Economic and Investment Plan for the Western Balkans
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I. INTRODUCTION

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

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

With a population of nearly 18 million people, the region is an important market for the EU and a transit area for European and international goods, with a skilled workforce for companies ready to invest. The Western Balkans have therefore a key role to play in the global value chains that supply the EU, and this role could be further reinforced in the long term, which will also contribute to the EU's strategic autonomy.

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

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

The Commission proposes that the large majority of this support would be directed towards key productive investments and sustainable infrastructure in the Western Balkans. The investment capacity of the region in addition should be boosted by the mobilisation of a new Western Balkans Guarantee Facility, with the ambition to potentially raise investments of up to EUR 20 billion.

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

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

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

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

In the same vein, the Western Balkans should use the EU’s digital strategy as the guiding principle for a human-centric digital transformation of the economies and societies. This will make them better positioned to integrate into the EU’s higher added-value supply chains and, in the future, join a rapidly evolving EU digital single market. Building on the 2018 Digital Agenda for the Western Balkans, this investment plan offers an opportunity to accelerate the digitalisation of governments, public services and businesses, in a manner consistent with the EU’s values and legal framework.

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

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

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

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

1. COM (2020) 102 Final in “Support to the Western Balkans in tackling COVID-19 and the post-pandemic recovery”

2. World Bank, Western Balkans Regular Economic Reports, fall 2019: “If CEFTA were to be further expanded with provisions on movement of capital, consumer protection, labour market regulation, and intellectual property, it would greatly boost its attractiveness, potentially raising investments of up to EUR 20 billion, with the ambition to unlock the untapped economic potential of the region and the significant scope for increased intra-regional economic cooperation and trade.”
II. GOOD GOVERNANCE

AS THE FOUNDATION

FOR SUSTAINABLE ECONOMIC GROWTH

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

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

Citizens have a key interest in a functioning system of checks and balances in which a visibly empowered and independent, impartial and effective judiciary ensures that all state institutions abide by the law, maintain integrity and that citizens are protected from arbitrary decisions, and can exercise their rights fully. Businesses need legal certainty, absence of corruption and efficiently functioning administrations to be able to set up their operations and rely on efficient and independent institutions to enforce their economic rights. Foreign investors need reassurances on a level playing field that will protect their investments. Alignment with the EU public procurement rules and enhanced transparency and oversight is key, in particular for the sound financial management of major public investments, including those proposed in this Plan, and to prevent corruption in this area.

A strategic approach towards effective dismantling of criminal organisations and their economic basis needs to be established, including improved results in financial investigations and asset confiscation. Cooperation among the partners in the region as well as with the EU is essential to address specific security challenges, such as countering terrorism and extremism, money laundering, illicit trafficking of weapons, human trafficking and migrant smuggling.

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

The EU will continue to provide significant funding and support to reforms addressing good governance and the fundamentals to at least current levels. In line with the principle of conditionality reflected in the revised enlargement methodology, where countries move on reform priorities this should lead to increased funding and investments – including through a performance-based and reform-oriented Instrument for Pre-accession. However, there is equally a need for decisive measures sanctioning any serious or prolonged stagnation or backsliding. These measures include that on the basis of the Commission’s assessment of progress in its annual reports the scope and intensity of EU funding could be adjusted downward.
The Commission’s proposal for an Instrument for Pre-accession Assistance (IPA III) would amount to over EUR 14 billion, over 2021-2027, of which the lion’s share is destined for the Western Balkans.

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

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

Investment will be a key driver for facilitating increased public and private investment in the region by banks in the Western Balkans, including foreign direct investment, and to boost cross-border cooperation, including on innovation.

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

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

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

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

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

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

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

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

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

**FLAGSHIP 1 - CONNECTING EAST TO WEST**

- Major east to west connections will be completed or advanced by 2024
  - The “Peace Highway” in Kosovo (linking Pristina with Niš in Serbia) will be substantially advanced
  - The parallel road corridor will be further advanced, in particular the Podgorica bypass
  - While the core network of the road corridor (Corridor X) south-east from Hungary through the region to Bulgaria, Greece and beyond has been practically completed, including with EU support, the parallel rail corridor will be fully modernised in particular, the Niš railway bypasses in Serbia will be finalised in this timeframe. The project on Corridor X to upgrade the rail connection between Serbia and Croatia, which is a vital link in terms of rail freight, will be considerably advanced, as will the project to upgrade the rail link to North Macedonia.

**FLAGSHIP 2 - CONNECTING NORTH TO SOUTH**

- Major north to south connections will be completed or advanced by 2024
  - 75% of the main north-south road corridor (linking central Europe capitals through Sarajevo in Bosnia and Herzegovina, to the port of Plješevica on the Adriatic coast) will be completed to motorway standards. The rail connection along the same corridor will also be upgraded.
  - Demining of the Sava river and addressing bottlenecks on the Danube river will be completed or advanced to improve the sustainable transport mode of these important waterways as part of the TEN-T network, and to facilitate further development of intermodal exchanges.
  - The Sarajevo to Podgorica capital to capital connection will be enhanced, linking further to the existing and planned networks in Bosnia and Herzegovina, and providing more direct links between neighbours.
  - The “Peace Highway” in Kosovo (linking Pristina with Niš in Serbia) will be substantially advanced.

**FLAGSHIP 3 - CONNECTING THE COASTAL REGIONS**

- The following will be completed or advanced by 2024
  - The rail route linking the capitals of Trieste and Podgorica, and extended to the port of Durres, is a key project for the region and will be enhanced through the rehabilitation of 120 km of railway line in Albania towards the border with Montenegro.
  - Major steps will be taken to complete the “Blue Highway” along the coast from Croatia down to Greece. The Trnao road bypass will be completed and two further sections in Albania plus the Budva bypass in Montenegro will be substantially advanced.

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

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

In this context, to further spur regional cooperation and integration, connecting capitals in the region and with the EU will be an important priority, as well as promotion of multimodal transport solutions and modal shift, and reducing transport related pollution.
The longer term, these gas infrastructure investments will provide the basis for the next steps in environmental protection, as they will allow for the introduction of decarbonised gas once available and competitive, allowing further reductions in carbon dioxide and the impact of air pollution. Therefore, these investments will future-proof the region’s energy supply. Efforts to increase energy efficiency will be facilitated in the context of the EU Green Deal, the Commission proposes to expand the “EU renovation wave” to the Western Balkans. A refurbished and improved building stock will help pave the way for a decarbonised and clean energy system, as the building sector is one of the largest energy consumers in Europe. For this purpose the EU will use, among others, the existing platforms such as Green for Growth Fund and Regional Energy Efficiency Programme which have so far enabled green investments of a total of EUR 700 million.

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

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

FLAGSHIP 4 - RENEWABLE ENERGY
- A strong use of renewable energy sources will be supported, in line with the region’s potential and national preferences.
- The following concrete projects could be supported:
  - The Fierza Hydro Power Plant rehabilitation in Albania will be completed, and the construction of the Skancica Hydro Power Plant advanced, in order to increase the potential for the country and ultimately the region with view to increase export of electricity from clean energy.
  - The Piva Hydro Power System in Montenegro will be expanded with the start of the construction of the Komarnica Hydro Power Plant.
  - Preparations for the construction of the BiH-Lepinac Hydro System Phase III in Kosovo will be accelerated.
  - Wind park and solar power plant investments in North Macedonia will be substantially advanced and serve as an example for future proof investments making use of the renewable energy potential of the region.

FLAGSHIP 5 – TRANSITION FROM COAL
- Transition from high- to low- or zero-emissions, including a regional wave of diversification of the gas and electricity markets.
- The following concrete projects could be supported:
  - As part of the Trans Adriatic Pipeline, the construction of the Fier-Vlora gas pipeline in Albania will be completed, and the Ionian- Adriatic pipeline along the coast will be prioritised, facilitating a major diversification of the sources of gas supply to the Western Balkans region and beyond.
  - The Gas Interconnector Bosnia and Herzegovina – Croatia, complementing the above diversification, and increasing the potential diversification of the existing gas distribution system in the country, will be completed.
  - The North Macedonia – Kosovo Gas Interconnection, extending the already ongoing investment of the North Macedonia – Greece interconnector, would start construction.
  - The North Macedonia – Serbia Gas Interconnection will be prepared for construction.
  - The Trans-Balkan Electricity Transmission Corridor in Serbia as part of interconnection between Serbia, Montenegro, and Bosnia and Herzegovina will be completed to provide the backbone for the electricity distribution of the whole region and towards the EU.

FLAGSHIP 6 - RENOVATION WAVE
- The Commission proposes to expand the “EU renovation wave” to the Western Balkans.
- The building sector accounts for over 40% of total energy consumption in the Western Balkans. Renovating public and private buildings to meet minimal energy performance standards can make a very significant contribution to the reduction of greenhouse gas emissions, improve the living standards of citizens, as well as their health. A building renovation wave implemented with the help of the Energy Community will assist the Western Balkans in decarbonising public and private buildings, with a strong emphasis on digitalisation and taking into account the concept of energy efficiency, with international financing institutions, will support the efforts of the Western Balkans partners to triple the current renovation rate and energy savings in existing buildings and achieving nearly-zero energy, and emission standard in new buildings.

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

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

- Swift progress on energy connectivity reform measures to set up a regional energy market, and further integration with the EU energy market working closely with the Energy Community Treaty Secretariat.
- Finalisation of the Energy Community Treaty reform and adoption of the EU Clean Energy Package by the Energy Community
- Strengthening the Energy Community 2030 target-setting process by adopting 2030 energy and climate targets in line with EU decarbonisation ambition, taking into account the Contracting Parties’ relevant socio-economic differences.
The European Green Deal is underpinned by policies designed to develop modern, resource-efficient and competitive economies where growth is decoupled from emissions of greenhouse gases, resource use and waste generation, where climate resilience is pursued.

The European Green Deal can only be fully effective if the EU’s immediate neighbourhood also takes action at an early stage. This is all the more valid for the Western Balkans given their European perspective. The Commission is therefore presenting, together with this Communication, a Green Agenda for the Western Balkans, as foreseen in the European Green Deal. The Green Agenda is expected to be endorsed by the Western Balkans Leaders at the summit in Sofia in November.

This Agenda is informed by the five broad areas covered by the Green Deal: decarbonisation, depollution of air, water and soil, circular economy, framing and food production, and protecting biodiversity.

**VI. GREENING THE WESTERN BALKANS – INVESTING IN THE ENVIRONMENT AND CLIMATE**

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

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

Economic operators are key to the success of the green transition. The Green Agenda will include a private sector dimension, aimed at boosting private companies active in the green and circular economy and moving all sectors of the economy towards sustainability, whether in energy, mobility, or agriculture. The EU should engage with the region to promote sustainable production patterns and food systems. Defining and implementing action plans for circular economy, waste prevention and recycling strategies, and regional cooperation in reducing plastic pollution will ensure steady progress of the region towards a green economy and EU acquis.

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

Economic growth and new business opportunities will be linked to more sustainable consumption and production patterns, including promotion of a circular economy, conservation of scarce resources, and better re-use of waste products, linked to all economic sectors, including urban and rural perspectives, and building on ecosystem sustainability as a precondition for success. Already existing platforms, such as the EU Strategy for the Adriatic-Ionian Region (EUSAIR) and the EU Strategy for the Danube Region (EUSDR), where the Western Balkans countries play an important role, can help the implementation of this process on the ground, as in these areas coordinated and joint actions are key.

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

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

**FLAGSHIP 7 - WASTE AND WASTE WATER MANAGEMENT**

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

The following concrete projects should be supported:

- Construction of wastewater treatment plants in Skopje and Pristina will be completed. These projects have a high transboundary impact and improving the hygiene conditions of the population;
- The implementation of an environmental investment programme in Serbia, comprising modernised waste water treatment projects for large and medium-sized towns, will be undertaken;
- Integrated regional waste management systems in Albania, Montenegro, North Macedonia and Serbia, going hand-in-hand with the closure of non-compliant landfills, will be established. Similar investments elsewhere in the region should also be supported in the future, including better management of waste in cross-border areas;
- Support for the establishment of proper air and water monitoring systems and pollution prevention measures.
The Digital Agenda’s aim is to work towards lowering the cost of roaming within the region, and to further explore to improve access to digital goods and services, to create a level playing field and maximise the growth potential of the digital economy.

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

It is estimated that EUR 3.7 billion of capital expenditure (planning and construction in the next 5 years up to 2025) are needed to ensure the necessary levels of digital connectivity. The private sector will play an important role in the digital transition of the Western Balkans, including 5G and EU guarantees, and can act as an important enabler.

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

The Western Balkans should focus on the following reform priorities: speed up alignment and implementation of the EU acquis that will create an investment-friendly environment (including on data protection), and complete implementation of Regional Roaming Agreement.

Prioritise and mainstream digitalisation in national policy with a focus on enterprises, education, health, energy, Research & Innovation, smart growth. Boost innovative digital transformation through encouraging the deployment of platforms and policies such as, e.g., eHealth, e-commerce, digital access to culture and cultural heritage, digital skills in education, Open Access to research data and results, investments into broadband, and the inclusion of all economies in the European High-Performance Computing Joint Undertaking (EuroHPC).

Foster the development of regional Digital Innovation Hubs and then linking to the Science and Technology Parks, and the European Institute of Innovation & Technology Knowledge Innovation Communities (EIT KICs) as one-stop-shops supporting companies to boost their competitiveness, using digital technologies especially in the take-up of artificial intelligence in the business sector (notably for SMEs) in line with EU efforts and guidelines, promote the digital skills development, and virtual learning in the region.

Enhance cybersecurity capacity and the fight against cybercrime, especially by implementing the EU toolbox regarding cybersecurity risks to 5G networks.

Ensure the ethical use of technologies, including artificial intelligence for surveillance purposes, in line with the EU Charter of Fundamental Rights and in view of a dynamic alignment with future EU legislation in this area.

Implement the Declaration on e-Government, endorsed in Belgrade in 2019, to further accelerate work in line with the EU e-Government action plan, in support of Public Administration Reform.

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

**FLAGSHIP 8 - DIGITAL INFRASTRUCTURE**

The following concrete priorities should be supported:

- The development and roll-out of national broadband infrastructure in the six Western Balkans partners will continue – with the completion of the most advanced investment projects in the region by 2024. The pre-qualification of further investments elsewhere will be accelerated with particular focus on connecting rural areas.

- Setting up secure, energy-efficient and trustworthy data centres, edge and cloud infrastructures while ensuring alignment with EU’s rules and fundamental values, including data protection, as well as linking to EU initiatives on high performance computing, digital innovations and innovation hubs.

- Building on existing initiatives such as the Balkan Digital Highway, synergies with other connectivity areas such as transport and energy should be fully explored in the context of infrastructure-sharing. In addition, using technology and data purposefully to make better decisions has a high potential to deliver a better quality of life for the citizens in the region. Support will also be provided for adapting to the rapid transformative technological development in order to remain prosperous and competitive. The EU will promote cooperation in digital education globally through the renewed Digital Education Action Plan (DEAP) and promote equality in access, in particular for disadvantaged groups, including Roma.

18 COMMUNICATION On Shaping Europe’s digital Future COM/2020/67 final
19 CIP, The Self-reflection on Effective Learning by Fostering the Use of Innovative Educational Technologies is a free, easy-to-use, customizable tool to help schools assess where they stand with learning in the rapid pace.
20 HIClusion is a self-assessment tool for Higher Education Institutions who wish to explore their innovative potential.
Since the 1990s, the Western Balkan economies have achieved remarkable growth while reducing poverty. Living standards have increased across the region and access to public services has improved. However, the Western Balkans still need to undertake important efforts to meet the key economic requirements for EU membership: to ensure increased competitiveness and viability of the region’s private sector to benefit from greater market integration and trade within the region and with the EU.

In this context, particular focus should be put on supporting start-ups and SMEs in strategic sectors identified by the countries, such as tourism and digital, where they have a comparative advantage or a particular potential through their historical and natural conditions. This will pave the way to economic growth through innovation and enhanced competitiveness.

The development of a robust private sector is essential for socio-economic development and regional integration, and to improve the region’s competitiveness and job creation. The role of small and medium-sized enterprises (SMEs) is particularly important considering that they represent 99% of all enterprises in the Western Balkans, generate around 65% of total business sector value added and account for 73% of total business sector employment.

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

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

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

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

**FLAGSHIP 9 - INVESTING IN THE COMPETITIVENESS OF THE PRIVATE SECTOR**

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

- Plan to increase the grant amount to support the private sector under the Western Balkan Investment Framework. 50% of EU/private sector funding should be dedicated to innovation and green growth.
- Plan to increase the guarantee capacity supporting investments to, primarily to strengthen the competitiveness of SMEs and enhance employment creation, particularly catering to young people, through the Western Balkans Guarantee Facility.
- Mobilise assistance for sustainable transformation of agri-food systems and rural development in the region.
Support will continue through the Erasmus+ programme, with enhanced opportunities for academic mobility and capacity building including in the vocational education and training sector. Through its update of the Skills Agenda for Europe, and the Digital Education Action Plan, and the European Education Area, the EU will target the Western Balkans as a priority in its international dimension. The EU will intensify cooperation with the Western Balkans in the implementation of its 2018 Framework for Action on Cultural Heritage and boost participation in the Creative Europe Programme. The partners of the region should continue to participate to other EU programmes such as Erasmus+ and the European Solidarity Corps to enhance mutual exchange and cooperation on volunteering, training and youth.

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

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

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

**FLAGSHIP 10 - YOUTH GUARANTEE**

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

The Youth Guarantee should be implemented within the Western Balkans in line with the EU Youth Guarantee proposal to implement the 2018 Framework for Action on Cultural Heritage. The Youth Guarantee should be implemented in the context of the 2018 Framework for Action on Cultural Heritage.

- **Phase 1**: Implementation plan. Identification of planned measures and their timelines, budget, necessary changes to legal framework, definition of a central coordinating body and the roles of relevant public authorities (line ministries and their agencies), including employment services and centers for social work. The education sector, the EU will continue to support the development of education-based policies and reforms to address the main challenges and priorities of the education system in terms of governance, financing, quality, equality and relevance, with a focus on adapting education systems to the digital transformation and to knowledge-based economies. Special focus will be given to reforms promoting appropriate supply of relevant knowledge, skills and competences to tackle the existing mismatch between skills supply and labour demand, including through development of work-based learning in vocational education and training.

- **Phase 2**: Preparatory work. Building commitment at local level; building the commitment and capacity of public authorities and stakeholders, including employment services and centers for social work, education and training institutions and unions (trade unions, etc.) and stakeholders (youth organisations, NGOs, etc.)

- **Phase 3**: Pilot phase. Implementation in a limited number of localities/regions.

- **Phase 4**: Progressive/general deployment. Implementation in more regions/countrywide.

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

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

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

Addressing the needs of the young population is a particular priority, not least given the high number of young people not engaged in employment, education or training (NEETs). Interventions based on the example of the EU Youth Guarantee are ever more necessary in times of crisis to provide young people with an offer of employment, further education, an apprenticeship or a traineeship thereby also offering solutions and perspectives for young people and contributing to tackling brain drain. Attention will also be given to capacity building of social partners and the development of social dialogue and collective bargaining.

Improving labour market participation, especially of young people and women, disadvantaged groups and minorities, in particular Roma, will be a priority and can strongly contribute to economic growth.

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Fairness and inclusiveness are important in ensuring that the benefits of recovery and growth are shared by everyone and that no one is left behind. A well-functioning labour market and a well-trained and productive workforce are crucial for a resilient economy. The Commission will strengthen the dialogue with the Western Balkans to foster the implementation of the European Pillar of Social Rights (EPSR) in the region. The EU aims to support the development of human capital by increasing IPA funding, in particular as regards education and training (NEETs).

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In July 2019, the Western Balkans prime ministers adopted a Declaration on Roma integration in the EU enlargement process, committing themselves to the concrete improvement of the situation of Roma, in particular as regards education and employment. Continued support to strengthen the Western Balkans’ education systems, preparedness, and resilience will therefore be ensured.

The EU will target the Western Balkans as a priority in its international dimension. The EU will intensify cooperation with the Western Balkans in the implementation of its 2018 Framework for Action on Cultural Heritage and boost participation in the Creative Europe Programme. The partners of the region should continue to participate to other EU programmes such as Erasmus+ and the European Solidarity Corps to enhance mutual exchange and cooperation on volunteering, training and youth.
The objectives of this economic and investment plan will be greatly facilitated by enhanced regional cooperation in the Western Balkans, including stepping up effort towards tighter regional economic integration.

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

A COMMON REGIONAL MARKET...

As highlighted in the Communication Support to the Western Balkans in tackling COVID-19 and the post-pandemic recovery, the COVID-19 pandemic has brought to the forefront the high level of market integration and the inter-dependence between the EU and the Western Balkans economies, as well as amongst the latter themselves. Ensuring an unobstructed flow of goods has been a key focus throughout the crisis. To do so, the Western Balkans have swiftly and efficiently established green lanes at critical border crossing points. Inclusive regional organisations – the Regional Cooperation Council, the Transport Community, and the Central European Free Trade Area (CEFTA) have been instrumental in deploying this response. They coordinated efficiently with all Western Balkan partners, amongst themselves and with the EU. In difficult times, such regional cooperation has proven to be essential.

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

To put this commitment into motion, this Common Regional Market should build on the achievements of the Regional Economic Area (REA), which has been a successful initiative: a regional investment reform agenda has been agreed; mobility of higher education has been fostered thanks to recognition of qualifications, and roaming charges in the region have been reduced. It also led to the adoption of ambitious agreements to facilitate trade in goods and liberalise trade in services. It will contribute to putting the region on the map for global investors, seeking to reduce the distance to the EU markets and diversify their suppliers.

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

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

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20 Regular economic report on the Western Balkans, World Bank, Fall 2019
21 COM(2020) 315 final
BUILDING A COMMON REGIONAL MARKET

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

CONNECTING ECONOMIES

- Building on green lane initiative - ensuring 24/7 full operational capacities at key Border Crossing Points (BCPs)
- Setting up a monitoring tool (such as) of border-crossing waiting times at all BCPs located on the “green lane” network
- Sign and implement bilateral BCP agreements in road and rail

FREE MOVEMENT OF GOODS

- Mutual recognition of certificates for fruits and vegetables and other agricultural goods
- Free movement of industrial goods on the basis of compliance with the essential EU requirements
- Authorized Economic Operators recognized within the region

FREE MOVEMENT OF SERVICES

- Mutual recognition of professional qualifications
- Mutual recognition of licences in a pilot sector (tourism)
- Trade liberalization package (extension of Market Access and National Treatment commitments including mutual recognition of licences in more sectors such as construction, postal services or transport)

FREE MOVEMENT OF CAPITAL

- Cutting the costs for regional cross border payments
- Prepare for joining the Single Euro Payment Area (SEPA)

REGIONAL INVESTMENT SPACE

- Memos of understanding (MoUs) between investment agencies to deal with investment retention / promotion of key regional value chains
- Adoption of regional standards for Foreign Direct Investment screening mechanisms at national level
- Attract at least 100 investors in promising regional value chains

REGIONAL INNOVATION SPACE

- Create a Regional Diaspora Knowledge Transfer Initiative to tap into potential of the region’s diaspora andencourage brain circulation
- Participation of the Western Balkans in the European Research Area Digital market
- Establish a regional e-commerce and digital content market by adopting core harmonized rules and internal market principles by facilitating customers’ clearance of parcels and by removing geo-blocking
- Regionally coordinated approach for personal data protection, privacy, cybersecurity, and other rights aligned with EU acquis
- Regional agreement on trust services, including e-signature
- Regionally coordinated process of spectrum harmonization of European 5G pioneer bands, coordinated approach in the process of acquiring of 5G radio frequencies, and regional 5G piloting, including safeguards against emerging risks based on the EU security toolbox

MOBILITY OF PEOPLE

- Mobility of students
- Mobility of individuals on the basis of EOs
- Mobility of researchers and professors

EUROPEAN VALUE CHAINS

- Tourism: develop a packaged offer for the region and jointly promote it (based on joint standards, mutual recognition of licences, etc.)
- Automotive: upgrade value chains to be ready to seize new trends (electric car, autonomous car, etc.), based on regional assets and raw materials
- Programme for Green & Circular economy: build new regional value chains to seize untapped potential (circular use of raw materials, collection and treatment of electronic waste, renewable energy value chains, etc.)
- Investments in the Research Area Digital market
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INTEGRATING THE WESTERN BALKANS MORE CLOSELY WITH THE EU

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

- Support the adoption of EU standards and the upgrade of the quality infrastructure in the Western Balkans, in order for them to implement the EU rules on industrial and consumer goods, which would facilitate integration with the EU Single Market. To the extent possible, provide EU IT solutions to ensure the region’s market surveillance authorities can communicate between themselves and with their counterparts in the EU.
- Facilitate trade between the EU and the Western Balkans through customs cooperation to enable where possible, electronic issuance and transmission of customs documents such as export, import, and transport documents, and enhance coordination in the planning and execution phases of EU investment in border facilities across the region.
- Facilitate e-commerce, including participating businesses and consumers online, cheaper cross-border parcel deliveries, protection of online customer rights, and promoting cross-border access to online content from the EU and the Western Balkans. Facilitate the uptake of common EU standards on data protection, cybersecurity, and trust services.
- Support the availability of digital key performance indicators in the Western Balkan in line with the European Digital Economy and Society Index (DESI) and with the Local and Regional Digital Indicators Framework (LORDI) and the Europe of Smart Villages.
- Support implementation of national Authorized Economic Operator programmes and build-up trader membership, continue to support CEFTA in implementing regional mutual recognition. Move towards the mutual recognition of such national programmes as appropriate, adopt a single set of preferential rules of origin (PROM) and support the participation of the whole region in the Common Transit Convention.
- Provide dedicated support to regional organisations to move toward the regional economic integration agenda including establishing a platform between the European Commission, the Regional Cooperation Council and CEFTA where dialogue on the regional market and its compatibility with EU rules will take place.

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