimated to be completed not sooner than 2025. Other grants in this sector have been completed, concerning mainly the electricity expansion for the development of RES, feasibility study for Biomass District Heating System in Kolasin and Gas Development Master Plan – Priority Project Portfolio Identification in Montenegro.



Trans-Balkan Electricity Corridor: Grid Section in Montenegro. The WBIF has provided €27.4 million in EU grants, including a €25.5 million investment grant under the Connectivity Agenda in 2015, for the construction of approximately 165 km long 400 kV transmission line and new substations in Lastva and Pljevlja.

15. Ground Broken on the Trans-Balkan Electricity Corridor Section in Montenegro, 10.07.2016. <https://wbif.eu/news-details/ground-broken-trans-balkan-electricity-corridor-section-montenegro>

16. Ibid

However, it is important to point out, that Montenegro is also benefiting from another 11 regional projects in the Energy sector, most of them including all other WB6 countries:

Project Title	Grant amount (EUR)	Current status	Other countries involved
Trans-Balkan Corridor: 400 kV Interconnection Serbia - Montenegro - Bosnia and Herzegovina	2,056,000	Preparation	B&H, Serbia
Ionian-Adriatic Pipeline (IAP)	7,000,000	Preparation	Albania
Establishment of a Regional Energy Efficiency Programme (REEP) for the Western Balkans	23,350,000	Implementation	Albania, B&H, Serbia, Kosovo, North Macedonia, Croatia
Regional Study – Consortium approach to developing the Gas to Power Initiative and the Energy Community (EnC) Gas Ring in South East Europe	961,538	Completed	Albania, B&H, Kosovo, North Macedonia, Serbia
Sector Study on Biomass-based Heating in the Western Balkans	840,000	Completed	Albania, B&H, Kosovo, North Macedonia, Serbia
TA for SEE Regional Security Coordination Initiative	1,000,000	Implementation	B&H, Serbia
Regional Energy Efficiency Programme for the Western Balkans - REEP Plus	31,078,000	Implementation	Albania, B&H, Serbia, North Macedonia, Kosovo
Regional Study on Renewable Energy Potential and Energy Efficiency in the Western Balkans	337,750	Implementation	Albania, B&H, Kosovo, North Macedonia, Serbia
Regional Strategy for Sustainable Hydropower in the Western Balkans	1,422,589	Completed	Albania, B&H, Kosovo, North Macedonia, Serbia
Regional Energy Efficiency Programme for the Western Balkans - REEP Plus Replenishment	28,765,973	Preparation	Albania, B&H, Serbia, North Macedonia, Kosovo

P2P connectivity, Youth and Civil Society Organizations in the Berlin Process

The launch of the Digital Agenda for the Western Balkans and the organization of the Digital Summit can be qualified as one of the most visible result of regional integration through the Berlin Process. Also, by signing the Agreement on the Elimination of all Roaming Charges over a two-year period, with mutual respect agreements, partners in the Western Balkans have shown a clear commitment to these goals.¹⁷

17. Mobile World Live, 05.04.2019. <https://www.mobileworldlive.com/featured-content/top-three/balkan-countries-agree-to-slash-roaming-charges/>

Lately, the connection between Montenegro and the Berlin Process in the area of youth cooperation has been overshadowing other initiatives in this area. The main generator of such relationship is the Regional Youth Cooperation Office, an independently functioning body, aiming to promote the spirit of reconciliation and cooperation between the youth in the region through youth exchange programs. Main RYCO projects include: “Building Capacity and Momentum for RYCO”, “Enhancing Youth Cooperation and Youth Exchange in the WB6”, “Route WB6” and “WB6 Lab”¹⁸. In March 2019, Montenegro hosted the fourth RYCO Advisory Board meeting, organized by the RYCO Local Branch Office in Montenegro. At the meeting, the results of RYCO for the year 2019 were presented, which include receiving 378 applications from around 1,200 applicants, awarding 64 projects with more than 1.3 million EUR, organizing 25 information sessions and 350 meetings at the local level, as well as supporting between 4,000 and 5,000 young people to participate in youth exchanges in 2020.¹⁹

Another important facet in this area is reflected in the participation of Montenegro in the Western Balkans Enterprise Development and Innovation Facility (WBEDIF). Its aim is to create a more favorable financial environment for SMEs and a sustainable equity market on the long-term, by providing WB6 stakeholders with enhanced access to finance. Montenegro has shown absorption capacities from the Guarantee Facility²⁰, whereby under the first round of financing, the EIF deployed a guarantee instrument with Crnogorska Komercijalna Banka (CKB) in 2014. A second allocation to CKB took place in 2016 – stemming from an additional EU financing contribution owing to the general success of the instrument in the region. Moreover, regarding Support Services:

- SMEs in Montenegro have received advisory services through 36 projects under the EBRD’s Advice for Small Businesses (ASB) to help their growth, competitiveness and bankability
- Led by the OECD, the Small Business Act (SBA) assessment supported Montenegro in improving SME policy making and enhancing the capacity of its policy makers in addressing related challenges. The World Bank Investment Readiness Program “Pioneers of the Balkans” provided mentoring to entrepreneurs to help them get access to external sources of funding.,
- An IP Toolkit was distributed to participants of the Workshop held in Podgorica under the programme lead by EIB for support on intangible assets and intellectual property in the Western Balkans.
- Under the World Bank’s EU-REPARIS programme, activities were organized on a regional basis with regular participation of the various stakeholders of Montenegro²¹.

Civil society in Montenegro has also contributed through the participation in Civil Society Forums numerous think-tanks and organisations from Montenegro participated in preparation in the CSF Policy Brief documents, through their research and/or field reports. The most notable publications include “CSF Policy Brief – Legacy Issues and the Rule of Law in the Western Balkans: Slow Progress and Countless Obstacles” from 2019,

18. Regional Youth Cooperation Office (RYCO) <https://www.rycowb.org/>

19. Fourth RYCO Advisory Board Meeting Takes Place in Montenegro, 05.03.2020. <https://berlinprocess.info/fourth-ryco-advisory-board-meeting-takes-place-in-montenegro/>

20. WBEDIF Guarantee Facility <http://www.wbedif.eu/for-entrepreneurs/guarantee-facility/>

21. WBEDIF Montenegro <http://www.wbedif.eu/wbedif-in-your-country/montenegro/>

and “Western Balkans and the Rule of Law: How to solve a catch-22” from 2018, both produced by a Montenegrin NGO – Politikon Network.²²

Conclusion

Overall, for Montenegro, the involvement in the Berlin Process has proven to be a suitable complimentary activity to the EU accession process. It has increased Montenegro’s visibility on the regional, European and international scene, and provided an opportunity for Montenegro to host important events and initiatives. The WBIF has supported Montenegro in 18 projects, with an estimated value of 1.7 billion EUR, implemented within 45 grants for technical assistance and investment works with an overall value of 172.9 million EUR. The most important sectors in which these projects are being implemented include transport, environment and energy. However, as the analysis has shown, the largest and most complex projects in all these sectors will not have been completed by the 2022-2025 period, which makes it difficult for the general public in Montenegro to feel the relevance and concrete benefits of this financial aspect of the Berlin Process.

It would be insightful to quickly provide some perspective with regards to the development of some crucial Montenegrin sectors in the past decade, such as energy, trade, transport, telecommunications, banking and tourism. Montenegrin Foreign Investment Council has recently published a report on the investment climate in Montenegro for 2019 (using the MFIC index), and the trends are as follows:



22. <https://berlinprocess.info/section/publication/>

23. Montenegrin Foreign Investment Council, “White Book: Investment Climate in Montenegro 2019”, March 2020, pp 24



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Even though causation does not imply correlation, a hypothesis can be offered that the dynamics of the on-going Berlin Process and EU accession process, especially with regards to enormous investments in these sectors from the Instrument for Pre-Accession Assistance, WBIF, EBRD and other donors, would yield in distinctively upward economic trends. So far, only telecommunications have demonstrated such growth, with more development to be seen in energy and tourism, especially after the main infrastructural projects in Montenegro are brought to a completion in the next 3-10 years.

Apart from the financial aspect, it can be said that young people, CSO, media and SMEs have benefited from the Berlin Process, but the challenge remains with low visibility of this process among the public in Montenegro, as well as accessibility of numerous calls and funding opportunities that this process offers. In Montenegro, the Berlin Process has been mainly overshadowed by the EU integrations and adjustments to EU Chapters, and the future initiatives are laden with opportunities for such state of the affairs to be changed. There are plenty reasons for moderate optimism, purported by the recent EU's green light of Albania and North Macedonia accession talks, creating an atmosphere that, in the near future, all WB6 can together achieve significant strides on their path to the EU.

• Visegrad Fund



Regional Convention on European Integration of the Western Balkans

ALBANIA IN THE BERLIN PROCESS

Developed by: Cooperation and Development Institute

Authors: Ardian Hackaj

BACKGROUND

In the framework of Connectivity Agenda, which aims to improve transport and energy links with, and between the countries of the Western Balkans and Europe, by the end of 2019, Albania has received funding for four infrastructure projects. These projects reach a total value of almost 300 million euros in transport, energy, digital sector and maritime interconnection. However, until December 31, 2019, no work had started on any of them. In addition to the prolonged tendering procedures, which are in the average of the countries in the region, the execution of the projects in Albania presents delays in implementation, and in some cases even requests for deviations. The tendering process for the Tirana-Durrës-Rinas Railway, which was approved in 2016, has been postponed for about a year and March 2020 is the new deadline for closing the tender procedures and starting the works. Albania-Macedonia Northern Energy Interconnection Line (I): Albania's section, a project approved in 2015, is still in the tendering phase, while work has begun on Macedonia's session. Rehabilitation of the Port of Durrës, Cabins 1 and 2 (of goods), a project approved in 2018, which is considered very important for Albania, is still in its initial stages, as the government is considering changing its destination, by displacing it in the rehabilitation of passenger cabins 3 and 4. Another important project of the Connectivity Agenda in Albania, still in its initial stage, is that of the Adriatic-Ionian road corridor, with a value between 2.4-2.7 billion euros, excluding VAT.

Considering the efforts for reconstruction and the promised assistance for the earthquake of November 26, 2019, the Albanian government should link the identification and prioritization process of infrastructure projects that connect the country with European networks, by balancing the needs of economic and social development and the opportunities that the country has for financing. The impact of the Covid-19 on the economy makes it even more important to identify the priority investments, the good management of projects and the funds spent on them.

The Albania part of the research focuses on the transport infrastructure projects, reform measures in the energy sector (i.e. energy efficiency and implementation of legislation). We believe this document provides original, context-based and applicable insights regarding the implementation of the Connectivity Agenda projects in Albania.

I. CONNECTIVITY AGENDA INVESTMENT PROJECTS IN ALBANIA

Albania is the only SEE6 country that participates in the Connectivity Agenda with infrastructure projects in transport, energy, and digital sectors. In transport sector the country connects to the European network TEN-T, mainly:

- through the Scandinavian-Mediterranean corridor that descends vertically from Finland to Sicily, and has access to the port of Bari;
 - through the Mediterranean Corridor that crosses Europe from Gibraltar to the eastern border of Hungary and passes through Spain, France, Italy, Slovenia, Croatia and Hungary; and,
 - through the East Corridor - Eastern Mediterranean that connects the North Sea with the Port of Piraeus, traversing the countries of the former Eastern Europe.
- So far, Albania represents about 7% of the connectivity projects in total value to the CA budget, but has the largest number of sectors covered with financing: transport, energy, digital sector and maritime interconnections.

Until March 2020, Albania has received funding for two transport infrastructure investment projects under the Connectivity Agenda.

In Energy Albania participates through the Energy interconnection line between Albania - Northern Macedonia (I): Section of Albania. Another large infrastructure project in energy is Trans Adriatic Pipeline, which even if not officially under Connectivity Agenda puts Albania firmly in the European energy network.

In the digital sector Albania acquired in 2019 financing for the Broadband infrastructure project.

Follow below a list of investment projects developed under the connectivity agenda in Albania.

I) Tirana-Durrës-Rinas Railway (Mediterranean Corridor)

The project was approved for financing in 2016. Its goal is the rehabilitation of 34.5 km of railway network between Tirana and the main port in the country - Durres, as well as the construction of 7.4 km of new railways between Tirana and the international airport Mother Teresa. The total cost 92 million euros.

The two-stage international procurement process is currently underway. The deadline for closing the procurement is March 2020. Construction is scheduled to begin in June 2020 and work is expected to last for two years. These deadlines are likely to be postponed

due to the emergency created by the protection measures related to the spread of Covid19 in the country.

II) Rehabilitation of the Durrës Port, Quais 1 and 2

The project was approved for funding in 2018 for a total cost 62.3 million euros. Its goal is to rehabilitate Cabins 1 and 2 in the Western Terminal of the Durres Port, which is the port that handles all cargo and grain shipments to Albania.

The project is still in its initial stages, after the WBIF approved the application file prepared by the Albanian authorities. Currently, the project has been suspended due to the initiative of the Albanian government to relocate the interventions envisaged in the project from Quays 1 and 2 towards the rehabilitation of Quays 3 and 4.

In anticipation of the decision-making of the Albanian government, the project has the status of 'waiting', while the initiative to change the project approved for financing has created confusion in the expectations of donors.

III) Energy interconnection line Albania - Northern Macedonia (I): Albania Section

The project was approved for funding in 2015 for a total 70 million euros. Its objective is: i) to build a 400 kV transmission system, which will connect Fier with Elbasan and then with Northern Macedonia; ii) construction of a new substation in Elbasan; and, iii) increasing the power of the Fier substation.

The project is currently in the tendering phase of the works phase. The project presents delays in implementation compared to the part of Northern Macedonia where the works have already started.

IV) Broadband infrastructure project

The project was approved in 2019. It aims to prepare a feasibility study and development plan for efficient and smart investments in broadband infrastructure across the country. Its total cost is estimated at about 42-48 million euros. Currently, the project of the Albanian government has been selected, and a grant of 520 thousand euros has been approved by the WBIF in 2019. The first draft of the study has been completed.

V) Adriatic-Ionian Corridor: Albanian leg

The Adriatic-Ionian Corridor is a strategic project of the Balkans and all of Southeast Europe. In the end, it will connect Central Europe and Northern Italy with the Balkan Peninsula to the Ionian Sea via Slovenia, Croatia, Bosnia and Herzegovina, Montenegro, Albania and Greece. The Adriatic-Ionian Highway embraces the Adriatic and Ionian coasts, from Trieste in Italy to Kalamata in Greece. The total estimated length of the

Highway is about 1,550 km, of which 296 km are in Albania.

The Adriatic Ionian Corridor in Albania is divided into 13 segments, according to the WBIF-funded conceptual design study. In the Albanian territory the entry point is in Muriqan and then passes to Balldren, Milot, Thumanë, Kashar, Lekaj, Konjat, includes the Fier bypass, and then to Levan, Poçem, Memaliaj, Subash, passes through the bypass of Gjirokastra, ending in Kakavija.

The technical project (conceptual design) arranged on behalf of WBIF, envisages the construction of this corridor according to the European Union standards. Its total cost from Muriqani to Kakavije is estimated at 2.7 billion euros for construction works (or 3.26 billion euros if VAT is included). Including expropriations, amounting to 76 million euros, the Adriatic-Ionian Corridor in Albania has a total cost of 3.34 billion euros, which is equal to 24% of Gross Domestic Product (GDP), or about 80% of the Albanian government's one-year budget.

In the case of the construction by the government, borrowing such a sum, even partially, would lead the public debt to undesirable and unstable parameters (in the worst case scenario the debt would reach over 90% of GDP- of, from about 70% that is today).

The Adriatic-Ionian Corridor is undoubtedly of great importance for the regional and European interconnection of Albania. But in our estimation, prioritizing Albania's investment in Adriatic-Ionian Corridor should be better suited to the country's budgetary capabilities, the production structure of our economy, and the structure of Albania's trade exchanges with key partners. This is achieved through the prioritization of investments only in the priority segments (not in the whole corridor), and in the approach of private investors with optimal profile in the segments with fast return on investment in this corridor.

The value chain analysis in Albania prioritizes investments in east-west transport axes through the railway connection with Northern Macedonia, and the sea connection with Italy. Albania's most capable geographical point with the TEN-T corridors of the EU is the Port of Bari in Puglia.

II. CONNECTIVITY REFORM MEASURES

II.1. Measures of Economic Reform program 2019 - 2021

The Economic Reform Program of Albania 2019-2021 contains 20 reform measures, a quarter of which have to do with Connectivity Agenda. The common challenges among different measures relate to missing risk assessment, of mitigation strategies or of the costing.

Follows a general description of the connectivity-related measures.

- *Measure 1: Continue with the further liberalization of the energy market.* This measure is in line with the obligations under the EU Third Energy Package and

Albania's own strategies. The price and tariff reform are partly fulfilled, while bill collection rates have improved significantly. Energy demand management, including activities to stimulate investment in energy efficiency contribute to improving the economy's competitiveness and energy security. The overall impact on competitiveness is well-developed while the impact on employment is discussed only in general terms. The potential risks to implementing the reform measures are well developed, while mitigating measures remain general.

- *Measure 2: Diversify the energy sources.* This measure has been supplemented to include the promotion of the use of renewable energy sources beyond hydropower due to the significant potential the country presents for photovoltaic and wind energy production, as well as the low share of those energy sources in the energy balance of the country. However, the environmental impact of the energy policy as a whole is not presented. The planned connection of the country to the international gas network to create conditions for gasification in line with the development of the Trans Adriatic Pipeline project will contribute to energy diversification. The absence of potential risks impacting this measure is justified by the measure's secured funding, but ignores non-financial risks such as environmental risks and lack of coordination.

- *Measure 3: Rehabilitating and reconstructing the railway segment Durres-Tirana International Airport-Tirana.* The construction project is part of the railway connection between Tirana and Durres. It is broadly on track and its practical realization is expected to start in 2019. Need for information on the land acquisition plan and no mitigating measures are planned to cover the expropriation risks.

- *Measure 12: Adopting of the legal and regulatory framework for the development of the broadband in the country.* The activities planned for 2018 have been implemented to a good extent, focusing on drafting of the legal base. The expected impact on competitiveness are broadly identified, as are social outcomes and potential risks, except for financing risks. However, no mitigating measures are proposed. No funding is planned for the intended infrastructural development, which puts at risk the implementation of the measure.

- *Measure 13: Facilitating the implementation of national trade facilitation measures and MAP REA.* The activities planned for 2018 have been partially implemented, while some of them have been partially rolled over to 2019. The measure includes the regional SEED+ project financed by the EU and the promotion of an authorized economic operator programme in Albania, and the establishment of a National Single Window for exports. No funding has been presented. The strengthening of the capacity of the National Committee for Trade Policy Coordination and Facilitation is also planned as part of the measure, but no concrete plan is prepared.

II.2. Reform measures in Energy sector

Since 2006, the Energy Community acquis has significantly evolved to incorporate new directives and regulations. Currently, the acquis covers legislation on topics such as

electricity, gas, oil, infrastructure, renewable energy, energy efficiency, competition and State aid, environment, statistics, cyber-security and climate. In addition, the Energy Community is in the process of adopting network codes and guidelines for electricity and gas, while three of the total five gas and four out of the eight electricity codes have already been incorporated into the acquis.

Albania has adopted legislation on the **liberalization and unbundling** of the electricity and gas markets in line with the EU's third energy package, but it is not yet fully aligned and implemented. Some progress has been achieved in the legal unbundling of distribution from supply activity, but functional unbundling has not yet been finalized. Electricity prices are still regulated but should be gradually liberalized once legislation is implemented. The electricity market remains closed by regulated wholesale contract between state-owned generation and distribution companies, which needs to be phased out.

Therefore, it is noted that the **energy efficiency** should receive greater attention from the government, as despite some progress in recent years, electricity distribution losses in 2018 remained high at the value of 24.4%. As the EU Commission Overview & Country Assessments highlights: "Improving energy efficiency will decrease the energy needs of the economy, and therefore reduce production costs, improve energy security and reduce the trade deficit."

Despite the formal strengthening of the legal and institutional framework for energy efficiency, little efforts have been noted for Albania to adopt the missing by-laws implementing the Energy Performance of Buildings Directive and update legislation to transpose Directive 2012/27/EU on energy efficiency. Therefore, the country remains non-compliant in many areas.

There has been some legal progress in unbundling the electricity and gas markets but the Power Exchange has not been established. Some progress has been made in broadening the energy mix but not in promoting energy efficiency.

The revised Energy Efficiency Law should be adopted to fully transpose the Energy Efficiency Directive, while the continuing challenges that remain in this sector rely on the measures for further liberalizing the energy market and diversification of energy sources.

In **Renewables**, the Albanian economy is characterized by the inefficiency of its energy market and the insecurity of its energy supply. Albania depends almost exclusively on hydropower for its electricity generation (98%), which has a positive contribution to decarbonizing its electricity sector but makes it highly vulnerable to unfavorable hydrological conditions in the summer, as well as to the impact of climate change. As a result, Albania is in most of the recent years a net importer of electricity (up to 40% annually) and the sustainability of its power supply poses a challenge.

In **electricity**, the tariffs for access to the transmission and distribution networks for 2019 were approved and published by the regulator ERE. Wholesale prices are still regulated through an excessive public service obligation.

In **gas sector**, the initiation of work on the draft Trans Adriatic Pipeline's (TAP) network code and the establishment of a gas market model in Albania are the most significant developments during the past year. Nevertheless, more efforts seems to be needed for Albania to make sure that the remaining secondary legal acts are in place and the process of implementation of the Gas Master Plan and the country's gasification can be operational.

III. NATIONAL INSTITUTIONAL AND MECHANISMS

Albania has established the National Investment Committees (NIC), which is in charge of endorsing the respective Single Project Pipeline. This new framework puts a strong emphasis on NIC's capacity to become a comprehensive prioritization and detailed planning mechanism. The "New methodology to support Infrastructure Projects in the Western Balkans has introduced the scheme :i) the investments co-financing scheme; ii) a clear distinction between 'national' and 'regional' projects; and, iii) has sanctioned the establishment of an institutionalized mechanism.

This methodology identifies, prepares and selects for funding the prioritized investment projects through the establishment of the National Investment Committee and of the Single Project Pipeline (NSPP). This is 'key' to the approval of investment co-financing grants for regional projects, and future reform measures.

In Albania the Strategic Planning Committee is a decision-making structure headed by the Prime Minister. This committee has been slightly modified in order to embrace NIC's principles of ownership, strategic coherence, long-term sustainability and transparency, as well as the importance and commitment of political level for the final choice of the connectivity projects.

The preparation of the National Single Project Pipeline is under the competencies of the Strategic Planning and Development Unit (SPDU - part of the Department for Development, Financing and ForeignAid) at the Prime Minister's Office. The SPDU, as part of the Secretariat of the Strategic Planning Committee/NIC, leads and coordinates the whole process. Meanwhile each Ministry prepares the Sector Project Pipeline that prioritizes the main projects for each sector (energy, transport, digital, etc.).

The mechanism in place in Albania can be described in seven main steps, whose end-result is the final adoption of the Single Project Pipeline.

- 1st Step: Establishment of Sectorial Strategic Management Group (SSMG): completed
- 2nd Step: Preparation of Strategic Relevance Criteria of Project Identification Fiches (PIF)and
- training of Albanian staff: completed
- 3rd Step: Preparation and submission of PIFs: completed
- 4th Step: Strategic Management Group and the Completion of Strategic Relevance Assessments: completed

- 5th Step: Finalization of four SSPPs and consultation with donors: performed
- 6th Step: Finalization, consultation and approval of the Single Project Pipeline: completed
- 7th Step: Closure of the process: last revision of the NSPP was completed in March 2020 but the resulting NSPP is not published yet

Observations concern the:

- Identification of the available fiscal space for the financing of these projects. In the short run, Albania like almost all the WB6 countries faces high unemployment and low growth rates, along with high public debt concerns. The squeeze of public finance due to the November 2019 earthquake the contraction of economic activity due to Covid19 will certainly affect the co-financing factor of the above projects.
- No assessment exists yet on their efficiency and cost-effectiveness, as compared with other potential public investment impacting the budget spending. Innovative and alternative financing solutions should be explored through foreign direct investments and the participation of private actors in these “big investments package”, including the assessment of the PPP schemes.
- The Government needs to be more aggressive in terms of attracting more FDIs, that would bring fresh capital and modern technology, would promote development, and would generate gainful employment and wealth.

Regional Convention on European Integration of the Western Balkans

POLICY PAPER

Construction of the Svilaj Bridge over the Sava River (section in Bosnia and Herzegovina: Odzak - border with the Republic of Croatia) and (section in the Republic of Croatia: Sredanci - border with Bosnia and Herzegovina: bridge over the Sava River) and the Svilaj Border Crossing

Developed by: Transparency International

Authors: Amela Šarić and Lejla Hodžić

Introduction

The Berlin Process and Connectivity Agenda

The leaders of the Western Balkans Six – Albania, Bosnia and Herzegovina, North Macedonia, Kosovo*, Montenegro and Serbia – met in Berlin in August, 2014 to create a framework for “furthering the endeavors to make additional real progress in the reform process, in resolving outstanding bilateral and internal issues, and in achieving reconciliation within and between the societies in the region”.²⁴ They also agreed that enhancing regional economic cooperation and laying the foundations for sustainable growth should be one of the priorities of the upcoming years.²⁵ On that line, one of the main aims set was building and connecting transport and energy infrastructure as a driver for growth and jobs.²⁶ Thus, European Commission highlighted that the reason to put connectivity at the heart of their agenda is to improve links within the Western Balkans and with the EU.²⁷

24. *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.

Final Declaration by the Chair of the Conference on the Western Balkans, (2015) Available at: <https://berlinprocess.info/wp-content/uploads/2017/11/Final-Declaration-by-the-Chair-of-the-Conference-on-the-Western-Balkans.pdf>

25. Ibid

26. European Commission. Mobility and Transport. Available at: https://ec.europa.eu/transport/themes/international/enlargement/westernbalkans_en

27. WBIF. CONNECTIVITY AGENDA. Co-financing of Investment Projects in the Western Balkans in 2015. Available at: <https://www.wbif.eu/storage/app/media/Library/6.%20Connectivity%20Agenda/27.%20Vienna-Info-Pack-Final.pdf>

“The Western Balkans Six has made the connectivity agenda one of its highest priorities, with a special emphasis on the preparation and financing of concrete regional infrastructure investment projects, but also on the implementation of technical standards and soft measures such as aligning/simplifying border crossing procedures, railway reforms, information systems, road safety and maintenance schemes, unbundling and third party access.”²⁸

The first “Connectivity Agenda” was established in 2015 and from that year four more Connectivity Agendas followed on.²⁹ Each Agenda contains information on the infrastructure projects that are being implemented together with the update on their progress. One of the projects in the scope of Connectivity Agenda where the direct beneficiaries are Bosnia and Herzegovina and Croatia is the Construction of the Svilaj Bridge over the Sava River and the construction of Svilaj Border Crossing as the sections to the Corridor 5C motorway in Bosnia and Herzegovina.³⁰

The Project (Corridor 5C, Svilaj Bridge, Border Crossing Svilaj)

“The Svilaj – Odžak section of the motorway is over 10 km long and represents the northernmost part of Corridor 5C in Bosnia and Herzegovina. The section starts directly after the future inter-state bridge Svilaj over the Sava river and ends at the Odžak interchange, located north of the town of Odžak.³¹ The bridge over the Sava River is also the contact point of the motorway network of the Republic of Croatia and Bosnia and Herzegovina. The length of the bridge is 660 m and the total width of the bridge is 29 m. Three lanes of 3.50 m wide are provided for each direction, without a stop lane with protective traffic belts of 0.5 m on each side, and a 0.75 m wide concrete monolithic footpath.³² Joint construction of the bridge was realized on the basis of the Agreement between the Government of the Republic of Croatia and the Council of Ministers of Bosnia and Herzegovina on the Construction of an Interstate Bridge over the Sava River near Svilaj and the Connecting Border Sections of the Motorway on Corridor 5C. Under the Agreement, each state financed 50% of the contracted value of the works.³³ The part of the bridge on the side of Croatia is already finished and the connection with the Bridge in Bosnia and Herzegovina was completed in August, 2019³⁴ but the side of the bridge in Bosnia and Herzegovina has not been fully completed and it is expected to be finished in

28. Ibid

29. WBIF. Connectivity Agenda. Available at: <https://www.wbif.eu/sectors/connectivity-agenda>

30. JP AUTOCESTE FBiH d.o.o. MOSTAR. Corridor Vc – Second Phase Finance Contract No.31.174 (BA) between Bosnia and Herzegovina and European Investment Bank. (January, 2016). Available at: <http://www.jpautoceste.ba/wp-content/uploads/2017/09/Project-completion-report-section-Vlakovo-%E2%80%93-Tar%C4%8Din-Svilaj-Od%C5%BEak-.pdf>

31. Ibid

32. Hrvatske autoceste d.o.o. Izgradnja mosta Svilaj. Available at: <https://www.hac.hr/hr/o-nama/eu-projekti/instrument-za-povezivanje-europe/izgradnja-mosta-svilaj>

33. Ibid

34. Gradimo Zadar. “Završeno je spajanje mosta Svilaj između Hrvatske i BiH”. (25th August 2019). Available at: <https://www.gradimozadar.hr/vijesti-gradevina/2062-završeno-je-spajanje-mosta-svilaj-između-hrvatske-i-bih>

the middle of 2020.

Important structures on this section also include a border crossing, two interchanges, service area, mainline toll plaza, two bridges, two wildlife corridors, four overpasses, three underpasses and two culverts for irrigation canals”.³⁵

The border crossing on the Croatian side has already been finished while in Bosnia and Herzegovina there were problems with funding and currently the public procurement procedure for the border crossing is being implemented.

Importance of the Svilaj Bridge in the Scope of Connectivity Agenda

Once completed, the bridge will have a positive socio-economic impact in terms of reduction in travel time and vehicle operating costs and enhancement of the economic competitiveness of the concerned regions.³⁶ It will directly contribute to the facilitation of cross-border trade in goods and services in the region and with the EU.³⁷ Mutual benefits of Corridor and the bridge include:

- 600 temporary construction jobs, and 70 permanent jobs for operation and maintenance of the infrastructure and the border control station
- Secure and efficient transport by road for an annual average daily traffic increase from 5,300 in 2016 to 8,011 in 2019 alone.
- Reduction in accident rates by at least 7%.
- Decrease in vehicle operation and maintenance costs by 6%.
- The investment will facilitate trade, regional integration and sustainable growth and thus have a positive impact on the broader economy of Bosnia and Herzegovina.³⁸

Legislative and policy reform/development

Besides advancing regional infrastructure, Connectivity Agenda projects have an added value which lies in improving legislative and policy environment in the countries of the Western Balkans, by harmonizing the laws and standards among the countries of the region, as well as with the European Union standards³⁹. Bosnia and Herzegovina has

35. JP AUTOCESTE FBiH d.o.o. MOSTAR. Corridor Vc – Second Phase Finance Contract No.31.174 (BA) between Bosnia and Herzegovina and European Investment Bank. (January, 2016). Available at: <http://www.jpautoceste.ba/wp-content/uploads/2017/09/Project-completion-report-section-Vlakovo-%E2%80%93-Tar%C4%8Din-Svilaj-Od%C5%BEak-.pdf>

36. European Commission. TRIMIS. “Construction of the Svilaj Bridge across Sava river on the border between the Republic of Croatia and Bosnia and Herzegovina”. Available at: <https://trimis.ec.europa.eu/project/construction-svilaj-bridge-across-sava-river-border-between-republic-croatia-and-bosnia-and>

37. Delegation of the European Union to Bosnia and Herzegovina. CONNECTIVITY AGENDA. Available at: http://europa.ba/?page_id=67662

38. http://europa.ba/wp-content/uploads/2020/02/Annex-II_project-passport-WBIF-CF-1006-BiH-TRA_Svilaj_10-March-2017.pdf

39. WBIF, Connectivity Agenda. Available at: <https://www.wbif.eu/sectors/connectivity-agenda>.

undergone certain legislative and policy changes which enabled the implementation of the Connectivity Agenda projects, and realization of projects Bridge Svilaj and Border Crossing Svilaj has initiated important reforms in the transport sector of the country.

Bridge Svilaj was recognized as one of the six transport infrastructure investment projects reflecting core priorities for the Western Balkans region, during the Vienna Western Balkans Summit in 2015.⁴⁰ As a precondition to realization of these investment projects, including the bridge itself, Western Balkans countries committed to a priority list of 'soft measures' in transport which the countries agreed to implement, as well as to overcome the obstacles to Transport Community Treaty.⁴¹ The agreed deadline for adoption of the measures was approximately one year, coinciding with the Paris Western Balkans Summit in 2016.

Based on the measures which were prepared by the South East Europe Transport Observatory (SEETO) for all the countries in advance, Bosnia and Herzegovina had to develop and adopt the Framework Strategy on Transport which embodied the conditions imposed by the EU. Despite the fact that the Ministry of Communication and Transport of BiH made the Framework Strategy a top priority in its annual work plan,⁴² obstacles appeared in regard to division of competences among the entities Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS), and Brčko District which had their own transport strategies in accordance with their competences in the transport sector⁴³. Council of Ministers of BiH adopted the Framework Strategy on Transport 2016-2030 on 14 July 2016, opening the door for additional 130€ million of investments from EBRD and the possibility for BiH to apply for other infrastructure projects⁴⁴.

Framework Strategy on Transport 2016-2030, together with the supporting document Framework Transport Policy 2015-2030, identifies action measures necessary for development of transport sector in BiH for the following 15 years, and represents a valuable asset for planning of future investments in the transport sector⁴⁵. The Strategy provides a detailed overview of the current regulatory framework and outlines administrative and regulatory reforms that should be undertaken, as well as capacity development and investment programmes for the future.

Due to the complex and comprehensive nature of the Strategy which encompasses all transport-related matters, this paper will focus on measures related to road transport

40. Final Declaration by the Chair Western Balkans Summit Vienna 2015, (27 August 2015), par. 17. Available at: https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/pdf/policy-highlights/regional-cooperation/20150828_chairmans_conclusions_western_balkans_summit.pdf.

41. Ibid. paras. 18-19.

42. S.H. "Državna strategija o transportu mora biti prioritet, za završetak koridora 5C potrebna 2,1 milijarda eura" (3 May 2016). Available at: <https://www.klix.ba/biznis/investicije/drzavna-strategija-o-transportu-mora-biti-prioritet-za-završetak-koridora-5c-potrebna-2-1-milijarda-eura/160502069>

43. See. Constitution of BiH, Art. 3, par. I (Competences of the state) and par. II (Competences of the entities).

44. Odluka Vijeća ministara o usvajanju Okvirne strategije prometa BiH za period 2016-2030. Godine, Sl. Glasnik BiH br. 70/16. Available at: <http://www.sluzbenilist.ba/page/akt/RGOK3hg2nhA=>

45. Ministarstvo komunikacija i transporta BiH, Okvirna strategija prometa BiH za period 2016-2030. godine, p. 7. Available at: <http://www.mkt.gov.ba/aktivnosti/default.aspx?id=5029&langTag=bs-BA>

which the Strategy envisages. In this regard, the Strategy prioritizes integration of BiH road infrastructure in the European transport corridor, with the focus on Trans-European Transport Networks (TEN-T) and Corridor 5C, development of inter-entity projects and cross-border sections such as inter-state Bridge Svilaj⁴⁶. It outlines 'soft measures' which have multiple positive effects, and will ensure sustainable implementation of regional cooperation projects in the transport sector. Key 'soft measures' which relate to regulatory and legislative framework to which BiH has committed in the Strategy can be grouped in the following way:

- 1) Development of Strategy on Transport Safety;
- 2) Harmonization of national legislation with the EU legislation on harmful emissions and environment impact assessment; promotion of alternative transport methods and decrease in harmful emissions by subsidizing import of new and ecological vehicles;
- 3) Development and improvement of ICT in transport sector;
- 4) Establishment of a stable system for financing, specifically financing system based on fuel excise duties and harmonization of fuel taxes with the countries in the region; adoption of regulatory framework on tolls across the country⁴⁷.

In terms of the second explicit commitment BiH agreed to during the Vienna Western Balkans Summit, accession to the Transport Community, obstacles also appeared in reaching an agreement between the entity ministries responsible for transport and the Ministry of Communication and Transport of BiH. In September 2017, the Council of Ministers of BiH ratified the Agreement on Accession to Transport Community after reaching a consensus that the state Minister of Communication and Transport would represent BiH in the Community, but with an obligation of previous consultation with the equivalent entity ministries⁴⁸. After significant delays which were caused by inability to agree on the issue of competences of the relevant ministries, BiH was faced with suspension of grants for four approved infrastructure projects⁴⁹. Therefore, the Council of Ministers' decision and ratification of the Agreement unblocked 45 € million grants.

One of the most important, yet highly disputed and controversial legal instruments which Bosnia and Herzegovina adopted was set of laws on excise duties in Bosnia and Herzegovina in December 2017. The set of laws resulted in increase of excise duties on motor fuels and tolls for 0,15 KM (7,5 eurocents), which would be collected separately from other duties and spent transparently for infrastructure projects⁵⁰. This unlocked foreign financing of infrastructure projects⁵¹, primarily by EBRD, and ensured better

46. Ibid

47. Ibid. pp. 39-40.

48. Vijesti. Ba, "Vijeće ministara BiH usvojilo Ugovor o transportnoj zajednici, odblokirana sredstva," (5 September 2017). Available at: <https://vijesti.ba/clanak/373747/vijece-ministara-bih-usvojilo-ugovor-o-transportnoj-zajednici-odblokirana-sredstva>

49. Ibid

50. Zakon o akcizama u BiH (Law on excise duties in BiH), "Sl. glasnik BiH", br. 49/2009, 49/2014, 60/2014 i 91/2017). Available at: <https://www.paragraf.ba/propisi/bih/zakon-o-akcizama-u-bosni-i-hercegovini.html>

51. Commission Opinion on Bosnia and Herzegovina's application for membership of the European Union (29 May

preconditions for obtaining loans⁵². The changes in the laws received a lot of controversy because the political opposition argued that the increase in excise duties would be solely a burden for citizens of the country facing low living standard⁵³. There were significant concerns over the transparency of spending of the money collected through excise duties and grounded fears that the money would be used for civil service. The concerns were partially eliminated after the Central Bank of BiH set up a separate account for the money collected through excise duties⁵⁴, but the lack of transparency continues to be an issue. While the duties represent a significant burden for citizens of a country faced with low economic development and high unemployment rate, it is important to analyze the underlying causes of such explicit conditions Bosnia and Herzegovina's authorities had to fulfil. EU has warned throughout the years about the country's inefficient public spending policy and the failures to undertake reforms which would improve the quality of public spending, which eventually resulted in low investment rates and lost opportunities to modernize poor infrastructure⁵⁵. In addition, the EU emphasized the need for a shift towards growth-enhancing public spending⁵⁶. Despite the controversy surrounding the laws and the public perception that they were "imposed" by the international community, these laws provide certain assurance for foreign investment in the Bosnian and Herzegovinian fragile political and economic environment.

Financing the projects Bridge Svilaj and Border crossing Svilaj

The Bridge Svilaj was financed through funds secured by BiH and Croatia, while BiH had to secure financing for the Border crossing Svilaj. Ensuring stable and sustainable financing of capital investments in BiH has been a long-term problem for the country, and often the cause in implementation delays.

The total value of the Project Inter-state Bridge Svilaj is 22.308.000,00 € (ex VAT)⁵⁷. Croatia financed its part of the Project through Connecting Europe Facility (CEF) Funds

2019), p. 79. Available at: <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20190529-bosnia-and-herzegovina-analytical-report.pdf>

52. N1 Sarajevo, „Minister: Bosnia to borrow 220 million from EBRD for construction of highway“ (23 April 2019). Available at: <http://hr.n1info.com/English/NEWS/a397118/Minister-Bosnia-to-borrow-220-million-from-EBRD-for-construction-of-highway.html>

53. Samir Huseinović, „Usvajanje zakona o akcizama – udar na standard bh. građana?“ Deutsche Welle. (15 December 2017). Available at: <https://www.dw.com/bs/ustvajanje-zakona-o-akcizama-udar-na-standard-bh-gra%20ana/a-41811555>

54. Imamovic Adisa. "Autoput koji uporno niko ne gradi." N1. (28 May 2018). Available at: <http://ba.n1info.com/Vijesti/a262247/Zasto-se-ne-koristi-novac-od-akciza-za-gradnju-autoputa-u-BiH.html>

55. See European Commission Analytical Report for Bosnia and Herzegovina 2016, 2018 and Commission Opinion on Bosnia and Herzegovina's application for membership of the European Union 2019.

56. European Commission, Economic Reform Programme of BiH (2018-2020) – Commission Assessment (17 April 2018). Available at: https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/swd_bosnia_and_herzegovina.pdf

57. Council of Ministers of BiH, „Construction of Inter-State Bridge on Sava River Near Svilaj Started“ (15 September 2016). Available at: http://vijeceministara.gov.ba/saopstenja/saopstenja_predsjedavajuceg/default.aspx?id=23299&langTag=en-US

(57,97%) and loan provided by the European Investment Bank (EIB)⁵⁸. BiH financed its part primarily through Western Balkans Investment Fund (WBIF) grant which was distributed to BiH by the EIB⁵⁹. However, BiH had to secure additional funds for the Bridge and other infrastructure projects. In 2012, Council of Ministers adopted a Decision on using transferred earmarked funds on the name of the assigned license for Universal mobile telecommunication systems from 2011, which enabled the Ministry of Communication and Transport of BiH to use 85% of collected funds for transport development⁶⁰. The funds which amounted to 29.924.199,00 KM (€) were distributed for financing of various infrastructure projects, 6.758.770,00 € of which were allocated for construction of Inter-state bridge Svilaj.

The main impediment in realization of these two projects appeared in securing additional funds for the Border crossing Svilaj whose initial value in the amount of 5.240.000,00 € was underestimated⁶¹. While the funds amounting to initial value were secured in 2015 through Indirect Taxation Authority (ITA) budget and WBIF, ITA as the authority responsible for implementation of the Project Border crossing Svilaj, had to secure the additional 3.57 € million in order to complete the Project⁶². On 30 January 2020, Council of Ministers approved the additional 3.57 € million for ITA for implementation of project Border Crossing Svilaj, which will be secured from the payment of clearing debt from Russian Federation in 2020, and from 2021 budget⁶³. Due to these obstacles, public procurement procedure which was initiated on 15 February 2019 was concluded almost after a year, and the construction work is expected to start in February 2020.

Timeline of Construction

Tables 1 and 2 below briefly outline the key steps in implementation of the projects Inter-state Bridge Svilaj and Border Crossing Svilaj, respectively. Due to the complexity of the two projects, and the time span of their implementation, this part will solely focus on the most important obstacles which prevented timely implementation of the projects. The deadline for completion of the construction of Bridge Svilaj was two years, with the

58. Hrvatske autoceste, Izgradnja mosta Svilaj. Available at: <https://www.hac.hr/hr/o-nama/eu-projekti/instrument-za-povezivanje-europe/izgradnja-mosta-svilaj>

59. Ministry of finance and treasury of BiH, „Potpisan Sporazum o investicijskom grantu između EIB-a i BiH“ (27 April 2017). Available at: https://www.mft.gov.ba/bos/index.php?option=com_content&view=article&id=920:potpisan-sporazum-o-investicijskom-grantu-izmedu-eib-a-i-bih-audio&catid=34:vijesti&Itemid=162

60. Ministry of communication and transport of BiH. Press Release: Nakon više od godinu dana operativna sredstva za infrastrukturne projekte u BiH. (4 September 2012). Available at: <http://mkt.gov.ba/saopstenja/default.aspx?id=2731&langTag=bs-BA>

61. Nezavisne Novine, „Niskogradnja u februaru kreće izgradnju graničnog prelaza Svilaj - Savjet ministara obezbijediće dodatnih 7 mil KM“ (27 January 2020). Available at: <https://ba.ekapija.com/news/2763910/niskogradnja-u-februaru-krece-izgradnju-granicnog-prelaza-svilaj-savjet-ministara-obezbijedice-dodatnih>

62. Ibid

63. Council of Ministers of BiH, Saopćenje i audiozapis konferencije za medije nakon 3. sjednice Vijeća ministara. (30 January 2020). Available at: http://www.vijeceministara.gov.ba/saopstenja/sjednice/saopstenja_sa_sjednica/default.aspx?id=32082&langTag=bs-BA

prospect of completing the bridge in 2018⁶⁴. However, delays in completion of the Bridge were caused by three key reasons: (1) delays in construction of the highway Odžak-Svilaj; (2) delays and obstacles in conducting public procurement procedure; (3) water level of Sava River; and (4) bankruptcy of one of the contractors “Viadukt d.o.o.”⁶⁵ When it comes to the Border Crossing Svilaj, the main obstacle which resulted in delays was the initial undervalue of the project, which required ITA BiH to seek additional funding. Croatia finished its border crossing in the first half of 2019, whereas BiH, as previously explained, extended the public procurement procedure because of insufficient available funds.⁶⁶

Table 1 - Timeline of the Project Inter-state Bridge Svilaj

2011	2012	2015	2016	2019
BiH and Croatia signed the Agreement on Construction of the Inter-state Bridge Svilaj	Croatia and BiH issued license for construction of the Bridge	WB countries and EU agreed to list Inter-state Bridge Svilaj as one of the projects for co-investment.	BiH signs agreement with EIB, enabling grants for infrastructure projects after adopting Framework Strategy on Transport	Bridge was connected in April and it was expected that it would be finished by the end of the year.
		Public procurement procedure is initiated in September	On 15 July 2016 contract is signed with two companies “Hering” d.o.o. and “Viadukt” d.o.o. which will be performing construction work.	
			Construction work started in September.	

64. Council of Ministers of BiH, Saopćenje i audiozapis konferencije za medije nakon 3. sjednice Vijeća ministara. (30 January 2020). Available at: http://www.vijeceministara.gov.ba/saopstenja/sjednice/saopstenja_sa_sjednica/default.aspx?id=32082&langTag=bs-BA

65. Oslobođenje. „Most kod Svilaja nada za novi početak privrednog razvoja Odžaka“ (9 February 2019). Available at: <https://www.oslobodjenje.ba/vijesti/bih/most-kod-svilaja-nada-za-novi-pocetak-privrednog-razvoja-odzaka-432030>

66. „Objavljen tender za gradnju graničnog prelaza Svilaj i mosta na Savi“ (19 February 2019). Available at: <http://informativa.ba/2019/02/19/objavljen-tender-za-gradnju-granicnog-prelaza-svilaj-i-mosta-na-savi>

Table 2 - Timeline of the Project Border Crossing Svilaj

2015	2016	2019	2020
Border Crossing Svilaj identified as one of pre-identified priority projects along Section of TEN-T corridor for possible EU funding over the next six years.	BiH signs agreement with EIB, enabling grants for infrastructure projects after adopting Framework Strategy on Transport	Public Procurement procedure for the Project was initiated by the ITA BiH	Council of Ministers of Bosnia and Herzegovina approved additional 7.000.000,00 KM to ITA BiH

Public Procurement Procedure

Planning, preparation and implementation of the public procurement procedure for the construction of the Svilaj Bridge and the Border crossing has been governed by the “Agreement of the Council of Ministers BiH and the Government of Republic of Croatia on the Construction of an Interstate Bridge over the Sava River near Svilaj and the Connecting Border Sections of the Motorway on the Corridor 5C”. Concerning the implementation of public procurement, this Agreement stipulated only a few instructions on how the procedure needed to be implemented. Those being that contracting parties shall both do the supervision of the construction and that the preparation and the construction of the bridge shall be carried out in accordance with the applicable laws and regulations of both parties in accordance with the guidelines and decisions of the joint body consisting of representatives of both parties. The contracting parties also agreed that an international notice for the construction of the bridge shall be issued. On the other side, the Agreement did not stipulate which country will make the project of the bridge nor how exactly the construction works are to be implemented – this was left to be implemented based on the mutual agreement of both parties. This Agreement was ratified in 2011 and it served as a foundation for the initiation of public procurement procedure. Based on this Agreement, contracting authorities were Croatian Motorways in Croatia and Ministry of Communications and Transport of Bosnia and Herzegovina in BiH⁶⁷ and they implemented all of the tenders that were initiated in the process of the construction of the Svilaj Bridge.

Later on, both contracting parties agreed that the governing law of the public procurement procedure shall be the Public Procurement Act of the Republic of Croatia, and that the Public Procurement Act of Bosnia and Herzegovina will not be applied since Republic of

67. Sporazum između Vijeća ministara Bosne i Hercegovine i Vlade Republike Hrvatske o izgradnji međudržavnog mosta preko rijeke Save kod Svilaja i priključnih graničnih dionica autoceste na koridoru Vc - (u proceduri od 11.04.2011. god.). Available at: <https://www.parlament.ba/act/ActDetails?actId=108>

Croatia had already harmonized its public procurement legislation with EU legislation.⁶⁸

First step in the overall process of building the Svilaj Bridge was the creation of a project. The main project for the bridge was accepted in 2010 and the Faculty of Civil Engineering – University of Zagreb was the contracting authority which implemented this part of the process.⁶⁹ Next step was to carry out public procurement procedures for the works of construction of the bridge and then for the services of supervision of the construction. The contract for the supervision of the construction was awarded to Institut za građevinarstvo “IG” Banjaluka in 2013⁷⁰ while the tender for the actual works of construction of the bridge was finalized in 2015 and has been followed by many issues. Namely, the tender documentation has been prepared by the experts from both countries and the lowest tender price was selected as the criteria for choosing the most favorable bid. The minimum qualification criteria included:

- “average annual turnover as prime contractor (defined as billing for works in progress and completed) over the last five (5) years of EUR 26.000.000,00 equivalent;
- successful experience as prime contractor in the execution of at least two (2) projects (each with a value of at least 23.000.000,00 EUR) of a nature and complexity comparable to the proposed contract within the last seven (7) years.”⁷¹

The initial tender notice in Bosnia and Herzegovina was published on the website of the “Ministry of Communications and Transport of Bosnia and Herzegovina” – Procurement notice (www.mkt.gov.ba) on January 28, 2013; and in daily newspapers “Dnevni avaz”, “Dnevni list” and “Euroblic” on January 28, 2013; and Official Gazette of Bosnia and Herzegovina “Official Gazette of BiH” on January 28, 2013. And in Croatia in 2012.⁷² There is no open, available data (on the website of contracting authority of BiH) on what occurred with the tenders for which notices were published in 2012 and 2013. By the data from the media:

“Croatian Highways and the BiH Ministry of Communications and Transport signed a contract with the Austrian Strabag in 2012 on the construction of the bridge, and the price was 20,964,336.77 euros.

Due to a series of procedural errors, in June of the same year, Strabag withdrew from the project and claimed damages in excess of € 1,700,000. Croatian highways have settled

68. Huzjan Boris and Šošić Darko. Project management during construction of the cross-border Svilaj Bridge. (September, 2019). Available at: <http://www.casopis-gradjevinar.hr/assets/Uploads/JCE-71-2019-9-5-2604-EN.pdf>

69. Ibid

70. Capital. (23rd April 2013) Available at: <https://www.capital.ba/ugovor-za-nadzor-gradnje-mosta-kod-svilaja/>

71. Ministry of Communications and Transport of BiH. INVITATION FOR TENDERS Contract titles: Civil works of Svilaj bridge over river Sava (section in Bosnia and Herzegovina: Odžak – Republic of Croatia border and section in Republic of Croatia: Sredanci – Bosnia & Herzegovina border: bridge over river SAVA). Available at: http://www.mkt.gov.ba/tenderi_oglasil/SAMRA%20ENG%20%20ZA%20WEB%20%20tenders%20-%20most%20Svilaj%20-%20eng-final.pdf

72. Ibid

with Strabag and paid more than 500,000 euros and are now claiming that money from BiH.

Also, BiH has lost its dispute at The Hague arbitration with Strabag, therefore it will have to pay more than € 2 million in damages. The Prosecutor’s Office of BiH confirmed that there is a Strabag-related case and that it is intensively being worked on.”⁷³

For the second tender (published in 2013), the contract was awarded to the bidder who did not offer the lowest price and the contract could not be signed due to lack of approval by the European Investment Bank.⁷⁴

The public procurement notice that resulted with signing of the contract was published in September, 2015 and seven offers were received.⁷⁵ The seven offers received were the following:

Bidder	Price in Euros	Price with Tax
“Kamgrad”	24.690.000	29.874.900
“Construccuiones Rubau”	24.270.686	29.367.531
“Integral inženjering” and “Vektor Integra	18.974.453	22.959.088
“Strabag”	23.687.321	28.661.658
“Euroasfalt”, “Zagreb montaža” and GP ŽGP	21.753.755	26.322.044
OHL ŽS	24.496.974	29.641.338
VIADUKT d.d. Zagreb and HERING d.o.o. Široki Brijeg	22.308.022	26.992.707

The contract was awarded to the consortium VIADUKT d.d. Zagreb and HERING d.o.o. Široki Brijeg for 22.308.022,34 €. This was not the offer that had the lowest price but from the tender from 2013 we can see that Ministry of Communications and Transport of BiH explained that the tender could not be awarded to “Integral inženjering” i “Vektor Integra” due to conflict of interest because this company is the owner of “Institut za

73. Slaviša Starčević. “Hering i Viadukt grade most preko Save kod Svilaja”. (18th April 2016) Available at: <http://ba.n1info.com/Vijesti/a91645/Hering-i-Viadukt-grade-most-preko-Save-kod-Svilaja.html>

74. Josip Bohutinski. “Gradnju mosta dali ‘skupom’ Viaduktu”. (24th June 2014). Available at: <https://www.vecernji.hr/vijesti/gradnju-mosta-dali-skupom-viaduktu-946459>

75. Ministry of Communications and Transport of BiH. Minutes of the Public Opening of Tenders. Available at: <http://www.mkt.gov.ba/Aktuelno/G35%20Zapisnik%20s%20otvaranjapos.pdf>

građevinarstvo Banjaluka” – a company doing the supervision of the construction.⁷⁶ Therefore, we can assume that this was the reason why the consortium with the lowest price did not win the tender.

Later on (during the implementation of the contract) Viadukt bankrupted which resulted in the delays in the construction of the bridge on the Bosnian side. Hering took over the work of Viadukt⁷⁷ and the construction, on the Bosnian side, is planned to be finished in the middle of 2020.

Summary of the tender procedure of the Svilaj bridge: The governing law was the Public Procurement Act of Republic of Croatia. Contracting authorities were Croatian Motorways in Croatia and Ministry of Communications and Transport of Bosnia and Herzegovina in BiH. There were three stages of the process of construction: creation of the project, implementation of the works and supervision of the works. The project was made by the Faculty of Civil Engineering – University of Zagreb and on the official website of Ministry of Communications and Transport of Bosnia and Herzegovina there is no information on how this tender was implemented. After that, tender for supervision of the works was awarded to Institut za građevinarstvo “IG” Banjaluka in 2013. The tender for actual works of construction of the bridge was initiated three times, the first time in 2012, then in 2013 and final one in 2015. The first tender was awarded to the company “Strabag” which withdrew from the contract because authorities in Bosnia and Herzegovina did not ensure all the needed licenses on time. Next tender, initiated in 2013, was awarded to the bidder who did not offer the lowest price and EIB did not give its consent for signing of the contract and the contract was never signed. Final tender, resulting in the signing of a contract, was initiated in 2015 and it was awarded to the consortium VIADUKT d.d. Zagreb and HERING d.o.o. Široki Brijeg for 22.308.022,34 €. This consortium did not offer the lowest price but because the consortium which did offer the lowest price was in the conflict of interest (the company doing the supervision of the works was in the ownership of one of these companies) the tender was awarded to the consortium that took the second place. Later on, during the implementation of the tender, one of the companies from the consortium to which the contract was awarded, Viadukt d.d. Zagreb, bankrupted and other consortium partner - Hering d.o.o. Široki Brijeg took over the job and it is expected that the construction of the Svilaj bridge will be finished in the middle of 2020.

Border Crossing Svilaj

The funding for the Border Crossing Svilaj was initially enabled by the Council of Ministers of BiH, then in 2017 EIB enabled additional funding and the tender documentation was harmonized with EIB’s criteria. The tender documentation was revised and all the necessary licenses were acquired. EIB finally approved tender documentation in

76. Uroš Vukić. “Integral” dao najnižu ponudu za izgradnju mosta kod Svilaja”. (15th January 2016) Available at: <https://www.nezavisne.com/ekonomija/privreda/NEZAVISNE-SAZNAJU-Integral-dao-najnižu-ponudu-za-izgradnju-mosta-kod-Svilaja/347942>

77. Libero Portal. “Ukleti hrvatski mostovi” (3rd January 2018) Available at: <https://www.liberportal.hr/vijesti/ukleti-hrvatski-mostovi-peljeski-je-trebao-bit-i-gotov-2008-most-drava-2013>

2019 and the tender was opened recently after that. Opening of the offers was in May, 2019 and all the offers were higher than the estimated price of the tender.⁷⁸ Therefore, additional funding needed to be provided and resources were approved in January 2020 by the Council of Ministers of BiH.⁷⁹ There is no official information on the continuation of the tender procedure.

It is important to mention that the tender was not published through the online portal of public procurement in Bosnia and Herzegovina. Also, there was no official information on the annulment of the tender procedure even though by the Public Procurement Law of Bosnia and Herzegovina contracting authority shall be under obligation to cancel the public procurement procedure if prices of all acceptable bids are significantly higher than the funds ensured for procurement.⁸⁰

Conclusion

Construction of the Svilaj Bridge has been considered as one of the most important projects in the scope of Connectivity Agenda. Its importance lies in its socio-economic impact, since it will result in decrease of travel time and enhancement of economic competitiveness in the region. It is significant to mention that the Svilaj Bridge will connect Croatia and Bosnia and Herzegovina, therefore these two countries are the direct beneficiaries of this project, while European Union was a major investor and has closely followed the implementation of the project. Construction of the bridge was governed by the Agreement between the Council of Ministers of BiH and the Government of Republic of Croatia, which can be characterized as very vague and is rather a symbol of regional cooperation than a legal instrument outlining the terms of the cooperation itself.

From the outset, the project and the related procedures lacked transparency. The project for Svilaj Bridge was prepared in 2010 and only after ten years the completion of the bridge is in sight, while the Border crossing construction has not yet started. . The law governing the procurement procedure was the procurement law of Croatia because, in that period of time, it was harmonized with the EU legislation and majority (maybe even all) of documentation regarding the tender procedure for Svilaj Bridge is on the online procurement portal of Croatia but it is only available to the registered users. While this was the first transparency-related issue, the entire project was veiled with lack of official data. Even today, there is no official government website in BiH where citizens can access information on the steps in the construction process, and get answers on why it took 10 years to build the bridge. s. Majority of information concerning the issues in the construction of the bridge can only be found in the media, which substantially hampered the research process.

78. Klix. “Mosta ima, granice ne: Nema para za prijelaz na Svilaju, “ulaz u BiH” će možda biti u Hrvatskoj” (3rd October 2019) Available at: <https://www.klix.ba/biznis/privreda/mosta-ima-granice-ne-nema-para-za-prijelaz-na-svilaju-ulaz-u-bih-ce-mozda-bit-i-u-hrvatskoj/191002033>

79. Council of Ministers of BiH. Available at: http://www.vijeceministara.gov.ba/saopstenja/sjednice/saopstenja_sa_sjednica/default.aspx?id=32082&langTag=bs-BA

80. Public Procurement law of Bosnia and Herzegovina, Article 69 (e), Available at: http://www.apik.ba/zakoni-i-drugi-akti/Zakoni/drugi-vazniji-zakoni/Novi_ZJN_BiH_en.pdf

One of the main issues was that the first awarded tender for the construction of the bridge ended by withdrawal of the winning bidder because BiH authorities did not ensure construction licenses on time, resulting in 1 million euros in damages that BiH had to pay. Then, the process was even more dragged when for the re-initiated tender for the construction of the bridge, EIB did not give its consent for signing the contract with bidders who did not offer the lowest price and tender had to be opened again, which occurred two years later. The lowest bidder did not win again because of the conflict of interest, but this time the contract was signed with the runner-up bidder. The contract was concluded with a consortium from which one company declared bankruptcy and dragged the construction even more. The construction of the bridge is almost completed but the construction of the border crossing on the BiH side has not yet started and without it the bridge is practically not operational for transport. .

Despite the obstacles and the lengthiness of the process of implementation of these projects, they have contributed to legislative and policy framework in the sector of transport. Bosnia and Herzegovina adopted the Framework Transport Strategy and set strategic priorities, set of laws on excise duties which will ensure sustainable financing of the future projects were adopted. However, the slowdown of the implementation of these projects and significant delays show lack of readiness of Bosnian and Herzegovinian authorities to commit and implement Connectivity Agenda projects without a strict “carrot-stick” approach of the EU. Analysis of the entire process indicates that the financial institutions and the E U had to condition the funding for adoption of relevant laws and policies. Therefore, while the Inter-state Bridge and Border crossing Svilaj will definitely have a positive effect on regional cooperation, economic development and advancement of the four freedoms, Bosnian and Herzegovinian authorities’ insufficient understanding of and commitment to harmonization of national laws remains a great impediment on the path of regional cooperation and European integration.

Taking in concern the projects from Connectivity Agenda in which BiH is a beneficiary, this project together with the construction of the section of Corridor 5C is considered as the most successful project because it is the only one which has been almost fully implemented. It took more than 10 years to see it coming to a finalization. Having this in mind, if the construction of other projects of regional connectivity results in this way, then this will be a very long process and the citizens will have to wait for a long period of time to see its benefits. Therefore, high officials should definitely rethink the process of regional cooperation and work intensively on urging the process of construction by fulfilling the EU criteria, being responsible towards citizens, increasing transparency of the process and putting politics aside and bringing well-being of citizens to the front.



Regional Convention on European Integration of the Western Balkans

Kosovo – Berlin Process and Connectivity

*Developed by: Kosovo Democratic Institute (KDI)
Authors: Artan Murati*

1. Berlin Process – an introduction

The Berlin Process is an initiative aimed at stepping up regional cooperation in the Western Balkans and aiding the integration of these countries into the European Union. It was launched on August 28, 2014, by the German Chancellor Angela Merkel.⁸¹ Following the Juncker Declaration on enlargement and against the backdrop of key geopolitical challenges at the EU’s doorstep, the Berlin process is an initiative aimed at maintaining the momentum of European integration in the Western Balkans. Initially limited in time (2014-2018) and in scope, it has spread and become a multifaceted process with no foreseeable ending.

Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro and Serbia – the “Western Balkan Six” and six EU member states, Germany, Austria, France, Croatia, Italy, and Slovenia are the main participating states of the Berlin Process.

The goal of the Berlin Process is to advance the EU’s agenda in three dimensions: economic growth and connectivity, good neighbourly relations and regional cooperation, and civil society development and people-to-people connectivity. Rather than ambitioning to replace the EU’s ill-functioning approach towards Western Balkans would-be Member States, the Berlin Process seeks to supplement it and revitalize its dynamic. The Process’s connectivity agenda refers to linking the people (social dimension), economies (economic dimension) and states (political dimension) of the region. Within this agenda, the Process has thus far yielded initiatives and projects in the fields of transport and infrastructure, economic connectivity, youth cooperation and cooperation among

81. Berlin Process: About: <https://berlinprocess.info/about/#wbsummits> (accessed on 23.01.2020)

businesses and among the civil societies of the Western Balkans.⁸²

The Berlin Process introduces a novel practice in the EU's enlargement toolbox. Yearly Berlin Process Summits (held in Berlin in 2014, Vienna in 2015, Paris in 2016, Trieste in 2017, London in 2018 and Poznan in 2019) at the highest level, complemented by a long series of meetings at lower levels and a number of regional side-events seem to have warded off the oblivion to which enlargement policy was otherwise consigned. In that sense, the Berlin Process was instrumental in keeping on the radar key issues marring progress made by Western Balkan states on their way towards the European Union.

2. Berlin Process: what it means for Kosovo?

In recent years, Kosovo's path towards EU integration has been rocky and slow. The country has a potential-candidate status, and "limited progress" has been the keyword of each of the Commission's Country Report for Kosovo over past years. In the other hand, EU's ambiguous enlargement policy in general, and specifically towards Kosovo, has contributed in the unclarity of the process. The non-recognition by five Member States of the EU continues to haunt the European future of Kosovo. Thus, once the Berlin Process had been launched back in 2014, this was a positive signal towards Kosovo, as an additional tool to keep the country engaged in the EU agenda and guaranteeing European perspective.

The Berlin Process sent a powerful symbolic message amid the fatigue of enlargement felt in all EU member states and the stalled reforms in the Western Balkans. The process as such enjoys the support of the region's political establishment and maintains the EU as a relevant actor and the EU membership as the strategic goal for the six aspiring Western Balkans countries, including Kosovo. According to Pristina-based think tank BPRG, the Berlin Process offers a good opportunity for equal representation in summits, projects and discussions.⁸³ Overall, Kosovo has benefited from the Berlin process and has been an equal partner with other countries in the region. It has also benefited greatly from the connectivity infrastructure projects for which hundreds of millions have been allocated by the European Union in the process.⁸⁴

Other additional benefits from the Berlin summit include:

- The Transport Community Treaty (TCT) signed at the Trieste Summit as a continuation of SEETO, not only enlists Kosovo with its name but also makes it a potential candidate for TCT's regional office.

82. Florent Marciacq - The European Union and the Western Balkans after the Berlin Process. Accessible at: <http://oefz.at/wp-content/uploads/2017/11/13948-1.pdf> (accessed on 23.01.2020)

83. Balkans Policy Research Group (BPRG) - The Berlin Process for the Western Balkans: gains and challenges for Kosovo, p.12. Accessible at: https://www.balkansgroup.org/storage/app/media/THE-BERLIN-PROCESS-FOR-THE-WESTERN-BALKANS_GAINS-AND-CHALLENGES-FOR-KOSOVO_WEB_FINAL.pdf(accessed on 23.01.2020),

84. Democracy Plus: Commitments from the 'Berlin Process' on Rule of Law and Good Governance. Accessible at: <https://dplus.org/wp-content/uploads/2019/12/201-13-12-Commitments-from-the-Berlin-Process.pdf> (accessed on 23.01.2020)

- Kosovo is a signatory member of the Regional Youth Cooperation Office. The Deputy Secretary General of RYCO is from Kosovo.
- Kosovo joined the Trans-European Transport Network (TEN-T), which has a good impact on Kosovo's road network and improves connectivity. It places Kosovo into the European transport network
- Through the Berlin Process and other regional initiatives, Kosovo generally implements SAA obligations on good neighborly relations and regional cooperation.

However, unresolved bilateral disputes, Serbia's blockade and absence of relations with Bosnia Herzegovina, continue to hinder Kosovo's full participation in the region and beyond. Other challenges relate to the political instability at home and lack of coordination between government institutions. Kosovo needs to be more vocal and active in all regional initiatives, including the Berlin Process.⁸⁵

3. Connectivity projects and Kosovo

Projects approved for each WB6 country are funded partly by EU funding mechanisms and partly by individual countries. The Connectivity Agenda combines policy and infrastructure, connecting the WB6 with each other and with the EU: governments established core and comprehensive regional infrastructure networks making the Western Balkans part of the Trans-European Transport Network (TEN-T). Likewise, the Berlin Process generated regional connectivity initiatives such as cooperation on energy, a Regional Youth Cooperation Office (RYCO), the creation of a Regional Economic Area (REA) and the signature of the Transport Community Treaty (TCT).

The instrument has allocated 1.3 billion euros for the Western Balkans mainly in the fields of energy, transport, environment and social issues. At present time, in Kosovo, there are around 17 projects related to the connectivity agenda:

- Improvement of district heating in Prishtina (Phases I and II);
- Implementation of energy efficiency measures in public buildings at municipal level;
- Feasibility Study and Implementation of Energy Efficiency Measures in Central Public Buildings;
- Feasibility Study - Fuel Change and Expansion of District Heating System in Gjakova;
- Municipal Water and Sewerage in Prishtina (Phase II);
- Feasibility studies for wastewater treatment plants in Kosovo;
- Strengthening waste management;
- Feasibility Study for Ibër Canal Protection;
- Feasibility Study for the Lepenc Canal;
- Municipal Water and Sewerage in Prishtina III;
- Kosovo Education Improvement Project;
- Orient / East-Med Corridor (R10) General Rehabilitation Phase 1:Fushe Kosove - border with Macedonia;
- Sector E of Prishtina - Merdare highway;
- Sector N9 of the road from Prishtina to Kijeva-Klina to Zahaq;

85. Ibid (5)

- Orient / East-Med Corridor (R10) General Rehabilitation Phase 2:Fushë Kosovë - Mitrovica;
- Orient / East-Med Corridor (R10) General Rehabilitation Phase 3:Mitrovica - border with Serbia;
- Railway from FushëKosovë -Podujevë.⁸⁶

3.1. Analysis of selected connectivity projects

Despite the fact that the Berlin Process has been introduced since 2014, there is very few public data available on the projects, financial costs and overall implementation provided by state institutions. However, for the purpose of this paper, KDI has officially requested more specific information by relevant stakeholders, i.e. Ministry of European Integration, for certain projects. These information are presented in the table below.

Project title	Short description	Total estimated investment	EU contribution	IFIs	Own contribution	Year
Orient/East-Med Corridor: General Rehabilitation of Railway Route 10 in Kosovo, Signaling and Telecoms for Phase 1 and Phase 3. Orient/East-Med Corridor: Kosovo - Serbia R7 Road Interconnection, Pristina - Merdare Section.	Installation of signalling and telecommunication equipment at Phase 1 and Phase 2 of the route	€56.2 million	€26.8 million	EBRD: €12.4 million EIB: €12.4 million	€4.5 million	2019.
	Supervision services required for constructing the missing Route 7 section in Kosovo, a 23 km long dual catteageway from Pristina to the border crossing point in Merdare.	€137.1 million	€4.4 million	EBRD: a €31 million	NA	2018.
Orient/East-Med Corridor: The former Yugoslav republic of Macedonia - Kosovo - Serbia R10 rail Interconnection.	This investment project will €42.3 million cover the rehabilitation of the Fushë Kosovë/ Kosovo Polje- Mitrovica rail section and associated railway stations to modern, TEN-T standards.	€42.3 million	€17.2 million (works and supplies) €1.0 million (project implementation support)	EBRD: €8.6 million (loan) €0.5 million (project implementation support) EIB: €9.2 mill	€5.8 million	2016.
Regional Energy Efficiency Programme (REEP Plus) for the Western Balkans.	As a continuation of REEP, €140 million REEP plus aims at advancing energy efficiency (EE) and renewable energy (RE) investments in WB6 countries.	€140 million	€30 million (investment grants and technical assistance to WB governments, banks and subborrowers)	€110 million (EBRD, KfW Group, Commercial Banks)	NA	2016.
Green for Growth Fund: Hydropower and other Renewable Energy Schemes for the Western balkans (Regional Projects)	GGF aimed at providing financing and TA to financial institutions so as to enhance their participation in the energy efficiency and renewable energy sectors. In addition, the scope also includes direct investments in renewable energy projects.	€100 million	€20 million	Fund: €80 million	NA	2016.
Orient/East-Med Corridor: (R10): the former Yugoslav Republic of Macedonia - Kosovo - Serbia Rail Interconnection	This investment project will enable outdated switches, tracks and track bed, culverts, bridges and tunnels along the Fushë Kosovë/ Kosovo Polje-border with the former Yugoslav Republic of Macedonia route to be replaced or renovated.	€80.9 million	€38.5 million (works) €7.54 million (for project preparation and implementation support)	EBRD: €19.2 million (loan) €0.8 million grant for project implementation support EIB: €19.2 million (loan)	NA	2015.

Table 1. Detailed information on selected connectivity projects deriving from Berlin Process. Source: Ministry of European Integration of Kosovo

86. Information obtained by the Ministry of European Integration of Kosovo. For more details, please see: <https://www.wbif.eu/wbif-projects> (accessed on 25.01.2020)

3.2. Institutional setup

At present time, Kosovo does not have an extensive institutional setup which directly deals with the Berlin Process. The tasks between state institutions are divided based on the scope of work and/or obligation that derives from the process.

Prime ministers meet annually and in between summits; advisors of prime ministers meet quarterly; ministers of energy, transport, trade and foreign affairs meet once or twice in between summits; technical meetings take place throughout the year and are led by various mechanisms including the Central European Free Trade Association (CEFTA) and the Western Balkans Investment Forum (WBIF).⁸⁷ The European Union is also represented, mainly through DG NEAR and the Member State holding the Presidency of the Council.

Other state institutions that deal with the process in both political and technical levels are Ministry of Foreign Affairs and Ministry of European Integration. Whereas, in more technical level, there are other Ministries involved, such as Ministry of Finance, Ministry of Infrastructure and Transport, Ministry of Culture, Youth and Sports and the Office of the Prime Minister.⁸⁸

3.3. Inclusion of Civil Society

Civil Society in Kosovo is well organized and structured. With regard to Berlin Process, CSO's from Kosovo have actively participated in most of the summits over past years, especially in Vienna, Trieste and Poznan. Moreover, Kosovo CSO's have maintained a regular cooperation with RYCO, and also intended to foster regional cooperation between them, especially with CSO's from Serbia. Some of the most notable CSO's from Kosovo⁸⁹ has dealt with the process over time.

4. Conclusion

This paper provides answers to three main issues:

- Identifies and list the Berlin process and Connectivity infrastructure related projects;
 - Identify, list and classify the regional and national Institutions related to Berlin process and Connectivity agenda and describe their institutional governance and
 - Provides short Study cases with detailed information on some of the most important connectivity projects.
- In general terms, the Berlin Process added a new dynamic and has the potential

87. Ibid (3)

88. Interview with official from Ministry of European Integration, conducted on 06.04.2020.

89. For example: Kosova Democratic Institute (KDI), Democracy Plus, BPRG, QKSS, Democracy for Development (D4D) etc.

to improve relations between the EU and the WB6. The Process has managed to fill the gap that is left by the EU institutions in the WB. If there is one aspect of the Process that is successful is the fact that it kept the region active through the high-level meetings on annual basis.

One of the most tangible benefits of the Berlin Process have been the connectivity infrastructure projects through the Western Balkans Investment Framework (WBIF). Although this framework was established some years prior to the Berlin Summit, as the instrument was integrated into the Berlin Process, greater attention was paid to this instrument and a higher momentum for project implementation.

Although the Berlin Process does not come with additional funds, it relies on the fact that the European Commission set aside up to 11 billion euros for connectivity investment projects and technical assistance for the 2014–2020 period. Access to EU funding, however, is conditional upon domestic reforms and openness to market forces, as well as to the implementation of technical standards and soft measures such as aligning/simplifying border crossing procedures, railway reforms, information systems, road safety and maintenance schemes, unbundling and third-party access, etc. The promotion of these measures and reforms lies at the core of the Berlin Process.



Regional Convention on European Integration of the Western Balkans

NORTH MACEDONIA IN THE BERLIN PROCESS: FROM UNTAPPED POTENTIAL TO TANGIBLE ACHIEVEMENTS

Developed by: Centar za Istraživanje i Kreiranje Politiki (CRPM)
Authors: Ana Krstinovska

Background

North Macedonia's participation in the Berlin Process cannot and should not be observed in isolation from its EU integration process. **While the Berlin Process was launched as a rather parallel initiative to the EU accession in 2014, it builds on and converges with the country's long-standing EU membership perspective:** involves the same institutions and people, anchors in the same strategic documents and utilizes the collective memory that has been developed alongside the EU accession trajectory.

North Macedonia was the first country in the region to conclude a Stabilisation and Association Agreement with the EU back in 2001. It has undergone an unusually long waiting period between obtaining the candidate status (2005), the first positive recommendation by the European Commission to open accession negotiations (2009) and the opening of accession talks which has not yet happened. However, being "in the game" for such a long time has led to a very high degree of harmonization with the EU *acquis* in terms of sectoral policies, as well as a very skilled portion of the administration working on EU issues. On the downside, the standstill in the process has led to general disenchantment, low motivation in the administration and high staff turnover which, coupled with the lack of retention mechanisms and capacity building policy, results at present in a lack of administrative capacity to bear the burden of the accession talks, especially in some areas.

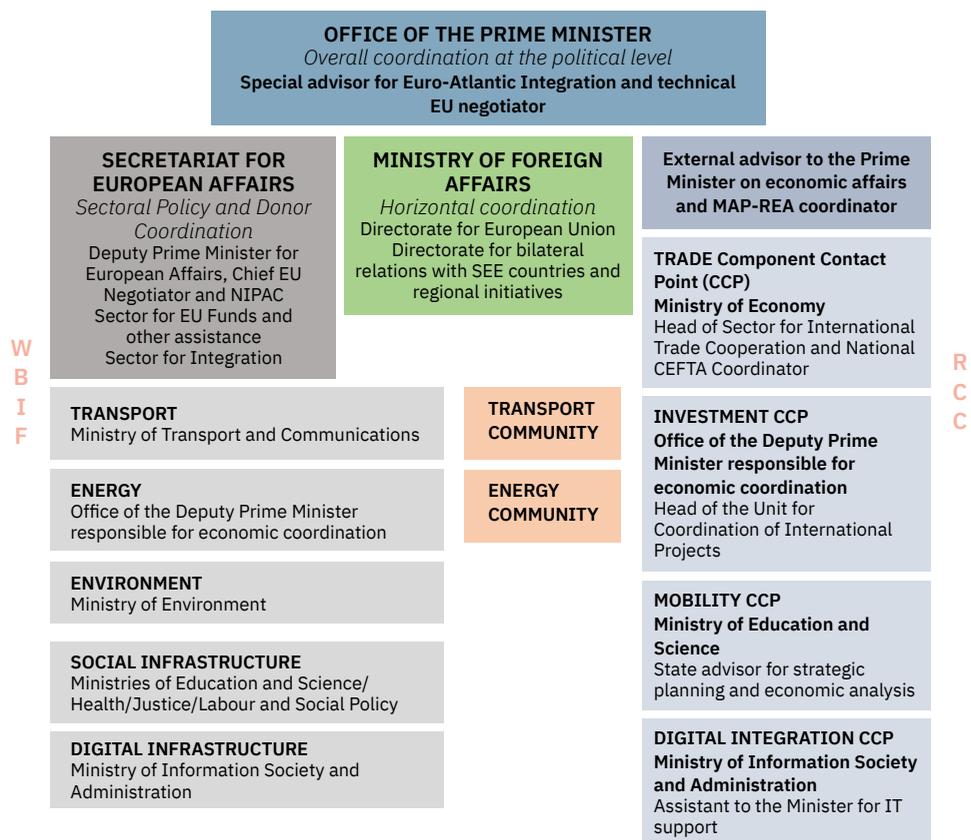
In that context and with the general challenges in EU's enlargement policy, the expectations from the Berlin Process are growing. While it is not considered as an alternative to the EU accession, it is supposed to contribute in resolving some of the major pressing issues that North Macedonia and all the other Western Balkan (WB) countries are facing: **neighbouring tensions and bilateral issues; infrastructure deficit;**

low economic competitiveness, productivity and inclusion in global value chains; brain drain, especially concerning young people; mismatch between the labour demand and supply in terms of skills, resulting in high unemployment.

This study aims to examine North Macedonia's participation in the Berlin Process and specific aspects of the process that are synergetic with the country's EU accession. It adopts a combination of a **descriptive and analytical approach** by focusing on the main stakeholders, instruments and initiatives, but also identifying country-specific issues, challenges, good practices and recommendations. While it does not provide a comprehensive account of all the interactions of Macedonian stakeholders in the process, it is **thematically organized along five identified dimensions of the connectivity agenda** (four regional, among the WB countries and one Europe-wide).

- Infrastructure connectivity
- Economic connectivity
- Institutional and political connectivity
- People to people (P2P) connectivity
- Europe-wide connectivity

North Macedonia's National Coordination Framework for the Berlin Process
Source: Author's representation

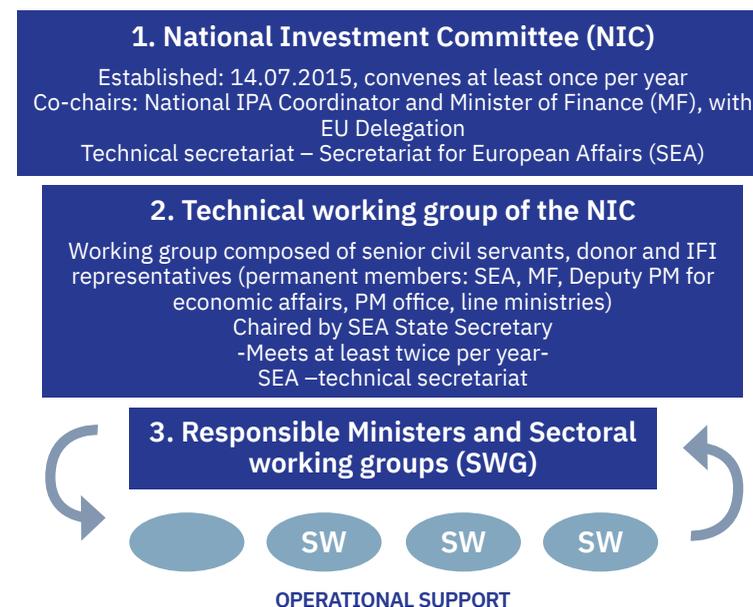


Infrastructure connectivity

Infrastructure connectivity is the driver and the lynchpin of the entire process. The introduction of IPA 2 brought along serious changes to the principles and rules underpinning EU assistance, especially in terms of planning and programming. The successful management of EU funds under the new framework required a significant **change in the administrative and political mindset**. It not only introduced the **sectoral approach** which imposed the need for over-arching cooperation between various institutions, donors and civil society in order to implement sectoral programmes (as opposed to individual projects under IPA 1), but also elevated the need for more **long-term and strategic vision** in each sector as a prerequisite for enhanced development. The change was most felt in the area of infrastructure where individual national institutions “lost” their prerogative to seek funding for projects of their own choice in favour of the newly established **National Investment Committee - NIC**.

The most important deliverable of the NIC was the preparation of the Single Project Pipeline (SPP) following a specific methodology which combined project maturity and strategic priority developed by IFICO (International Financial Institutions Coordination Office, a service provider contracted by the European Commission). NIC and the SPP aimed to remedy to several recurrent challenges:

- the lack of coordination between different sources of infrastructure funding (grants, loans and national budget);
- the lack of mature projects in some sectors, leading to funding decommitments;
- transparency and accountability;
- issues leading to strategic prioritization of projects and competition for funding between various ministries;



Three-level structure of the National Investment Committee (Source: Secretariat for European Affairs)

It is worth mentioning though that while the SPP was a major and successful novelty, the last aspect has not been fully addressed yet due to the impossibility to overcome political and institutional “bargaining” on whose project should take precedence in the SPP. Namely the national SPP is not a merger, but a juxtaposition of the sectoral SPPs in the four sectors: **transport, energy, environment and social infrastructure** (health, education, social policy and justice). Following the adoption of the Digital Agenda for the WB, a new sector - **digital infrastructure** has been envisaged, but the sector project pipeline will be developed once the national ICT strategy is adopted by the Government. Moreover, the novelties envisaged under IPA 3 and the new European Commission introduce a slight shift in the funding priorities. While transport and energy obtained the lion’s share of the available funding until present, **with the new European Commission’s Green Deal environment becomes more prominent**. However, the new approach which includes “blending” of funding sources - a reduced percentage of EU funds and increased national - or other co-financing, as well as a potential increase in the percentage of loans as opposed to grants, also entails possible risks related to the financial sustainability. In order to fully reap the benefits in this area, it is indispensable to work with the national authorities in order to raise environmental issues higher on their strategic and funding agenda. Otherwise, with the already constrained fiscal space due to a number of sizeable projects that are to be implemented in near future and the public debt which is expected to surpass 50% of GDP at the end of 2019 (Lider, 2019), the entire sustainability of infrastructure project funding in the country will be at stake. Moreover, given that the operation of environmental projects (waste-water treatment plants, landfills etc.) is usually under the legal competence of local authorities, **it is important to include municipalities in the decision making processes** to ensure project sustainability and impact.

Given the size of the country, North Macedonia has been punching above its weight with regard to project implementation, especially in the last few years. This is due not only to the fact that the national authorities have demonstrated a solid level of preparedness in terms of mature projects ready for funding, but also because the international community involved in the Berlin Process infrastructure pillar sought to compensate the country for the political efforts in overcoming the disputes with the neighbouring countries – Bulgaria and Greece. In comparison, during 2015-2016, when the country suffered a profound political crisis, the approval of sizeable infrastructure projects had been put on hold. Such an approach demonstrates the **interconnectedness between the connectivity dimensions** – infrastructure and regional political cooperation, but also the **implicit conditionality related to good governance** as an inherent objective of the process.

Thus far North Macedonia has been awarded **a total of 23 projects** through the WBIF, or 11.8% of the total number of approved projects and 10% of the total project amount. 9 of them are under implementation, 14 under preparation and 2 in tender preparation phase. Two additional applications are pending approval at the time of writing. Moreover, **it participates in 15 regional projects**, out of which 6 have been completed, 6 are under implementation and 3 under preparation. The distribution of funds per sector goes as follows: 8 in the area of transport, 8 in energy, 2 in environment, 4 in social and 1 in digital infrastructure. The funding has been ensured through:

- 37 grants, or 10.6% of the total number, amounting to €176.2M which is 14.3% of the total allocated grant amount;
- €569.8M in loans, or 9.4% of the total lending through the WBIF.

While **technical assistance** for project preparation is an integral part of the overall assistance distributed within the Berlin Process (JASPERS, CONNECTA, IPF and other instruments), technical assistance and **institution building** (TAIB) is not included and has been subsequently declining with each IPA programming period. However, it is wrong to assume that the national institutions which have benefitted from TAIB for years are already well prepared and able to prepare and implement large infrastructure projects on their own (Hackaj, 2019). The complex nature of such projects, teamed with the lack of capacity building activities and high staff turnover contribute to a **disproportionate dependence on external consultants** and also undermine the overall level of preparedness of the administration for harmonization with the *acquis*, implementation of the soft measures and management of structural funds after membership.

Economic connectivity

Economic connectivity which includes enhanced cooperation and exchange in terms of trade, investments, entrepreneurship and labour mobility is one of the desired and expected positive spill-overs of the infrastructure connectivity. The WB6 summit in Trieste, Italy in 2017 launched the idea to create a **WB Regional Economic Area in order to promote intra-regional economic cooperation, increase competitiveness and productivity, reduce the economic disparities between the WB region and the EU and act as a stepping stone to EU integration. Its implementation was entrusted to the Regional Cooperation Council (RCC)** as a regional initiative which has demonstrated capacity to unite the region despite the burden of its historic legacy and political tensions (Krstinovska, 2018). The Multi-annual action plan (MAP REA) as a key document for enhanced economic connectivity includes **forging closer trade ties between the 6 economies, creating a harmonised regional investment space, promoting digitalization and strengthening the efforts to increase intra-regional mobility**.

North Macedonia has been an eager participant in the activities related to economic connectivity, seeking predominantly to increase its attractiveness to foreign investors, but also to appease recurrent trade issues (especially with Serbia and Kosovo) and reap the benefits of the digital integration. It has selected **automotive and light manufacturing as key sectors, followed by tourism and agriculture** for the development of a joint investment offer (RCC, 2019). The active participation in the MAP REA activities coupled with the initial activities in terms of smart specialization acted as stimulus for national policy makers to engage in **more strategic and visionary reflection on the country’s economic advantages and objectives**.

Institutional and political connectivity

Institutional and political connectivity refers to the established regular contacts and cooperation at all political and administrative levels, which have been unprecedented

since the launch of the Berlin Process and aims to create an “enabling environment” for all the other types of cooperation to flourish. It includes bilateral disputes, political cooperation, security commitments and civil service schemes.

Within a period of less than 2 years, North Macedonia managed to **overcome two long-lasting disputes with neighbouring countries** which overshadowed its EU integration path. The signed Treaty on Friendship, Good Neighbourly Relations and Cooperation with Bulgaria in August 2017 and the Prespa Agreement on the name issue with Greece in June 2018 ended all major bilateral issues that the country had, thus “releasing” it from any obligations stemming from this aspect of the Berlin Process.⁹⁰ Nevertheless, with the willingness to lead by example, national authorities undertook the role of “**honest broker**” among the other WB countries and engaged in a confidence-building exercise aimed to help the others make concrete steps in overcoming their own bilateral issues. In this context, the Ministry of Foreign Affairs is facilitating the exchange of tables where other countries fill in their insights on the disputes they have with their neighbouring countries. The objective is to strengthen mutual trust and clarify varying national positions in order to create momentum for reaching solutions, but also to ensure that the resolved disputes remain closed.

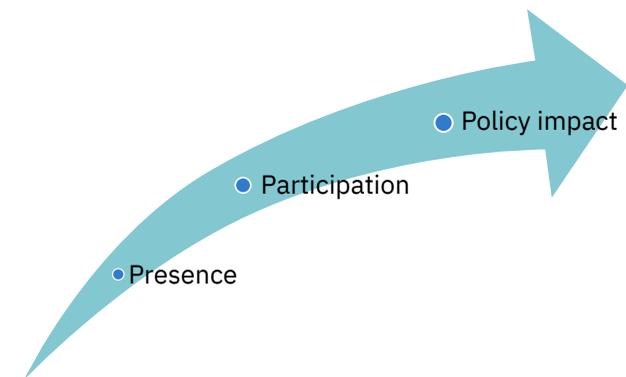
North Macedonia, together with Albania and Serbia, decided to go a step further in enhancing the regional cooperation and integration by signing a Declaration on Advanced Regional Cooperation, or the so-called “**Mini-Schengen**”, aimed to allow the free movement of goods, services, people and capital between the countries. The initiative which has been praised by the EU and other Western countries as a step forward for the region, especially following the French refusal to grant North Macedonia and Albania the start of the accession talks, has encountered numerous criticism within the country: **it is not seen as an added-value for the Macedonian citizens** who already travel to the neighbouring non-EU countries using the national ID, nor for the businesses who already enjoy the benefits of CEFTA; a number of other proposals in the Declaration (recognition of qualifications, non-tariff barriers etc.) are already being followed upon by the RCC through the MAP REA; moreover, the mere possibility that it could be an alternative to, and not a stepping stone towards full-fledged EU integration has raised an alarm that “Mini-Schengen” could further isolate the region as a Balkan ghetto (Vasilev, 2019). Instead, given that inclusion in the Schengen area does not fully overlap with EU membership, with some EU countries being out of it (Croatia, Bulgaria, Romania) and some non-EU being inside (Switzerland, Norway), it would be preferable if the WB countries **start preparations for inclusion in Schengen in parallel and even prior to the EU accession.**

P2P connectivity

P2P connectivity is aimed towards adding meaning to the infrastructure connectivity as a tool to connect the people, foster reconciliation and cooperation, and not mere end in

90. Although closed or not considered as state competence, some pending issues do hold the potential to disturb the relations with the neighbouring countries (i.e. the Macedonian language issue with Bulgaria, the issue of trademarks with Greece, the church issue with Serbia or Macedonian-Albanian inter-ethnic relations which are of interest to Albania and Kosovo).

itself. The target groups include youth and civil society as two stakeholder groups which bear the greatest potential to transgress borders and build bridges. **Trans-national civil society networks including CSOs from the WB** were already in place and operational before the launch of the Berlin Process. However, the new development provided them with a **permanent joint mission of monitoring and influencing the related policies** on the national and regional level in order to ensure that they are **in line with the citizens’ priorities** and do not deviate from the established EU standards and values. Moreover, some policies which had thus far been **the “exclusive” competence of the national authorities and, to a certain extent, the business community, saw a process of opening up towards CSOs**, although their structured involvement is still missing (i.e. transport, investment).



It is worth noting that the first major step in the inclusion of civil society – ensuring **presence** at the table - has been made at the Poznan summit where the Chair’s conclusions also recognize the role of CSOs as “partners for governments in creating policies related to the public good”. Nevertheless, the ambition should continue towards ensuring meaningful civil society **participation** and the ultimate goal should be **policy impact**. In that context, additional efforts are needed by national authorities in terms of transparency, accountability and inclusiveness to enable civil society to exercise its basic roles of watchdog and advocacy.

When it comes to ensuring the connectivity between young people from the WB6, the key role has been played by the Regional Youth Cooperation Office (RYCO) which provides opportunities for cooperation between youth CSOs and a platform for student exchange. The interest among young people from North Macedonia has been immense: thus far 14 youth CSOs from the country have been granted projects as lead partners and additional 45 as co-applicants. Although North Macedonia has not been directly affected by inter-state war, **given the highly complex multicultural context of the country and recurrent internal inter-ethnic tensions, participation in initiatives concerned with reconciliation, conflict prevention and management is of utmost importance** for the young Macedonian generations not to fall into the ethnocentric schemes of the past and to learn to go beyond the borders that the previous generations have set.

Europe-wide connectivity

The last connectivity dimension which is often overlooked because it is not explicitly mentioned, but is not of lesser significance, is the connectivity of the WB region with the rest of Europe which enhances the process of Europeanization. It creates a new momentum for the EU accession process by **enabling more frequent contacts between the WB6 and participating EU member states**, which were thus far limited mostly to the realm of each country's bilateral relations. With the current challenges that enlargement policy is facing when the Council fails to act in line with the European Commission's recommendation, for example in the context of the opening accession talks with North Macedonia and Albania, closer engagement with individual EU Council members is crucial and brings along the potential to help overcome Council divisions between member states on their approach towards the WB6. Regular contact on all levels between politicians and civil servants pave the way for the Council members to better understand the WB context, learn more and first-hand about the problems that the countries are facing and be more easily convinced in the results they are achieving on the European path. In time, such an approach may yield with **strengthened understanding and trust that will help the WB6 in their formal integration process**, but also with **individual involvement of certain member states that have thus far been rather absent from the region**. In addition, it may result in **gradual involvement of the WB6 within certain EU-level policies that concern them, at least in the observer role** (i.e. migration policy, environment, CFSP etc).

In that context, the concept of **dual presidency** envisaged for the next summit which will be hosted jointly by North Macedonia and Bulgaria has the potential to contribute even further toward the strengthening of the connectivity between the WB and EU member states. Should it prove to be successful, it could be further extended to other couples of EU and non-EU countries in order to foster improvements in their bilateral relations, diminish the likelihood of disputes and blockades of the accession process, but also **increase the regional ownership of the process** (i.e. Albania and Greece, Croatia and some of the neighbouring WB countries etc.)

Tabanovce Integrated Border Crossing between North Macedonia and Serbia – one project, five connectivity dimensions

The year 2019 marked a historic moment in North Macedonia's connectivity by the opening of its first integrated border crossing with Serbia. The project, which is the apex of the good bilateral cooperation between the two neighbouring countries, **embodies all the five connectivity dimensions – infrastructural, economic, institutional, P2P and Europe-wide connectivity**. The project follows the completion of the highway sections along the European Corridor 10 on both sides and complements this endeavour which would not have been entirely successful had the border waiting time and procedures remained the same.

The project encompasses both the road and rail border crossing. While the former uses the existing infrastructure on both sides and has been operational since

August 2019, the latter includes the construction of a new building which will be financed through the WBIF with an EBRD loan of €4.36M and is expected to be opened at the end of 2021.

The integrated border crossing is expected to **shorten the waiting time for freight vehicles by half, reduce the cost of cross-border procedures, and introduce mutual recognition of veterinary certificates and authorized economic operators**. It is expected to contribute to an **increase of 10-12% in bilateral trade and annual budget savings on border controls of up to €8M**. In the words of the WB6 Chamber Investment Forum, it is *“the largest concrete joint contribution to bilateral cooperation and furthering of regional trade, as well as increasing competitiveness. This is the best response to the demands and expectations of businesspeople, appeals from the Chambers of Commerce of the region, to speed up procedures and harmonize regulations, documentation, work of competent services and thus remove barriers”*.

The project will also reduce the travel time for passengers along that route, potentially **enhancing tourism and cross border mobility**. It will also **improve the cooperation between the customs, police, phytosanitary, veterinary and other services on both sides** who will need to work together in the spirit of stronger mutual trust and understanding. Finally, it will further increase the importance of this European Corridor and the connectedness of the two countries with the core European transport and logistics channels, both to the North and to the South.

Sources: WBIF, WB6 CIF

Synergy with the EU accession process

While the Berlin Process started as an intergovernmental initiative parallel with the formal accession process led by the European Commission, it is increasingly converging in many aspects, including but not limited to the following:

- » The goals defined at the first summit in Berlin overlap with 4 of the flagship initiatives in the last Enlargement strategy published by the European Commission in 2018.
- » The obligations accepted within the MAP REA, in addition to harmonization between the countries, aim to ensure alignment with the rules and best EU practices in the areas of trade, investment, internal market, digitalisation and the “four freedoms”.
- » The Economic Reform Program, initially designed for the WB countries to be able to engage in a process of economic and fiscal policy coordination, similar to the European Semester, is gaining relevance with the Berlin Process and assumes the role of all-encompassing mid-term national development strategy.
- » The anti-corruption pledges that the Macedonian Prime-Minister undertook, along with four other WB counterparts, are a part of the EU's Fundamentals First agenda for the region.

» The security pillar introduced at the summit in London consists of specific deliverables that are in line with the requirements for Chapter 24 of the EU accession process.

» The “soft measures” which represent the conditionality behind infrastructure projects in energy and transport are also a part of the alignment process for EU membership (Chapters 14, 15 and 21).

The methodology used for the preparation of the SPP can and should be applied to projects funded by the national budget as well. This way it will contribute to a more transparent and efficient use of the national taxpayers money as well, in line with the requirements for sound financial governance that represent one of the fundamentals of the EU accession process.

Conclusions and recommendations

The Berlin Process has played a substantial role in enhancing regional cooperation between countries which have been thus far divided along many lines. It brought to the forefront the regional infrastructure connectivity as a precondition for catching up with the more developed EU countries, but also the need to fill in the concept of connectivity with substance related to the economic, social and human aspects. In addition to facilitating physical connections, it helped the countries to identify and start tackling the invisible obstacles to the unhindered flow of goods, services, workers and capital, spreading the EU values and benefits, albeit thus far at a more limited scale.

It also had the merit of re-focusing key EU member states on the WB6 and the importance of the region for the EU. While North Macedonia has already seen tangible benefits from all the connectivity initiatives within the region, there is still a lot of potential for improvements, especially when it comes to the connectivity of the region with the EU which remains the strategic destination for all the countries. In that context, an avenue to further explore in future would be the inclusion of the WB countries in certain EU-level policies and activities, alongside EU member states.

The procedures and principles adopted in the context of the Berlin Process are the equivalent of what the countries should put in place for the successful management of EU structural funds and especially the implementation of large infrastructure projects. They should be further developed and streamlined to the rest of the administration in order to foster a faster and more comprehensive Europeanisation process.

The broadening of the Berlin process through a large number of topics which have been opened thus far should cede the place to further deepening in order to bring about tangible and sustainable results. The Berlin Process is not a substitute to EU accession. In that context it should not strive to cover all the topics included in the accession process, but aim to achieve convergence by complementing it. Furthermore, its long-term added value and the guarantee for sustainability should be sought beyond ensuring regional cooperation, by the potential to ensure closer cooperation of the WB6 with the EU member states and synergy with the EU accession process.

Interviews

The author wishes to thank the following interviewees for their time and precious insights:

Evgenija Serafimova-Kirkovski, Head of Sector for the Coordination of EU funds and other foreign assistance and Head of the NIPAC Office, Secretariat for European Affairs (10.12.2019)

Beti Jacheva, Director of the Directorate for EU Integration and Edvard Mitevski, Coordinator of the Berlin Process in the Ministry for Foreign Affairs (24.12.2019)

Bojan Marichikj, Special Advisor to the Prime Minister on EU Integration and National Coordinator - “Sherpas” of the Berlin Process, Office of the Prime Minister (26.12.2019)

Zoran Nechev, Senior Researcher and Head of the Centre for EU Integration, Institute for Democracy “Societas Civilis” Skopje (25.12.2019)

Orhideja Kaljoshevska, WBIF Country Manager for North Macedonia (27.01.2020)

Albert Hani, Head of the local RYCO branch in North Macedonia (27.01.2020).

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Regional Convention on European Integration of the Western Balkans

Serbia in the Berlin Process

Developed by: Jelica Minić and Aleksandar Kovačević⁹¹

Background

The Berlin Process was launched in 2014⁹² to supplement the sluggish enlargement process towards the Western Balkans. The EU was tired of a decade long intensive extension towards East, South and Southeast Europe followed by the global financial crisis and internal governance problems. The Western Balkan countries were experiencing the accession fatigue and discontent with permanently more demanding methodology and procedures in the *acquis communautaire* adoption and implementation. Then, the ‘safety belt’ appeared complementing the accession process but introducing completely new dimensions to the European integration of the region.

First, the focus of the Berlin Process was the economic and social development of the Western Balkans, not the mere legal and institutional adjustment to the EU *acquis* and EU policies in different areas. The development gap became an obvious obstacle to the EU integration of the Western Balkans and there was not a coherent policy and mechanism to deal with all its aspects.

Second, many fragments of such a mechanism have already been developed by the numerous regional organizations and initiatives dealing with important policy dimensions (trade, investment, energy, transport, education, R&D etc). The Berlin Process provided an appropriate framework for the establishment of such a mechanism which was evolving from summit to summit and was finally articulated as Six Flagship Initiatives in the European Commission proposal *A credible enlargement perspective for and enhanced EU engagement with the Western Balkans*⁹³ and confirmed by the Member States at the Sofia EU-Western Balkans Summit⁹⁴, in 2018.

91. European Movement in Serbia

92. Source: <https://berlinprocess.info/about/>

93. Source: https://ec.europa.eu/commission/sites/beta-political/files/six-flagship-initiatives-support-transformation-western-balkans_en.pdf

94. Source: <https://www.consilium.europa.eu/en/press/press-releases/2018/05/17/sofia-declaration-of-the-eu-western-balkans-summit/>

In 2009, the European Commission launched a joint blending facility with the International Financial Institutions (IFIs), bilateral donors and Western Balkans countries to deliver funding for strategic investment projects in the region. In 2013, the Regional Cooperation Council launched the South East Europe Strategy 2020 (SEE2020) identifying the main avenues of regional cooperation and development. The Strategy was built on achievements and with support of numerous interconnected and coordinated regional organizations and initiatives aiming to give a regional echo to Europe 2020. These mechanisms made possible the political success and initial operational ground to the Berlin Process.

Third, the accession process is proceeding as a bilateral relationship between the EU and each of the Western Balkan countries separately. The Berlin Process has developed as a multilateral setting between a growing number of EU Member States and the Western Balkan counterparts. The approach is regional, with the aim to upgrade and consolidate the regional cooperation in the Western Balkans in parallel with EU integration.

Fourth, after six summits of the Western Balkan countries with a growing number of EU Member States’ high representatives (5 in Berlin and 9 in Poznan) Berlin Process represents a respectable political and pragmatic non-institutionalized initiative. It is a multilateral mechanism but without governing structure, secretariat, staff and budget. It operates according to the principle of precedent – each chairing country learns from previous chairs – with each chair giving a specific seal (cachet) according to the preferences of this specific country regarding the assessment about what is needed to be done, initiated, and raised in the Western Balkans besides standard enlargement procedures. The binding element is the political commitment of participating countries and their readiness to implement the agreed arrangements.

The most important initiatives launched by the Berlin process were the Connectivity Agenda and the Regional Economic Area. Moreover, two new regional organizations were established under its auspice –the Western Balkans Six Chamber Investment Forum (WB6 CIF) and Regional Youth Cooperation Office (RYCO) which resonated well with wider public in the region. First of them attracted attention of European donors and investors but also of Chinese, Russian, Turkish and other investors who are competing with European interests and procedures in connecting the region with Pan-European Transport Corridors and energy networks. In this respect Serbia represents one of the markets with the greatest exposure to the different investors in her transport and energy development portfolio.

Besides these more structured and functional initiatives of the Berlin Process a great number of declarations, letters of intent and other commitments were made regarding good neighbourly relations, climate change, small and medium sized enterprises, anti-corruption, security issues, cross-border cooperation etc. involving different ministries and agencies of the Western Balkan countries. Some of these initiatives had matching regional structures, the others did not. Doubtlessly, the Berlin Process brought the new dynamism to the region and intensified communication among national administrations. At the same time, it additionally increased the burden imposed to their staff already occupied with the accession negotiations and membership in dozens of regional organizations.

In this paper, the complex structure of regional and national institutional support to the Berlin Process will be described and an assessment of their achievements presented. The greatest attention will be devoted to the two flagship initiatives in the field of economy -the Connectivity Agenda and Regional Economic Area, and to the two regional organizations which emerged during the five years since the process was launched – the Western Balkans Six Chamber Investment Forum and Regional Youth Cooperation Office.

Stakeholders and operating structure of the Berlin Process

Although the Berlin Process is not an organization or institution it has a widespread institutional support. Namely, the functioning of Berlin Process relies upon a comprehensive network of national and regional institutions and organizations involving numerous partners from the EU and providing them with a number of leverages supposed to assist the enlargement process. Basically, working agendas and contributions of several regional initiatives were transposed through the Berlin Process to the new enlargement strategy launched in 2018. It is most visible at the list of six flagship initiatives⁹⁵ which were designed and structured through the combined efforts of regional initiatives, national governments, Berlin Process and European Commission.

Besides the intergovernmental structures the Berlin Process introduced the nongovernmental actors as well in the format of Business Forum, Civil Society Forum, Youth Forum and at the last Summit in Poznan the Think Tank Forum. These forums made possible deeper analysis, more open debates and people to people connectivity beyond purely institutional communication.

In the following table the list of main national (Serbian) and regional, or region focused stakeholders are presented according to the areas of their operation in the framework of the Berlin Process.

»

Table 1: Stakeholders of the Berlin Process

Area of communication	Implementing regional organizations	National stakeholders in Serbia
<i>Political communication and coordination</i>		Prime Minister Offices Ministry of Foreign Affairs of Serbia
<i>Good Neighbourly Relations and Reconciliation</i>	RYCO	Ministry of Foreign Affairs of Serbia CSOs
<i>Connectivity Agenda</i>	Energy Community Transport Community Western Balkan Investment Framework	Ministry of Energy and Mining of Serbia Ministry of Construction, Transport and Infrastructure of Serbia Ministry of Finance of Serbia
<i>Regional Economic Area</i>	Regional Cooperation Council CEFTA WB6 Chamber Investment Forum Education Reform Initiative in South East Europe	Ministry of Economy of Serbia Ministry of Trade, Tourism and Telecommunications of Serbia Ministry of Finance of Serbia Ministry of Education and Science of Serbia
		Chamber of Commerce and Industry of Serbia
<i>Environment and Climate Change</i>	Regional Working Group on Environment	Ministry of Agriculture and Environmental Protection of Serbia
<i>Anti-corruption</i>	Regional Anti-corruption Initiative	Ministry of Interior of Serbia
<i>Security (organized crime and terrorism)</i>		Ministry of Interior of Serbia
<i>Youth cooperation</i>	Regional Youth Cooperation Office	Ministry of Youth and Sports of Serbia Youth CSOs

95. Source: https://ec.europa.eu/commission/sites/beta-political/files/six-flagship-initiatives-support-transformation-western-balkans_en.pdf

Table 2: Operating Structure of the Berlin Process Summits

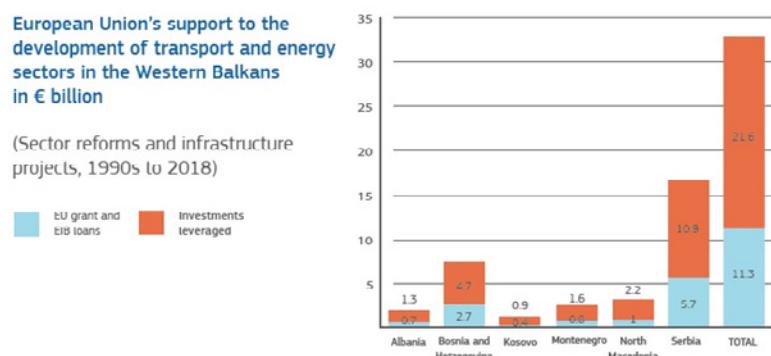
Western Balkans Summit				
Ministers of Foreign Affairs Meeting	Business Forum	Civil Society Forum	Youth Forum	Think Tank Forum

Connectivity Agenda

Serbia is landlocked country with no direct access to the seaborne trade exposed to poverty risks. It is heavily dependent on availability of infrastructure and its ability to use available infrastructure. Serbia is the largest beneficiary of the EU financial support to energy and transport infrastructure in the Western Balkans. It is to be expected that Serbia could benefit from any regional integration and infrastructure improvement initiative. Berlin Process Connectivity Agenda suppose to respond to this requirement.⁹⁶

Connectivity Agenda promoted implementation of infrastructure projects and streamlined cross – border coordination of infrastructure. It provided political framework to negotiate infrastructure project and policy measures to improve use of available infrastructure. Improvements in custom procedures, mobility, roaming and telecommunications are of massive importance for quality of life and trade opportunities in entire region and in particular to Serbia.

Graph 1: EU support to transport and energy infrastructure⁹⁷



This overview is limited to EU grants support and EIB loans for the development of core transport and energy networks in the region and the integration of transport and energy markets into those of the EU, including grants awarded through the Western Balkans Investment Framework (WBIF).

96. Source: http://www.evropa.gov.rs/Documents/Home/DACU/5/194/2014_352812_1_WBIF_final_evaluation_report.pdf

97. Source: https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/connectivity_agenda_brochure.pdf, page 10

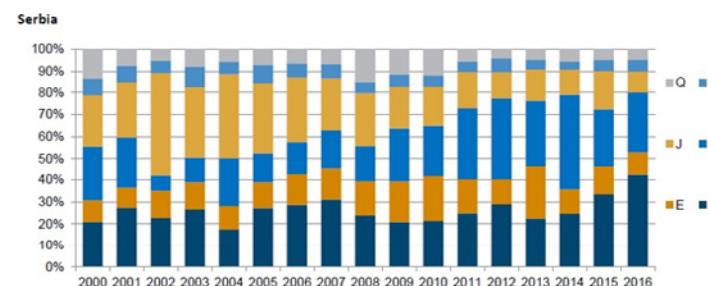
However, Serbia ranks fairly low at the Logistical performance index (LPI) data review that compares ability of the country to facilitate international trade. Not only that logistical infrastructure is considered well below Italy (as representative of the developed EU) or China or Europe & Central Asia average, but governance indicators (customs, competence, timeliness, tracking & tracing) lag significantly.

Table 2: Operating Structure of the Berlin Process Summits⁹⁸

Country	LPI		Customs		Infra-structure		Inter-national ship-ments		Logistics compe-tence		Tracking & tracing		Timeliness	
	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Italy	19	3,74	23	3,47	18	3,85	21	3,51	24	3,66	18	3,85	17	4,13
China	26	3,61	31	3,29	20	3,75	18	3,55	27	3,59	27	3,65	27	3,84
Europe & Central Asia		3,24		3,04		3,13		3,14		3,21		3,27		3,65
Serbia	65	2,84	78	2,6	74	2,6	57	2,97	80	2,7	76	2,79	62	3,33

From this perspective, it is difficult to observe actual improvements in logistical performance that been expected from significant investments into transport infrastructure over 20 years. Actually, transport infrastructure investments are the largest component in overall infrastructure investments.

Graph 2: Infrastructure investments in Serbia⁹⁹



Note: Investment survey data; BA structural business statistics; XK not available; MK national accounts; ME (all years) and MK (2013, 2014) structure estimated using structure of total construction. D Electricity, gas, steam, air conditioning supply; E Water supply, sewerage, waste management, remediation; H Transportation and storage; J Information and communication; P Education; Q Human health and social work activities. Source: wiiw, national statistical offices.

98. Source: <https://lpi.worldbank.org/international/scorecard/radar/254/C/ALB/2018/C/ALB/2018/C/CHN/2018/C/SRB/2018/R/ECA/2018/C/ITA/2018>

99. Mario Holzner, Monika Schwarzpappel, "Infrastructure Investment in the Western Balkans: A First Analysis" EIB, 2018, page 4

In very similar manner, Serbia lags behind the World average energy efficiency and carbon intensity indicators. Energy intensity of its GDP formation remains higher than the World average despite investments into energy infrastructure and energy efficiency supported through the Western Balkans Investment Framework and promotion of the good governance in the energy sector through the Energy Community Treaty.

Table 4: Selected energy and CO2 intensity indicators¹⁰⁰

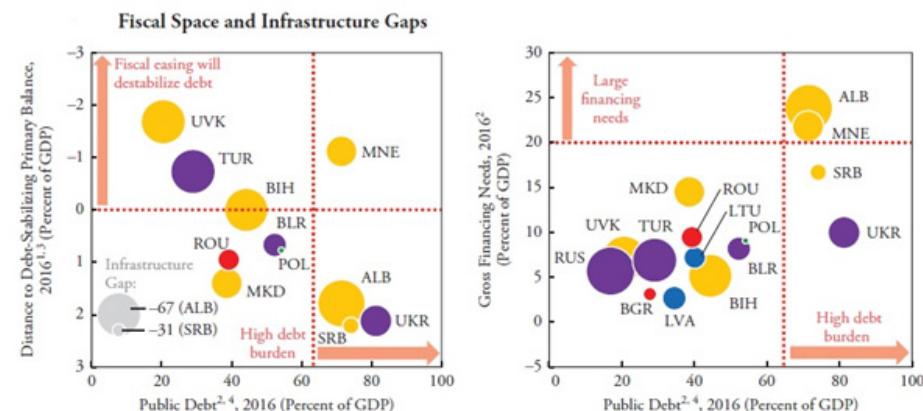
	TPES/ pop. (toe/ capita)	TPES/ GDP (toe/000 2010 USD)	TPES/ GDP (PPP) (toe/000 2010 USD)	Elec. cons./ pop. (kWh/ capita)	CO2/ TPES (tCO2/ toe)	CO2/ pop. (tCO2/ capita)	CO2/ GDP (kgCO2/ 2010 USD)	CO2/ GDP (PPP) (kgCO2/ 2010 USD)
World	1.86	0.17	0.12	3152	2.35	4.37	0.41	0.29
Serbia	2.22	0.37	0.17	4709	2.96	6.57	1.10	0.49

TPES= Total primary Energy Supply, Toe= tons of oil equivalent; kWh=Kilo Watt hour; tCO2= tons of CO2; kgCO2= kilograms of CO2; PPP=purchasing power parity

Berlin Process Connectivity Agenda demonstrated European Union financial support to tangible integration of Serbia into European infrastructure. That financial support contributed to stable exchange rate (or even appreciation of domestic currency) and inflated the nominal GDP figures. Consequently, it provided political and financial framework that is attractive for bilateral investors including China and Russia as well as excessive reliance on Eurobonds.

Serbia became active participant in the China Road and Belt Initiative within China 16+1 infrastructure investment framework. Although that framework provided variety of investment opportunities including equity investment fund and support for project bond placement to the Chinese financial markets, Serbia almost exclusively opted for direct loans from the China state owned banks for selected infrastructure projects. This approach further supports appreciation of domestic currency and GDP formation risks. Increase of public debt raises the question of available fiscal space to service this debt now and in the future, that is of the sustainability of this economic model.

Graph 3: Fiscal Space and Infrastructure Gaps¹⁰¹



Sources: IMF, DSA, IMF, VEE, WDI database; EIA; IRF; Eurostat; and IMF staff calculations.

Note: Size of bubbles is proportional to the extent of infrastructure gap.

¹Computed as a difference between actual (cyclically adjusted) and debt-stabilizing primary balances.

²Public debt and gross financing needs thresholds used in the IMF economic vulnerability indicators are 65 percent of GDP and 20 percent of GDP, respectively.

³Debt-stabilizing primary balances is published data taken from the respective country's staff report.

⁴Public debt are gross general government debt.

Serbia's fiscal structure is heavily biased toward indirect taxation: 44.2% of its fiscal revenue originates from sales, VAT and excise taxes. That compares with only 32.8% of indirect taxes in EU-28 average. Appreciation of domestic currency and perceived fiscal stability supported by the funds received through Connectivity Agenda of the Berlin Process provided ground for the Russian investments into retail and extractive industries that facilitate significant share of Serbia indirect tax revenues.

Taking into account that Serbia inherited resource rent industrial structure with significant extractive industries (lignite, hydropower, energy transit, copper, timber, fuel wood, public health) while country is not part of the Extractive Industries Transparency Initiative (EITI) nor the Energy Charter, it is difficult to fully quantify these critical fiscal risks.

Regional Economic Area

The Regional Economic Area (REA)¹⁰² was launched at the Trieste Western Balkan Summit, in 2017. Leaders of the Western Balkans endorsed the Multi-annual Action Plan on Regional Economic Area in the Western Balkans (MAP REA) whose development was coordinated by the RCC upon their request and supported by the European Commission

101. Source: Atoyán, Ruben; Benedek, Dora; Cabezon, Ezequiel; Cipollone, Giuseppe; Miniane, Jacques; Nguyen, Nhu; Petri, Martin; Reinke, Jens; Roaf, James; "Public Infrastructure in the Western Balkans: Shifting Gears—Opportunities and Challenges" Washington, D.C.: International Monetary Fund, 2017

102. Source: https://www.rcc.int/priority_areas/39/map-rea

100. Source: Key World Energy Statistics, 2019, IEA, Paris

(EC). This initiative, fully owned by the WB6, was aimed to enable free flow of goods, services, capital and highly skilled labor, making the region more attractive for investment and trade. Measures proposed for the closer regional cooperation and integration were expected to accelerate convergence with the EU and bring prosperity to Western Balkans citizens.

Although several regional organizations, with support of the European Commission have been already active in enhancing regional cooperation in these fields, this initiative additionally stimulates deeper integration in the area of trade, investment, labour mobility and digitalization through coordinated policy reforms and concrete agreements. Just to name some of them which were agreed in one year since the REA became operational (July 2018 – July 2019):

Table 3: Regional Economic Area Achievements

<i>Digital integration</i>	<ul style="list-style-type: none"> • Western Balkan Roaming Agreement with the objective to introduce the Roam Like At Home regime as of 1 July 2021 signed and implementation started; • Western Balkans 2d Digital Summit organized in 2019; • Annual EU–Western Balkan ICT Dialogue launched; • Increased submission and approval of digital infrastructure broadband projects to the WBIF.
<i>Mobility</i>	<ul style="list-style-type: none"> • Agreement on Mutual Recognition of Professional Qualifications (MRA) for selected professions prepared for signing; • Principles for the Automatic Recognition of Academic Qualifications in WB6 endorsed; • Operational sub-regional network of ENIC/NARIC centres established; • Joint Information System for Recognition of Academic Qualifications developed.
<i>Trade</i>	<ul style="list-style-type: none"> • Additional Protocol on trade facilitation entered into force; • Decision on mutual recognition of Authorized Economic Operator programme agreed; • Full cumulation and duty drawback regime in force; • Text of the Additional Protocol on trade in services liberalization agreed.
<i>Investment</i>	<ul style="list-style-type: none"> • Regional Investment Reform Agenda (RIRA) endorsed; • Individual Reform Action Plans (IRAPs) developed, adopted and implemented; • Online Investment Platform for joint regional investment promotion launched; • Regional Investment Promotion programme developed.

As already shown in the Table 1, the RCC, Central European Free Trade Agreement 2006 (CEFTA 2006) and Western Balkans Six Chamber Investment Forum (WB6 CIF) have been in charge of implementation of the MAP REA. In this short period they achieved to mobilize national and other regional stakeholders in the implementation of quite a number of planned activities, although at the end of 2018 the trade-related difficulties¹⁰³ have affected the capacity of the region to fully deliver.

The so called “mini Schengen”, as the most recent trilateral initiative (Albania, North Macedonia and Serbia) which is open to other Western Balkan countries, is completely in line with the Multiannual Action Plan for the Regional Economic Area (MAP REA). The only difference happens to be the agreement on the free movement of people through the region using only their identity cards, which is already the case with the majority of Western Balkan citizens. The main goal of this initiative is to eliminate more quickly the obstacles to trade, investment and mobility of people as already envisaged in the MAP REA and contribute in particular to development of regional labour market which is becoming devastated as a result of the exodus of young, qualified labour force.¹⁰⁴

Serbia was an active player in the preparation and implementation of the MAP REA. Serbia hosted the Second Digital Summit in 2019 and contributed in preparation of the adopted Western Balkan Roaming Agreement. She also had an active role in connecting capital markets in the region. The Education Reform Initiative in South East Europe (ERI SEE)¹⁰⁵ and RCC had full support of the Republic of Serbia in preparing agreements on the mutual recognition of diplomas and mutual recognition of professional qualifications preparing the ground for the regional labour market and mobility of students, professors and researchers.

Western Balkan Six Chamber Investment Forum

The WB6 CIF¹⁰⁶ was endorsed at the 2017 Trieste Western Balkan Summit with the aim to provide a joint voice to the business community in the region, facilitate inter-business contacts and promote the region as investment destination. It represents around 350,000 companies, mostly small and medium-sized enterprises looking to open new opportunities for stronger networking within the region by removing the obstacles to regional economic cooperation and improving business and investment climate getting the Western Balkans closer to the EU. The Chamber of Commerce and Industry of Serbia together with the Chamber of Commerce and Industry of Kosovo were the main driving force in establishing the WB6 CIF.

103. In November 2018 Kosovo Government introduced 100% taxes on imported goods from Serbia and Bosnia and Herzegovina.

104. Aliu, M, Manasiev, A, Bogdani, A, Mladenović, D, Marinović, M, “Balkans, dreaming of a future elsewhere”, Osservatorio Balkani e Caucaso, Transeuropa, 06 December 2019
<https://www.balcanicaucaso.org/eng/Areas/Balkans/Balkans-dreaming-of-a-future-elsewhere-198353>

105. Source: http://www.erisee.org/wp-content/uploads/2019/02/ERI-SEE_Activity-Report_2018.pdf

106. Source: <https://www.wb6cif.eu/who-we-are/>

The activities of CIF are coordinated by the Permanent Secretariat in Trieste and supported by numerous interested donors.¹⁰⁷ Actual projects are dealing with development of the online investment platform, increasing export potentials of SMEs in the region, implementation of elements of dual vocational training and supporting digital transformation in the WB companies, strengthening organizational capacities of the WB6 chambers of commerce, contributing to political dialogue, improving services for the joint representation and to the expansion of regional and international business relationships, establishment of a regional knowledge platform for Work Based Learning (WBL), and establishment of the Regional Challenge Fund (RCF) aiming to improve vocational education and training (VET).

Regional Youth Cooperation Office

The Regional Youth Cooperation Office (RYCO) is part of the Berlin Process, focused on creating a culture of mobility, diversity and intercultural exchange, reconciliation and remembrance among young people in the region, participation of citizens and closer connections with Europe¹⁰⁸. The initiative was launched at the first Berlin Process Summit, in Berlin, in 2014, by prime ministers of Serbia and Albania. The agreement on establishing RYCO was signed by the Prime Ministers of WB6, during the Berlin Process Summit in Paris, 2016. The RYCO Secretariat was established in 2017, in Tirana. The activities of RYCO have been financed by the annual contributions of the Western Balkan countries with the additional support from the EC, France, Germany, Norway, and UN agencies.

The RYCO is a grant giving organization which is also implementing projects such as *Consult Youth on Priorities for Sustaining Peace in Western Balkans* with support of the UN Peacebuilding Fund, or Help Us Develop Human Resources Policy with support of the UNDP. It had already three rounds of calls for proposal with hundreds of applications received and dozens of them implemented.

Conclusions and Recommendations

The political impact of the Berlin Process was significant in the moment of crisis in the enlargement process lasting from 2014 to 2020. Although Serbia and Montenegro in particular, made formally a significant progress in fulfilling accession criteria, and EC launched the new enlargement strategy for the Western Balkans in 2018, with additional changes in methodology in 2019, plus giving “date without date” for the start of accession negotiations with Albania and North Macedonia, the political climate for concrete advancement did not improve substantially neither in the EU nor in the region. Besides achievements in getting countries in the region closer together and more connected with important EU policies the Berlin Process managed to involve business

community and civil society of the region more intensively into the accession process. Most probably, this will be one of the main avenues for further developments in this process with its wider opening towards local level of governance and local stakeholders in the region.

Relative success of the Regional Economic Area (REA) to include variety of players into promotion of common goals and significant bias of the Connectivity Agenda toward governments, what resulted in (at best) modest infrastructure performance with massive increase of fiscal risks, should be considered as important lesson learned. Infrastructure planning and infrastructure investments could benefit from improvement in public participation (business community and civil society).

Actual “infrastructure gap” in Serbia is minor in comparison with significant gap in its ability to make use of existing infrastructure. It is well known from development literature that improvements in utilization of available infrastructure provide far better outcomes toward GDP formation than investments into new infrastructure.

Fiscal risks from underutilization of available infrastructure and excessive infrastructure investments as well as outstanding public debts are to be considered as critical. However, necessary fiscal restructuring is hardly possible without parallel implementation of coordinated public policies to make use of available infrastructure.

This creates very complex development risk that is now further increased by the COVID 19 pandemic. Notably, pandemic decreases use of transport and energy infrastructure while increasing relative impact of resource rents and retail indirect taxation, increasing, in turn, fiscal risks in Serbia.

107. DG Near, DG Trade, EBRD, Regional Cooperation Council, CEFTA, EUROCHAMBERS, WKO-Austrian Federal Economic Chamber, Association of German Chambers of Industry and Commerce-DIHK.

108. Source: <https://www.diplomatie.gouv.fr/en/french-foreign-policy/europe/news/article/the-regional-youth-cooperation-office-for-the-western-balkans-ryco>

