

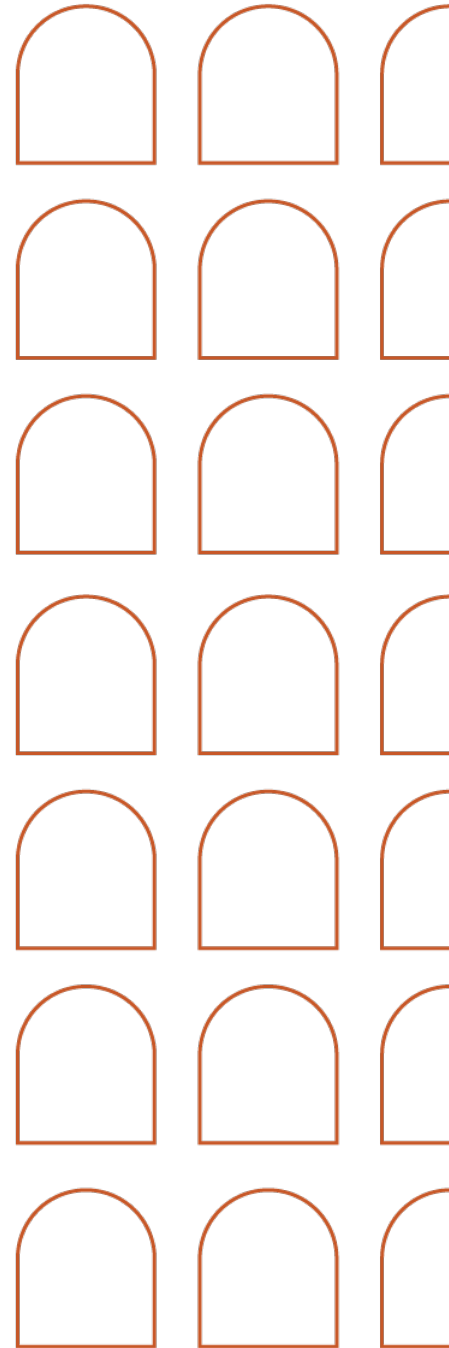
STG Policy Papers

# POLICY ANALYSIS

## BUILDING NETWORKS OF CHANGE IN THE WESTERN BALKANS: LOOKING BACK, MOVING FORWARD

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Michael Charokopos



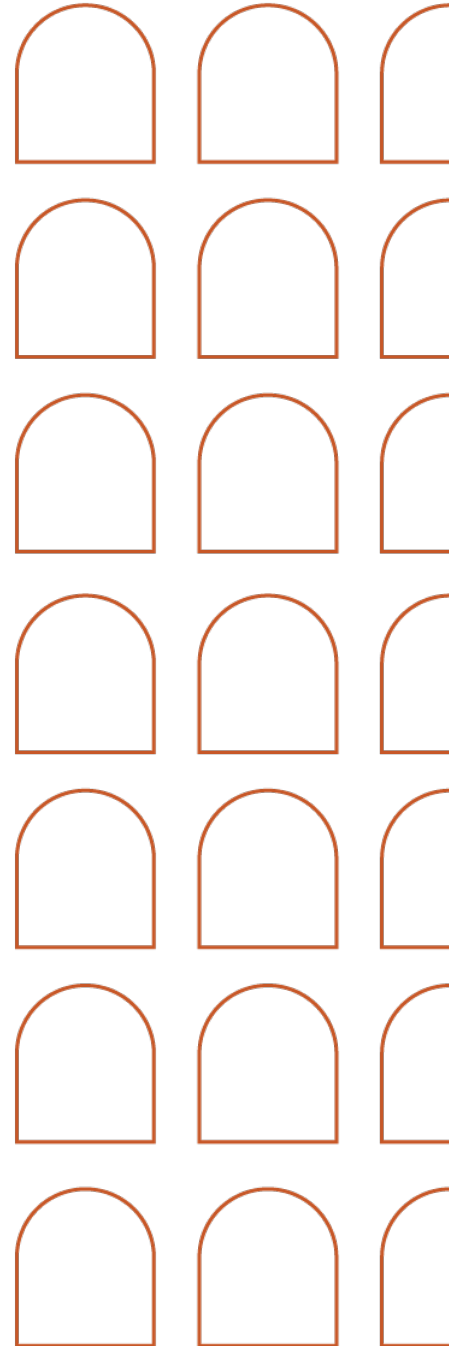
## EXECUTIVE SUMMARY

For a region like the Western Balkans, where borders are still 'existential', cross-border networks function like agents of change by helping to redefine what is near and what is remote, what lies inside and what outside. Building on the integrative and transformative potential of networks, the EU has invested significant resources in improving the connectivity of the region. However, the connectivity infrastructure gap in the Western Balkans persists, leaving room for scepticism about the efficiency of infrastructure financing and building in the region. The paper looks into the reasons explaining this gap and points to the adverse impact of infrastructure politics on the efficient use of the existing resources. Against this background, it suggests a set of policy measures structured around three pillars: (i) capacity building as a barrier to the misuse of infrastructure as a political tool, (ii) infrastructure financing tailored to specific needs and connected to the removal of non-physical barriers, and (iii) enhancing the resilience of infrastructure networks.

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With sincere thanks to Jelena Džankić (Part-time Professor at EUI/ Robert Schuman Centre), Vassilis Evmolpidis (Transport planner & transport economist, Team Leader COWI-IPF/ IPF8), Ioannis Piliouris (Head of Field Office in Mostar/ OSCE Mission to Bosnia and Herzegovina), Anthony Robert (Transport Programme Manager at the EU Delegation to North Macedonia) and Konstantinos Soupilas (EU Delegation to North Macedonia) for their advice.



## 1. INTRODUCTION

Seven years after the launch of the Berlin Process, the German capital is returning, this summer, to the role of host of the Western Balkans Summit. The 5 July meeting of EU and Western Balkan leaders is taking place against the backdrop of a [call for stronger EU engagement](#) in the region, as a response to the increasing political and economic influence of third (non-EU) actors in the Western Balkans.

Being one of the top priorities of the EU and Western Balkan countries (WB6)<sup>1</sup>, connectivity is expected to occupy a high position on the agenda of the Berlin meeting. Building networks to improve connectivity within the Western Balkans, as well as between the region and the EU has been the most explicit and tangible expression of the EU's engagement in the region. This became apparent with the launch of the Connectivity Agenda in 2015, less than a year after the call for a pause in enlargement by the then European Commission President Jean-Claude Juncker.

Lying at the core of the Connectivity Agenda, networks are not only the connective tissue of the economies of Western Balkan countries but also mediating structures connecting their societies. For a region where borders are still *'existential'* – a tangible and hard reality – cross-border networks function like agents of change by helping to redefine what is near and what is remote, what lies inside and what outside. While borders operate as demonstrations of limits and remoteness with spatial and social implications for the region, networks are physical and social constructions intended to overcome these limits and to prevail over physical and social remoteness. Networks carry then a substantial integrative and transformative potential, which remains however underexploited in the Western Balkans.

In this light, the paper starts with presenting the shortage of connectivity infrastructures in the Western Balkans and proceeds with

an update on the progress of Connectivity Agenda projects. It highlights the existence of a project implementation gap between decision-making on the selection of infrastructure projects (based on prioritisation by National Investment Committees or arbitrary selection criteria) and project execution involving national implementing authorities at central government and local level. Against this background, it identifies the key reasons explaining this gap and puts forward a set of policy measures structured around three pillars: (i) capacity building as a barrier to the misuse of infrastructure as a political tool; (ii) infrastructure financing tailored to specific needs and connected to the removal of non-physical barriers; (iii) enhancing the resilience of infrastructure networks.

## 2. FROM THE 'MARSHALL PLAN' FOR THE BALKANS TO THE ECONOMIC AND INVESTMENT PLAN FOR THE WESTERN BALKANS: CLOSING THE INFRASTRUCTURE GAP?

At the first Regional Funding Conference for Southeast Europe held in March 2000, less than a year after the end of the Kosovo war, the international community committed €1.6 billion to the [Quick Start Package \(QSP\)](#) of the so called 'Marshall Plan' for the Balkans. QSP was a scheme of development assistance intended to create a positive momentum for reconstruction, development and regional cooperation. According to the [European Stability Initiative](#), approximately 75% of the aforementioned QSP funds, allocated in 2000, were devoted to public infrastructure, with €1.1 billion being assigned to 21 transport network projects.

Last October, twenty years after the first Funding Conference, the European Commission adopted a comprehensive [Economic and Investment Plan \(EIP\)](#) for the Western Balkans with the aim to stimulate long-term recovery, to encourage regional economic integration and to enhance convergence with the EU. EIP

<sup>1</sup> WB6 - Western Balkans 6 include Albania, Bosnia and Herzegovina, Kosovo\*, Montenegro, North Macedonia and Serbia. \*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.

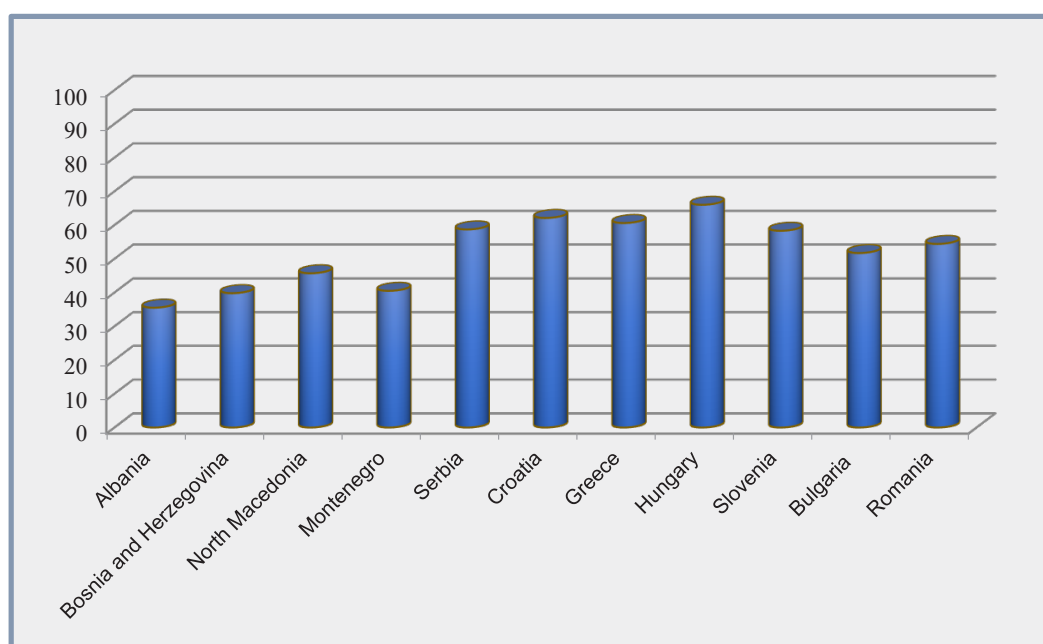
is a funding and investment scheme intended to mobilise up to €9 billion in grants and €20 billion in loans through the new Western Balkans Guarantee Facility for the period 2021-2027. With some resemblance to QSP, it suggests priority funding for a package of key infrastructure projects (primarily in the fields of transport and energy connectivity, digital transformation and green transition), which are expected to stimulate further investment in the region.

The EU has devoted significant resources, exceeding the [amount of €11 billion](#) (in grants and loans), to the development of energy and transport networks in the Western Balkans. Since its [2001 transport and energy infrastructure strategy](#) for Southeastern Europe, the Commission has been emphasising the need to build regional transport and energy infrastructures ‘connected and compatible with the corresponding European internal networks’ in order to enhance connectivity in the region and to integrate ‘the countries of the area into the political and economic mainstream of Europe’.<sup>2</sup>

Nevertheless, despite some improvements in regional connectivity achieved during the last two decades, there still remains a significant [infrastructure gap](#) in the Western Balkans - indicating the difference between the required and the existing infrastructure - which leaves room for scepticism about the efficiency of infrastructure financing and building in the region.<sup>3</sup>

The [World Economic Forum \(WEF\)](#) transport infrastructure ranking demonstrates the persistent infrastructure gap in the countries of the Western Balkans, which is highlighted when compared to neighbouring EU member states. The road infrastructure scores of Albania, Bosnia and Herzegovina, Montenegro and North Macedonia remain below 50%, ranging from 35.5% to 45.7% (Fig. 1).<sup>4</sup> All four Western Balkan countries lag well behind their neighbouring EU member states and if we compare their 2019 WEF infrastructure ranking to the [one in 2010](#) this gap is not closing. Serbia differs from the other countries of the region. It performs better than some neighbouring EU member states and its [infrastructure ranking improved considerably during the last decade](#).

**Figure 1: Infrastructure gap in the Western Balkans.** Transport infrastructure score of Western Balkans and neighbouring EU member states.



Source: [WEF, 2019](#)

2 The terms ‘European’ and ‘Europe’ refer in this case to ‘European Union’

3 On measuring and quantifying the region’s infrastructure gap see International Monetary Fund (2018), *Public Infrastructure in the Western Balkans. Opportunities and Challenges*, Washington DC: IMF Publication Services, pp. 11-22

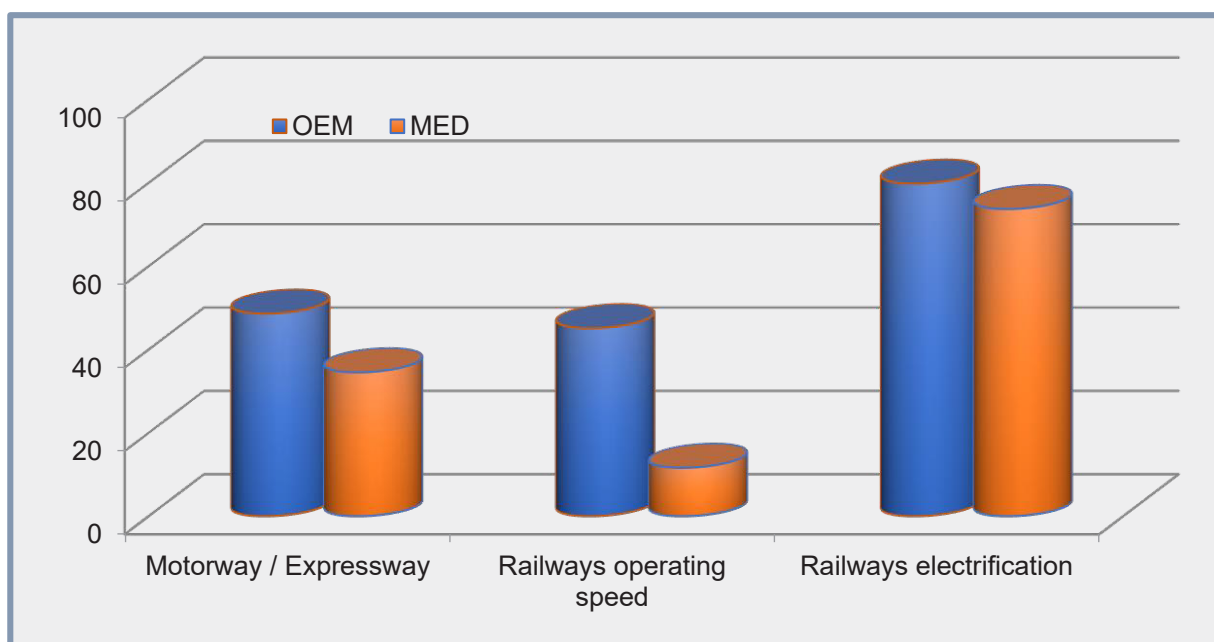
4 No available data for Kosovo\*

As regards the indicative extension of the Trans-European Transport (TEN-T) Core Network Corridors in the region, less than half of the Orient/East-Med (OEM) and approximately one third of the Mediterranean (MED) road networks comply with the TEN-T standards (Fig. 2). There were, however, some substantial improvements along the OEM Corridor, during the last five years, with the completion of projects in South Serbia (Grdelica-Preševo), in the southern part of North Macedonia (Demir Kapija-Udovo) and in Kosovo<sup>2</sup> with the construction of the road section from Pristina to the borders with North Macedonia. For the rail network, the compliance in terms of operating speed is much lower, being limited to 45% for the OEM and 12% for the MED Corridor (Fig. 2).

of sufficient maintenance and development of new major energy infrastructure led to constant deterioration resulting in a large backlog of investments amounting to €15 billion.

Considerable progress has been made in electricity interconnections with the completion of cross-border projects in the North-South Corridor (between Leskovac/Serbia-Stip/North Macedonia and Tirana/Albania–Pristina/Kosovo). In the gas sector the development of new interconnections is, however, much slower. Although the Trans-Adriatic Pipeline (TAP) and projects such as the North Macedonia-Greece Interconnector or the Interconnector Greece-Bulgaria (IGB) provide the conditions for the diversification of supply sources and routes, the level of gas connectivity in the region is poor and the maturity of new intraregional connectivity projects remains low.

**Figure 2: Indicative extension of OEM and MED Corridors in the Western Balkan region.** Compliance with the TEN-T standards.



Source: WBIF-IPF5, [Connectivity networks gap analysis update, 2020](#)

In the energy sector, the biggest part of the region (namely the countries of former Yugoslavia) was endowed with a developed network, with almost 100% electricity access and cross-border connections (oil pipelines and electricity transmission lines) providing reliable energy supply. Nevertheless, the lack

### 3. CONNECTIVITY AGENDA AS A NEW FORCE MOTRICE

The Connectivity Agenda is intended to provide new impetus to connectivity infrastructure investment in the Western Balkans and thus, to address the gaps in the core energy and

transport networks of the region.<sup>5</sup> Its underlying rationale is the extension of the core energy and transport Trans-European networks to the Western Balkans. The implementation of projects along these corridors is expected to lead to cost-efficient movement of goods and services, greater security of energy supply, enhanced regional cooperation and presumably [closer integration with the EU](#).

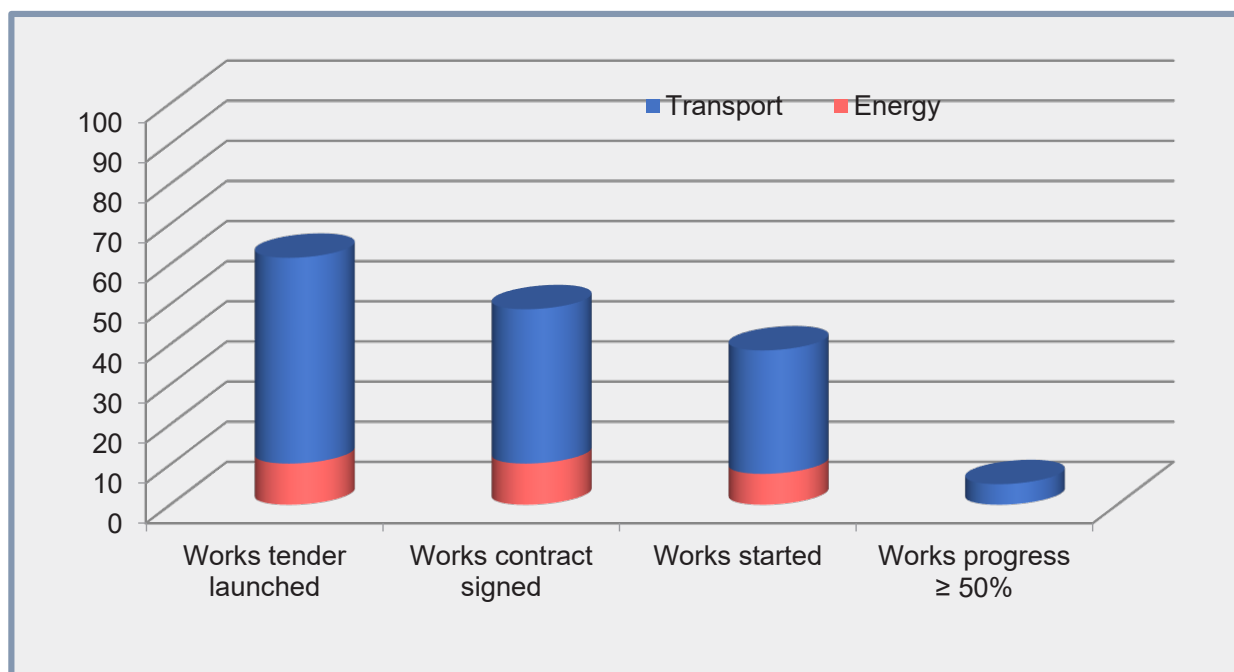
Since the launch of the Connectivity Agenda, €1.01 billion EU pre-accession grants have been allocated to 45 energy and transport projects with a [total estimated value of €3.66 billion](#). The fact that none of these projects was completed until the first quarter of 2021 could be justified on the basis that building infrastructure is a time-consuming process. This explanation has, however, its own limits.

A more detailed view of the progress achieved by the 39 projects selected from 2015 to 2019 demonstrates that less than half of them (19)

have reached the signing of a works contract and another three projects are close to this stage (Fig. 3).<sup>6</sup> It is remarkable that for 20% of the projects selected in 2015-2016 a works tender has not been launched yet. If we add the 2017-2019 projects' selection, the overall percentage comes up to 38%. More than 60% of the projects have not entered yet the construction phase, whilst for only two projects the works' progress equals or exceeds 50% (Fig. 3).

Notwithstanding the implementation progress of the selected projects, the Connectivity Agenda has contributed significantly, during its first six years, to the prioritisation of infrastructure projects and to a more comprehensive approach to connectivity investment in the region. A side benefit of this approach is that it exposed in an explicit manner the [inherent weaknesses of the Western Balkans](#) in infrastructure planning and implementation.

**Figure 3: Progress of Connectivity Agenda energy and transport projects 2015-2019**



Sources: [European Commission, 2020](#) and [WBIF data](#) (accessed on 17 May 2021)

<sup>5</sup> With the launch of the Digital Agenda for the Western Balkans in 2018, technical assistance grants were also provided to support project preparation in the digital sector.

<sup>6</sup> Data available until the end of 2020

## 4. LOOKING FOR EXPLANATIONS

### 4.1 Weak institutional frameworks for Public Investment Management

The implementation progress of infrastructure projects depends on the efficiency of the Public Investment Management (PIM) capacity of each country. A weak institutional framework in this field results in misallocation of resources and side-lining of economic and financial sustainability criteria.

The Public Investment Management Assessments conducted by the [International Monetary Fund \(IMF\)](#) for the countries of the Western Balkans have revealed significant weaknesses in this area. The relevant institutional structures are fragmented and the level of coordination is low. While the national public procurement legislation is designed in most countries according to the EU standards, implementation is weak as the relevant procedures are often circumvented. The project selection criteria are often disregarded and the monitoring of project execution is weak. As a result, the implementation of the planned projects is under question and the scarce fiscal resources are not used in an efficient and effective way.

In the case of the Bar-Boljare Highway, Montenegro's government decided in 2014 to finance the first and most demanding part of the project through a €688 million loan (almost €830 million including the 2% interest rate) from China's Export-Import (EXIM) Bank. This decision was taken against the advice of international financial institutions (IFIs), which projected low economic returns.<sup>7</sup> Today, the first phase of the project remains unfinished, the debt to EXIM Bank amounts to almost a quarter of the overall government debt and the Montenegrin government requested the EU's financial assistance in order to repay part of the loan; a call denied by the Commission.

In Kosovo, Route 7 connecting Pristina to the border with Albania absorbed almost the

entire government's capital budget from 2010 to 2013. [As stressed by IMF](#), the project was 'overly ambitious compared with the actual and potential needs' and a less resource-intensive plan would have left substantial resources for the modernisation of other transport infrastructure, albeit projects with lower visibility.

The establishment of National Investment Committees (NICs) has been a positive step in the direction of enhancing ownership, transparency and prioritisation. All Western Balkan governments have adopted operational NIC frameworks leading to the endorsement of the so-called Single Project Pipelines (SPP).<sup>8</sup> However, [according to the WBIF report on NIC implementation](#), the integration of the NIC framework in the national administrations is incomplete and the connection between the SPP budget and the medium-term fiscal capacity is inadequate. Project management and implementation capacity at the final beneficiary level, involving Project Implementation and Project Management Units (PMU/ PIUs), remains weak with adverse effects on the efficient use of available resources. To face this deficiency national institutions are often supported by external contractors who provide the necessary expertise. Nevertheless, this is a short-term solution, [which 'masks' the real problem](#). The weaknesses of the Public Investment Management frameworks, involving both the project selection and implementation components, result in wasted resources. This inadequacy impedes the building or maintenance of the needed infrastructure, thus decelerating the bridging of the infrastructure gap.

### 4.2 Non-physical barriers to connectivity

While infrastructure is certainly the main building block of any kind of network, the added value of soft connectivity measures aiming at the removal of non-physical barriers (regulatory and procedural constraints primarily at the borders) is substantial for the

<sup>7</sup> For a thorough analysis of the Bar-Boljare highway project see Grgić, M. (2019), 'Chinese infrastructural investments in the Balkans: political implications of the highway project in Montenegro', *Territory, Politics, Governance*, 7:1 (42-60).

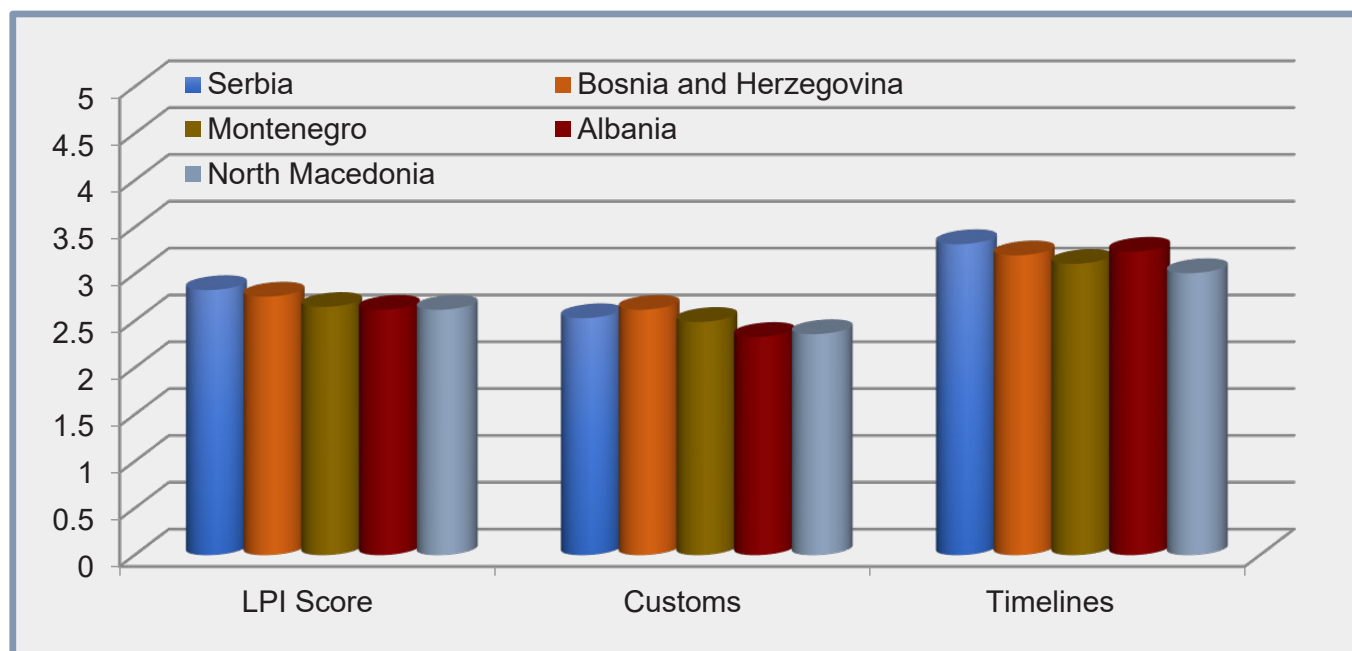
<sup>8</sup> At the 11th WBIF Steering Committee meeting in June 2014, the establishment of NIC framework was introduced as a requirement for European Commission support to infrastructure investment. SPPs include the strategic infrastructure projects prioritised by the NICs.

Western Balkans. Projects that reduce non-physical impediments absorb fewer financial resources than infrastructure and yield high economic returns, while the removal of these impediments is a prerequisite to capitalise on infrastructure investment.

The current high level of administrative barriers in the border-crossings of the Western Balkans adversely affects transport and trade, dampening the competitiveness and the economic growth of the countries in the region. The [waiting times for freight vehicles in the border-crossings](#) of the Orient/East Med Corridor (Pan-European Corridor X) in the Western Balkans exceed 160 minutes and may reach 280 minutes. The cumulative cost attributable to border-crossings in a Western Balkan country is estimated to be more than five times the cost in an efficient EU member state. The [cost of unpredictability and excessive control](#) at the Western Balkan border-crossings is equal to 16% of the Gross Domestic Product in the region, twice the estimated cost in the EU.

The [World Bank's Logistics Performance Index \(LPI\)](#) provides a multi-dimensional assessment of the current level of transport and trade facilitation in the Western Balkans (Fig. 4).<sup>9</sup> The countries of the region perform below OECD and EU averages in the aggregated LPI 2012-2018.<sup>10</sup> Serbia ranks 68th out of 167 countries, Bosnia and Herzegovina 78th, while the other three (Albania, Montenegro and North Macedonia) rank from 94th to 99th. Considering the LPI component on customs and border procedures, the scores of the Western Balkan countries range from 2.33 (Albania) to 2.62 (Bosnia and Herzegovina), reflecting the burdensome administrative procedures. As regards timeliness, the economies of the region perform better with their scores averaging between 3.01 (North Macedonia) and 3.32 (Serbia). A comparison between 2010 and 2018 scores demonstrates a slow rate of change. The average LPI score for the Western Balkan countries increased slightly from 2.60 to 2.75, while in terms of customs and border management efficiency there was a modest

**Figure 4: Aggregated Logistics Performance Index 2012-2018**



Source: [World Bank LPI database](#), accessed on 30 May 2021

<sup>9</sup> LPI is the weighted average of six dimensions: efficiency of customs and border clearance, quality of infrastructure, ease of arranging international shipments, quality of logistics services, tracking and tracing consignments, and timeliness of shipments in reaching destination. LPI is rated from very low-1 to very high-5.

<sup>10</sup> No available data for Kosovo\*



rise from 2.26 to 2.52. The improvement of the timeliness component was also limited (from 2.95 to 3.22).

Some initiatives have been undertaken in the direction of easing cross-border transport operations. The establishment of the integrated border-crossing between North Macedonia and Serbia (in Tabanovce-Preševo) could serve as a model for the region, since it is expected to reduce the time needed for the completion of the necessary administrative procedures by half. The streamlining of the customs clearance process and the implementation of the transit Corridor between Albania and Kosovo\* was also a significant step for the [acceleration of border transit procedures](#). However, looking at the big picture, intraregional transport remains widely fragmented and hard borders persist.

Policy makers in the region have prioritised infrastructure building since it offers greater visibility and immediate political gains. The implementation of the so-called soft connectivity measures related to the removal of non-infrastructure barriers has been slow and there are still too many obstacles undermining the competitiveness of the region. As a result, the long queues of vehicles waiting for hours, due to time-consuming bureaucratic procedures and/or inadequate border management, remain part of the landscape of border-crossings in the Western Balkans, particularly during summer when traffic flows increase.

### **4.3 Involvement of third (non-Western) actors: China as a lender of last resort**

The increasing involvement of non-Western actors — primarily China, Russia and Turkey and lately the United Arab Emirates (UAE) — in the Western Balkans has raised concerns in the EU about their influence on the region. These actors do not represent, though, a single rival [block](#) in the Western Balkans, as their historical ties to the region differ, their interests diverge and their political agendas often move in different directions.

Focusing on connectivity infrastructure, a legitimate concern is that the concessional financing provided by non-Western actors — in particular by Beijing — challenges the EU norms governing the 'region-building' process in terms of [institutional, economic, social and environmental standards](#). China, Russia and Turkey have all been involved in the financing and construction of energy and transport infrastructure in the Western Balkans. There is, however, a substantial difference between China and the other two actors. Moscow and Ankara seem to perceive their involvement in regional connectivity infrastructure as part of their policy to enhance their political and social engagement in the Western Balkans. Beijing's involvement in this field appears to be more systematic. It has identified the region as the gateway to Western European markets and perceives its engagement in enhancing regional connectivity as part of a broader connectivity strategy defined by the [Belt and Road Initiative \(BRI\)](#).<sup>11</sup>

China stresses that its economic and technical involvement in the region is based on the principle of non-interference in domestic politics. Its [policy in the Western Balkans](#) seems to be primarily oriented towards serving the initiative of the China-Europe Land-Sea Express Route (LSER). This entails the construction of a transport network, which would facilitate the access of Chinese products entering the Port of Piraeus in Greece (the Chinese state-owned COSCO has a 51% stake in the Port and another 16% of shares held in escrow) to the Central and Western European markets.

Nevertheless, the extensive Chinese infrastructure lending to the Western Balkans (with the exception of Kosovo\*, which is not recognised as an independent state by China) raises concerns related to the soundness of public finance, the sustainability of the projects and the observance of the good governance principles. As noted in a [Clingendael research report](#), part from EXIM Bank's loan to Montenegro (equalling 22% of its government external debt), North Macedonia has also a

11 Bieber, F. & Tzifakis, N. (2020), 'Conclusions' in F. Bieber & N. Tzifakis (eds), *The Western Balkans in the World Linkages and Relations with Non-Western Countries* (London & New York: Routledge), p. 262.

significant debt exposure to China because of the €714 million loan for the Miladinovci-Štip and Kičevo-Ohrid highways (amounting to 14% of its government external debt). Serbia has borrowed approximately €1.7 billion for transport and energy infrastructure (which is 7.9% of its government external debt) and Bosnia and Herzegovina €1.1 billion for two coal power plants in Stanari and Tuzla (equalling 13% of its government external debt). Albania stands out as an exception since its debt to China decreased significantly from €13.7 million in 2010 to €1.6 million in 2019.

[The Commission](#) has stated explicitly that China's economic activity in the region often disregards socioeconomic and financial sustainability, compromising 'efforts to promote good social and economic governance and, most fundamentally, the rule of law and human rights'. This applies, though, not only to Western Balkan countries but also to neighbouring member states. The Hungarian segment of the Budapest-Belgrade high-speed railway, the most important BRI project in Southeastern Europe, stands as a typical example of Chinese involvement in infrastructure building. The Hungarian government signed a loan agreement with EXIM Bank to finance 85% of the project (expected to cost €2 billion), in April 2020, less than a year after a [consortium of Chinese and Hungarian companies had won the relevant contract](#). On top of that, Hungary's national parliament classified the documents connected to the scheme as a [state secret](#).

Chinese financial institutions and construction companies function largely as proxies of the Chinese State in the Western Balkans. Through their direct relations with the government elites they operate beyond regulation and they avoid competition from other financial institutions and construction companies. For the governments of the Western Balkans, Chinese financial institutions function as lenders of last resort, when they cannot secure financing from EU funds or IFIs. This

state-to-state arrangement of financing and contract awards apparently deviates from the EU model of transparent bidding procedures. The practice of direct award of infrastructure projects, at a political level, generates a mutually beneficial relationship between financial and development elites in China and government elites in the Western Balkan countries, creating the conditions for the politicisation of infrastructure loans.<sup>12</sup>

#### 4.4 The politics of infrastructure

Each of the aforementioned domestic and exogenous pathologies provides a different explanation of the connectivity infrastructure gap in the Western Balkans. They all share, however, a common underlying factor, which is the political nature of infrastructure building.

Planning and implementing infrastructure networks addresses political, economic and social questions.<sup>13</sup> It is thus an inherently [political act](#). The construction of physical networks is *ipso facto* politicised, to the extent that politicisation means 'the demand for, or the act of, transporting an issue or an institution into the sphere of politics'.<sup>14</sup>

In that sense, building connectivity networks in the Western Balkans is not a neutral technical undertaking but a procedure conducted against the background of political agendas, programmes and/or ideologies. Given their integrative and transformative potential, infrastructure networks may function as useful instruments stimulating regional integration but they are also vulnerable to exploitation for the accomplishment of particularistic political or economic purposes. This depends on the political rationality (or irrationality) and the administrative practices of public and private actors involved, as well as on the political culture and the societal attitude towards political and financial misconduct by those in power.

12 See Grgić, Chinese infrastructural investments in the Balkans, pp. 53-54.

13 On the politics of infrastructure see Larkin, B. (2013), 'The Politics and Poetics of Infrastructure', *Annual Review of Anthropology*, 42 (327-343).

14 Zürn, M. (2019), 'Politicization compared: at national, European, and global levels', *Journal of European Public Policy*, 26:7, pp. 977-978.

The [Economic and Investment Plan](#) for the Western Balkans addresses explicitly the problem of poor governance in the region and draws attention to the limited progress in facing the shortcomings in the rule of law and in tackling corruption. It establishes a clear link between good governance and further infrastructure financing in the region, and stresses the need for implementation of 'fundamental reforms in line with European values'. For [the IMF](#), public infrastructure investment is often subject to 'political economy motives, rather than economic efficiency considerations'. Political interference in technical and market-driven aspects of infrastructure building compromises the sustainability of the projects and in a broader sense challenges the good governance principles.

Turning back to the case of the Bar-Boljare Highway, the project was undertaken although two technical studies had questioned its feasibility and two construction companies had failed to provide the necessary completion guarantees. However, the Montenegrin Government insisted on implementing the highway and on starting from the most difficult part of it against the advice of international experts who suggested, instead, the development of a network of freeways connecting the country.

In Bosnia and Herzegovina, the Bosnian stretch of the Sarajevo-Belgrade highway became politically instrumentalised as the two entities (the Federation of Bosnia and Herzegovina and Republika Srpska) supported different routes on the basis of local and/or ethnic interests. Thus, the Federation of Bosnia and Herzegovina proposed a 'northeastern route', while Republika Srpska supported a 'southern route' running through Pale, Ustiprača and Visegrád. The largest section of the first route runs through the territory of the Federation, while the main section of the second runs through the territory of Republika Srpska. A solution was reached in 2018, in the form

of an agreement to construct a '[two-legged highway](#)'. It is doubtful, however, whether the political solution of 'two legs' — intending to satisfy both entities — is sustainable. The overall cost of the project was estimated to be €3 billion — approximately two times the budget of each entity — and parts of the planned highway (particularly the southern route) run through areas of low population density and low average [traffic flow](#). Nevertheless, an agreement between Bosnia and Herzegovina and Turkey was signed last March on the construction of the Bosnian stretch of the highway, which provides for [possible financing from Turkish banks](#).<sup>15</sup>

In the aforementioned examples, the most fundamental function of networks, which is to connect and facilitate the flow of goods, services and people, becomes marginalised. Instead, narratives of identity construction and representations of state power occupy a dominant position.<sup>16</sup> In the case of the Bar-Boljare project, regardless of its technical function and characteristics, the highway was perceived as a useful instrument to construct 'a greater sense of belonging to the(ir) motherland', as a symbol of national unity, sovereignty and modernity; and EXIM Bank provided the necessary funding for this 'fetish' road.<sup>17</sup> In Bosnia and Herzegovina, the Sarajevo–Belgrade highway is an example of how 'ethnically organised' political elites use transport infrastructure as a tool to satisfy their 'ethnically organised' voters with the aim to maintain political power in their entities. Thus, the construction of transport networks is governed by an 'ethno-territorial logic', which disregards the technical and financial aspects of infrastructure building.<sup>18</sup> Under these circumstances, subjective criteria prevail over objective sustainability standards, leaving room for arbitrary prioritisation of resources and direct award of contracts in exchange for concessional financing.

15 The Serbian part of the highway is being built by a Turkish company and partially financed by a loan from the Turkish EximBank.

16 Larkin, *The Politics and Poetics of Infrastructure*, pp. 333-335

17 Grgić, *Chinese infrastructural investments in the Balkans*, pp. 48-49

18 On the influence of ethnic politics in Bosnia and Herzegovina on transport infrastructure see Reményi, P., Végh, A. & Pap, N. (2016) 'The Influence of Ethnic Policies on Regional Development and Transport Issues in Bosnia and Herzegovina', *Belgeo*, 1.

## 5. THE WAY FORWARD FOR WESTERN BALKAN CONNECTIVITY BUILDING

### 5.1 Capacity building as a barrier to the misuse of infrastructure as a political tool

Looking back at the last two decades, insufficient local capacity to plan, absorb available funds and implement infrastructure projects has been an inherent weakness of the Western Balkans. This deficit leaves room for increased political interference often leading to unsustainable financing and unreliable project implementation. Investing in capacity building cannot eliminate but it can incommode the exploitation of connectivity infrastructure for particularistic political and/or economic interests.

Capacity building in the Western Balkans involves two sets of actors: (a) EU, IFIs and bilateral donor development agencies (amongst others USAID, GIZ, SIDA) providing the necessary financial and technical assistance, and (b) beneficiaries in each Western Balkan country comprising central government, state agencies, municipalities and NGOs. Taking into account the weaknesses of connectivity infrastructure development in the region, capacity building measures need to address the whole circle of infrastructure governance from planning to implementation management and post-implementation monitoring.

The application of these measures is not, however, insulated from the political practices of the ruling elites on the ground. The pursuit of control over the state's structures and resources, as a means of consolidating political power, leaves limited room for change. Political clientelism and patronage appointments distort the operation of public administration and impact the quality of the produced public policy, rendering financial and technical assistance ineffective.<sup>19</sup> To mitigate the impact

of such 'state capture' practices, capacity building measures need to concentrate on the two 'enemies of state capture': transparency and accountability.<sup>20</sup>

As regards decision making, the establishment of the NIC institutional framework has been a major improvement for the prioritisation procedure of infrastructure investment. To capitalise on this reform, capacity building should focus on (i) providing additional project indicators, which will make the selection procedure more rigid and (ii) expanding the inclusiveness of the procedure by effectively involving all government levels and non-government institutions, such as civil society organisations and business associations.<sup>21</sup> Moreover, to safeguard this structured framework of investment prioritisation from the political cycle, technical assistance needs to support the establishment of a transparent justification procedure for cancellation or postponement of priority projects selected by NICs.

For the implementation and post-implementation phases, efficient monitoring of projects based on data collection and processing is a useful tool to support transparency and accountability. The [World Bank report](#) on government effectiveness and transparency has stressed the utility of information digitalisation in public infrastructure as a means for equal access by all stakeholders, including the public and civil society organisations. In this context, investing in the establishment of centralised information systems for project management will allow for objective and efficient monitoring and reporting of all projects (both EU and non-EU funded). Providing technical assistance for the implementation of digital governance in public infrastructure will facilitate cross-government monitoring and cross-referencing public expenditure information, thus enabling data-driven accountability.

<sup>19</sup> See Bartlett, W. (2021) 'International assistance, donor interests, and state capture in the Western Balkans', *Journal of Contemporary European Studies*, 29:2 and Džankić, J. (2018), 'Capturing Contested States Structural Mechanisms of Power Reproduction in Bosnia and Herzegovina, Macedonia and Montenegro', *Southeastern Europe*, 42.

<sup>20</sup> See the [Clingendael policy brief](#) by Maarten Lemstra, 'The destructive effects of state capture in the Western Balkans. EU enlargement undermined', (September 2020).

<sup>21</sup> On the inclusiveness of the NIC framework see WBIF 'National Investment Committee implementation. Update Report', October 2018, p. 11 and the Cooperation & Development Institute (CDI) 2020 report on connectivity by Ardian and Kristela Hackaj, '[Connectivity Agenda and Structural Weaknesses of EU Candidate Countries](#)', 2020, pp. 13-14.

The digitalisation of infrastructure governance needs to be complemented by a comprehensive approach to integrity risk management. In light of the [OECD Council](#) recommendations on infrastructure governance, such an approach is meant to discern and address any kind of integrity risks, including 'fraud, collusion, abuse, corruption, undue influence and capture' throughout the entire project life cycle. To implement such an integrity risk management framework, capacity building needs to focus on the development of formalised procedures of inter-institutional/inter-agency coordination and information sharing, as well as on the clear definition of roles and responsibilities for all actors involved in infrastructure governance. Procedures may, of course, be circumvented by political or economic elites. Nevertheless, the more rigid and transparent the procedures are, the more difficult it is to escape accountability, which entails a stronger deterrent effect on possible misconduct by those in power.

## **5.2 Infrastructure financing tailored to specific needs and connected to the removal of non-physical barriers to connectivity**

The Western Balkans needs additional investment to narrow or bridge the existing infrastructure gap. The ability of local governments to address this challenge is constrained, though, due to scarce funding resources. Nevertheless, without disregarding the need for further infrastructure financing, more money is not a panacea.

Infrastructure investment needs to be tailored to and targeted at the specific connectivity needs of each country and of the region as a whole. To respond to existing needs, governments in the region have two options: to build new infrastructure or to invest in the existing infrastructure in order to maximise the benefits from it.

New energy or transport assets can function as agents of change by virtue of the mediating capacity of networks. They also provide high visibility and immediate political gains. They are, however, resource intensive. A more phased approach to new infrastructure projects could rationalise the cost, limit the risk and help

maximise the benefits from each segment of the investment. Moreover, a more systematic and streamlined use of Public Private Partnerships (PPP), based on a consistent assessment of the suitability of each project for PPP by the relevant authorities in each country (PPP Units/ Departments at the Ministries of Finance or Economy and Commissions for Concessions), could be an alternative to the use of [scarce public resources](#).

Investing in the existing infrastructure is an option often underestimated in the Western Balkans, although it can yield high returns by allocating fewer resources. This option entails (a) extending the asset's life by investing in 'preventive and predictive maintenance' and (b) maximising the asset's utility by reducing physical losses (e.g. from electricity connections). Ensuring proper network maintenance and employing technologies allowing for leakage detection, 'remote condition monitoring' and 'asset deterioration modelling' can be [useful tools in this case](#).

The low compliance of the rail networks in the Western Balkans with the TEN-T standards in terms of maximum operating speed provides an illustrative example (see chapter 1 on the level of compliance of Western Balkan rail networks with TEN-T standards). The design speed in the biggest part of the railway infrastructure in Corridors OEM and MED is more than 100 km/h, which is the threshold for TEN-T compliance. However, due to the lack of proper maintenance the [actual operating speed of the railway network has decreased](#).

Investing in the existing connectivity assets has also another key dimension pertaining to the removal of non-physical barriers to connectivity. The extended TEN-T road network in the Western Balkans includes thirty border-crossing points (BCPs) and two common-crossing points (CCPs) (between Kosovo\* and Serbia). Apparently, the operational capacity of these points can limit or maximise the benefits from investment in road networks and determine the efficiency of passenger and freight road transport in the region.

Cross-border road transport can be facilitated by concrete policy measures, such as (i) establishing joint border-crossing points, operating as One-Stop-Shops (OSS),<sup>22</sup> (ii) setting up electronic border queuing management system (eQMS), and (iii) introducing 'green lane' border-crossings for freight vehicles to facilitate the flow of goods. [Connecta](#) (an EU-funded facility for technical assistance to connectivity in the Western Balkans) has drawn up a shortlist of sixteen suggested BCPs and CCPs for the establishment of OSS, eQMS or a combination of both, on the basis of economic and [financial performance indicators](#). The [Transport Community](#) has also actively encouraged the implementation of 'Green Lane' border-crossings to guarantee the proper operation of supply chains in the region during the pandemic and has called for building on this good practice in the post-pandemic era. The timely implementation of these measures needs, however, strong government engagement not only in Western Balkan countries but also in neighbouring EU member states, as well as sufficient financing targeted at the specific needs of each border-crossing. As noted in the [last connectivity measures implementation report](#), issued by the Transport Community in 2019, some progress has been accomplished on road border-crossings with the establishment of the Tabanovce–Preševo OSS between North Macedonia and Serbia and the set-up of inter-ministerial working groups in Albania for negotiations with North Macedonia on the establishment of an OSS in the Qafë Thanë/Kjafasan border-crossing. There was no progress, however, on railway border-crossing agreements. As regards border-crossings with neighbouring EU member states, the [report points out](#) that the intervention of the European Commission has been requested in order to initiate or speed up the negotiation of relevant agreements.

The pandemic has functioned as an accelerator of regional cooperation in facilitating cross-border transport. The Western Balkan border authorities have worked together efficiently

in establishing 'Green Lanes' at critical border-crossings, under the coordination of the Transport Community and the Central European Free Trade Agreement Organisation (CEFTA). The Transport Community has adopted a [detailed action plan](#) on transport facilitation measures in road and railway BCPs and CCPs, involving both EU member states and Western Balkan countries. At the EU level, the Commission has stated in its '[Green Lanes' Communication](#) that member states 'should apply to the greatest extent possible' 'Green Lanes' guidelines at their borders with the Western Balkan countries.

Against this backdrop, one could plausibly argue that the prospects of regional cooperation in implementing border-crossing policy measures have improved during the pandemic. The Covid-19 crisis raised public awareness on the need for efficient and unhindered operation of supply chains and increased the visibility of policy measures addressing this challenge. These facts create a positive environment for the development of the necessary institutional framework of cross-border cooperation, involving agreements and protocols on police, customs and phytosanitary issues, as well as for investing in the upgrade of the border management infrastructure.

### 5.3 Enhancing the resilience of infrastructure networks

The impact of the Covid-19 crisis on the functioning of cross-border supply chains has exposed their weaknesses and brought the question of resilience building into focus. The capacity of Western Balkans' connectivity infrastructure to absorb, adapt and recover from disruptive events affects not only the countries of the region, but also the EU, as its Western Balkan neighbours have an essential role to play in the global value chains that [supply its market](#).

Resilience building of key infrastructure assets is becoming a national priority in most Western Balkan countries. However, developing the

<sup>22</sup> Until now, only one OSS has been established in the Western Balkans, in the road border-crossing Tabanovce/North Macedonia – Preševo/Serbia. The governments of North Macedonia and Serbia have agreed on the establishment of a joint railway border station too. The estimated total value for the necessary infrastructure is [€6.08 million](#).

resilience of critical infrastructures in the Western Balkans calls for a regional approach. Improving a segment of a transport or energy link in one country or between two countries generates '[positive externalities](#)' for the whole network. Likewise, poor maintenance and possible infrastructure failures in a part of the network affect every country connected to it.

Adopting a comprehensive perspective focused on the network as a whole allows for better understanding the vulnerabilities and the critical points of infrastructure assets, thus enhancing the efficiency of resilience building. In practical terms, this entails closer regional coordination at the level of project prioritisation, which actually involves the decision making process for the drafting of the Single Project Pipelines (SPP). Each National Investment Committee decides on the national SPP based on the maturity and the strategic prioritisation of the projects at the national level. What is missing is a [coordination framework](#), which would enable a comprehensive regional approach to project prioritisation.

Resilience building does not depend, however, only on infrastructure investment but also on investment screening, a dimension that has become pertinent in light of the increasing involvement of third (non-EU) actors in infrastructure building in the Western Balkans. The EU has adopted its own Foreign Direct Investment (FDI) Screening [cooperation framework](#), which is fully operational as of 11 October 2020 and most EU member states have established their national FDI screening mechanisms. The lack of this policy instrument in the Western Balkans leaves room for foreign economic involvement practices, which disregard the project sustainability standards and the EU norms on competition, public procurement and rule of law. To address this challenge, the EU should provide the governments of the region with the necessary technical and financial assistance for the establishment of their own national FDI screening mechanisms and ideally a regional cooperation framework.

## 6. CONCLUSION

The development of connectivity networks in the Western Balkans was a constructive response of the EU to the needs of the region after the end of the Yugoslav wars. Building on the integrative and transformative potential of networks, the EU has allocated significant resources to enhancing connectivity in the region. Nonetheless, without disregarding the improvements accomplished in the last twenty years, the infrastructure gap in the Western Balkans persists and the level of connectivity is still inadequate.

The paper has explored the reasons explaining the current state of affairs in Western Balkan connectivity and argued that these explanations share a common underlying factor: the political nature of infrastructure building. On this background, it has discussed a set of policy measures consisting of three dimensions: first, investing in capacity building measures for infrastructure governance focused on the twin principles of transparency and accountability; second, adopting an infrastructure financing perspective, which allows for a phased approach to new infrastructure projects, invests in extending the life and maximising the utility of existing infrastructure, and advances the removal of non-physical impediments to connectivity; third, developing a comprehensive regional approach to infrastructure resilience and establishing screening frameworks for FDI in critical infrastructure.

Looking at the future of connectivity building in the Western Balkans, the pandemic has accentuated the need for effective networks in the region, as an enabler of the efficient operation of supply chains. As discussed, the Western Balkan countries cooperated efficiently in adopting soft connectivity measures as a response to the impact of the Covid-19 crisis on the flow of goods. Moreover, on the positive side, the implementation of the Economic and Investment Plan for the Western Balkans is expected to stimulate further investment in connectivity infrastructure.

There are, however, other determinant factors which cannot be disregarded. The political

realities on the ground and the level of credibility of the EU perspective for the region can tame the prospects of change. Returning to Berlin, there is a concrete upcoming development, which is expected to cause uncertainty to the progress of connectivity building and in a broader sense, to the EU perspective of the region. The Western Balkans Summit in the German capital will most probably be the last 'act' of the German Chancellor Angela Merkel

pertaining to the Western Balkans. During her long mandate, Chancellor Merkel was an advocate of the EU integration process of the Western Balkan countries and launched the Berlin Process with a strong focus on connectivity. Her forthcoming departure from the political scene is a source of concern as regards the future of the Process and in general, the stance of Germany and the EU *vis à vis* the Western Balkans.



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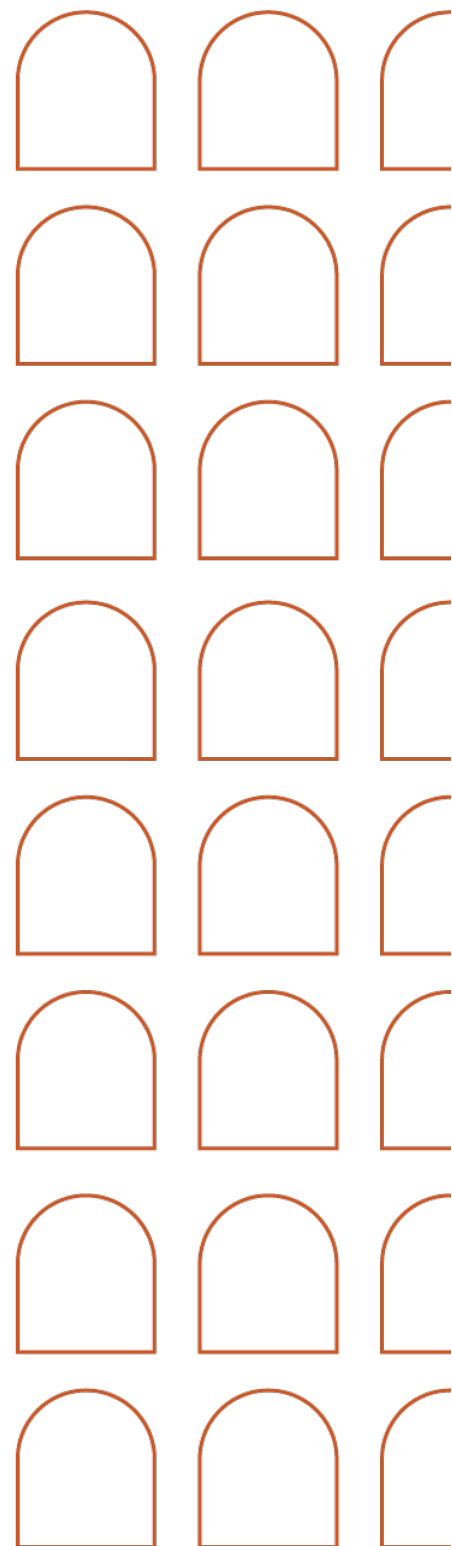
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Co-funded by the  
Erasmus+ Programme  
of the European Union

The European Commission supports the EUI through the European Union budget. This publication reflects the views only of the author(s), and the Commission cannot be held responsible for any use which may be made of the information contained therein.

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**doi:10.2870/413977**  
**ISBN:978-92-9466-016-9**  
**ISSN:2600-271X**  
**QM-BA-21-014-EN-N**

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