



BERLIN PROCESS: IMPLEMENTATION OF CONNECTIVITY AND INSTITUTIONAL GOVERNANCE



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TABLE OF CONTENT

Foreword from the authors	6
Keynote address from HE Ilir META, President of Republic of Albania	9
Keynote address by Knut Fleckenstein, Member of European Parliament	11
Keynote address by HE Luigi Soreca, Ambassador of EU to Albania	13

CHAPTER I.

CONNECTIVITY IMPLEMENTED: ENLARGING THE SCOPE AND EXTENDING THE TIMELINE

Selected highlights of the chapter	16
I.1. Connectivity is a multi-layered phenomenon	18
I.1.a) Rail or road?	18
I.1.b) Country economy defines transport connectivity priorities	19
I.2. Criticality of destination nod	20
I.2.a) Infrastructure prioritization and logic of design	20
I.2.b) Return on Investment vs. sustainability	24
I.2.c) The right place in the right value chain	25
I.3. Connectivity Agenda and Institution building	26
I.3.a) Connectivity Agenda exposes weak institutional governance	26
I.3.b) Regional Project Implementation Unit organized by sector	28
I.4. Geo-politics, climate change and other societal trends impacting connectivity	28

CHAPTER II

TRANSPORT IN CONNECTIVITY AGENDA: PROJECT GOVERNANCE

Selected highlights of the chapter	31
II.1. Limits of current model of infrastructure project financing	32
II.2. Inefficient institutional mechanisms	34
II.3. Weak public investment management	35

CHAPTER III.

ENERGY AND REGIONAL COOPERATION: NETWORK GOVERNANCE

Selected highlights of the chapter	38
III.1. Transposition vs. implementation and the enforcement challenge	39
III.2. The "working together" approach	40
III.3. Geopolitical context and 3 rd actors	41

CHAPTER IV.

P2P CONNECTIVITY: NEW COMMUNITIES, NEW POLITY

Selected highlights of the chapter	45
IV.1. Side effects of higher spatial mobility	46
IV.2. Citizen Connectivity and new polities	47
IV.3. Connectivity corridors as value conveyers	49

CHAPTER V.

INSTITUTIONAL CONNECTIVITY: EUROPEAN VALUES, TRUST, INCLUSIVENESS

Selected highlights of the chapter	51
V.1. WB6 institutional quandary: captured states as members of EU Club?	52
V.2. EU crisis, positive differentiation and Enlargement	54
V.3. Europe of shared values: from "carrot-and-stick" to "scrutiny"	55
V.4. Using connectivity to improve institutional governance: role of IPA	57
V.5. First connecting, then building trust, and finally getting in: utility of inclusiveness	59

CONCLUSIONS	63
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REFERENCES	64
------------	----

LIST OF GRAPHICS

Graph 1. Montenegro Trade Exchanges January - November 2018

Graph 2. Albania Trade Exchanges January - December 2018

LIST OF MAPS

Map 1. The Adriatic - Ionian Corridor: Logic of Design

Map 2. Graphic illustration of maritime connections of Albania and Montenegro to TEN-T Scandinavian - East Mediterranean Corridor

Map 3. Traffic scenario without investment 2035

LIST OF FIGURES

Figure 1. Distribution of Risk in cross-border Connectivity Agenda project

LIST OF ACRONYMS

AIC	Adriatic Ionian Corridor
C2C	Citizen-to-citizen
CA	Contract Administration
CDI	Cooperation and Development Institute
CEE	Central and Eastern Europe
CEEC	Central and Eastern European Countries
CEFTA	Central European Free Trade Agreement
CSO	Civil Society Organisation
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EnC	Energy Community
EPS	Elektroprivreda Srbije
ESIA	Environmental and Social Impact Assessment
EU	European Union
FDI	Foreign direct investment
GAF	Grant Application Form
GVC	Global Value Chain
IAP	Ionian-Adriatic Pipeline
IFI	International Financial Institution

IMF	International Monetary Fund
IPA	Instrument for Pre-Accession Assistance
LGU	Local Government Units
LIP	Large Infrastructure Project
LNG	Liquefied Natural Gas
MNC	Multinational corporation
NIC	National Investment Committee
NIPAC	National IPA Co-ordinator
NSPP	National Strategic Project Pipeline
P2P	People-to-people
PIU	Public Institutional Units
PPP	Public Private Partnership
RCC	Regional Cooperation Council
ROI	Return on investment
RYCO	Regional Youth Cooperation Office
SEE	South-east Europe
SEETO	South-east Europe Transport Observatory
SPD	Social Democratic Party of Germany
TAP	Trans Adriatic Pipeline
TCF18	Tirana Connectivity Forum 2018
TEN-T	Trans-European Transport Networks
WB	Western Balkan
WB6	Western Balkan Six
WBIF	Western Balkans Investment Framework
WBYCP	Western Balkans Youth Cooperation Platform
WiiW	Vienna Institute for International Economic Studies

Foreword from the authors

"The biggest challenges for the transition countries are poor institutional governance and low civic engagement"

Johann Sattler, Ambassador of Austria in Albania, co-organizer of the Western Balkans Summit in Vienna, June 2015.

The current report benefits from a 5-year hindsight, and adds three novelties to the growing number of research on the Berlin Process. While including in our focus the implementation phase of the connectivity agenda projects, we have expanded the scope and also extended the timeline of analysis.

To date, the biggest achievement of Berlin Process is to bring to the agenda of policy-makers and to the attention of Western Balkans citizen, the investment needs of the region in transport and energy. This has allowed to clearly link their impact, to the local economic development and growth.

But the one-dimensional level of the Connectivity Agenda (CA) – i.e. spatial connectivity contributing to mobility of factors at the service of higher growth – becomes insufficient to account for the interaction of connectivity with the engaged reforms in WB6 and with their Enlargement dynamics.

Other variables such as "institutional connectivity" and "common values" become very important to explain the efficiency of project investment, as well as the non-reversibility and sustainability of institution building..

By studying CA implementation, we can examine actions, policies and their respective impact in a longer timeline; longer than the project cycle. A larger scope opens the Berlin process to the complexity of P2P component beyond increased mobility. More importantly, spatial connectivity embedded into the larger socio-economic context can be complemented with the concept of "connectivity of institutions".

At the start of the 2nd cycle of Berlin Process it is time to shift attention to the implementation phase. The success achieved in lowering transport costs and increasing people mobility must be furthered to include the impact of connectivity in the functioning of national institutions. In the end, it is Western Balkans national institutions that define the road and rail tracks, raise the finance and provide sovereign guaranties, proceed with the procurement and contracting, monitor the works, and then operate the infrastructure.

In the first chapter we will review the connectivity concept in a longer timeline and larger scope. Instead of "sustainability", the infrastructure projects allow us to use the much realistic "return on investment - ROI" variable. ROI puts a number to the efficiency of implementation phase and, a quantitative assessment to the competency of respective national institutions. Criticality of destination nodes and their place in global value chains complement the analysis. The geopolitical angle illustrates how the world politics impacts the policy-making cycle in the Western Balkans.

Through the Connectivity Agenda, the Berlin Process offers a political framework and support to the Large Infrastructure Projects (or LIPs). As such it provides an excellent frame of analysis on the efficiency of our institutions. Implementing a LIP of hundreds of millions of EUR is equivalent to carry out a sector policy. But the difference is that LIP outcome is tangible. The deficiencies of the institutions in charge became visible and the progress measurable. Hence we will use LIP implementation to “dissect” how our institutions work.

Energy connectivity, by its very nature, makes regional coordination indispensable. The network governance becomes paramount for a smooth and secure supply of energy. Faults in regional transmission systems became visible immediately. This interconnectedness allows a much better observation of the way national institutions cooperate with each other, as well as identify best cases and relevant challenges.

But one of the most relevant achievements of Berlin Process today is its emphasis on “people connectivity” - a concept that goes beyond EU’s “mobility of labour” - and whose cornerstone are the European values, instead of market values. P2P connectivity is becoming the cornerstone of Berlin Process. New transport networks, increased trade exchanges and higher FDI flows, directly impact people mobility. Those people carry with them knowledge, values, norms and standards: the invisible foundations needed for the functioning of our institutions.

We are entering a difficult phase in the EU's re-engagement with the WB region, with increasingly skeptical voices on the future of the EU's enlargement agenda. These are likely to increase during the forthcoming European Parliament elections in May 2019 and could affect the hoped-for outcomes for the June 2019 European Council directly impacting the WB6.

The everyday work of EU institutions is reflecting these tensions. The Council needs to deal with the “nationalization of Enlargement” symptom. The Commission faces a backlash about its “free market doctrine”, while the Parliament is expected to face increased pressure from the populist and political extremes after the May 2019 elections.

Meanwhile in the Balkans our institutions have become the main systemic flaw that slows down the country reforms. The Justice reform and its famous “vetting” in Albania illustrate the challenge posed by our institutions, qualified as “state capture”. The problem is that by design, it is those very institutions that have a central role in the Enlargement strategy.

The traditional “capacity building” approach seem to not have delivered the expected outcomes. In this context, Berlin Process and the concept of “connectivity of institutions” extends sensibly the range of available options that EU has while engaging with the Western Balkans.

The structure of the paper follows this pattern: from spatial connectivity to full integration in one polity. We will start with the explanation of the advantages that a larger scope and longer timeline brings while studying the efficiency of a multilayered connectivity and evaluating its impact.

The people-to-people (P2P) connectivity will complement the sector analysis. It will push the borders of sector approach to assess the interaction of higher mobility of people with the surrounding context. The interaction of markets globalization with social fractures at national level will be particularly addressed.

The last chapter puts the WB6 connectivity in the EU context and its surrounding uncertainty. EU enlargement to WB6 is affected by the same phenomena that EU integration is facing. But the big difference is that WB6 institutions are still young and under consolidation, when compared with the centenary liberal democratic institutions of Western Europe. Here we bring in the "positive differentiation" as the mechanism that allows for further EU integration all by supporting the Enlargement momentum. In this angle, the "inclusiveness" or "connectivity of institutions" takes center stage.

This year we have decided to focus on some projects of Connectivity Agenda. A detailed and comprehensive information on all connectivity projects can be easily found in the Western Balkans Investment Framework website.

The report starts with the keynote addresses from the President of Albania HE Ilir Meta, from MEP Knut Fleckenstein and from the EU Ambassador to Albania, HE Luigi Soreca. Each of them puts connectivity in its own specific context and so complement the spectrum of analysis as seen by the eyes of policy-makers.

Further on the document has been enriched with conclusions of the 4th Tirana Connectivity Forum of November 2018 (TCF18). Different citations as well as longer contributions during the TCF18 in form of boxes have been inserted throughout the analysis. The last chapter owes a specific gratitude to the input of Prof. Christophe Hillion regarding the challenges of EU today and on the concept of positive differentiation.

We are conscious that this edition may raise more questions than it provides answers on the Berlin Process and its contribution to EU Enlargement. We would be happy to read any comment that the reader may have, reflect upon and reply to it. The exchange of ideas and the subsequent debate will be a very valuable help in defining the scope and preparing the Tirana Connectivity Forum 2019, which will take place in Tirana on 30 and 31st of October 2019.

Finally, we would like to thank our partners Friedrich Ebert Stiftung, Hanns Seidel Stiftung and Konrad Adenauer Stiftung for their trust and continuous support in this endeavor.

Keynote address from HE Ilir META, President of Republic of Albania

I welcomed the invitation of CDI to address the 4th Tirana Connectivity Forum. The fact that this event is co-organized by our German partners Konrad Adenauer St., Friedrich Ebert St. and Hanns Seidel St. shows the unwavering support that Germany, a key strategic partner, provides to Albania and the Western Balkans region, including through Berlin process.

The Berlin Process has complemented EU's Enlargement Agenda with ambitious projects aiming at encouraging better connectivity and efficient cooperation in our region. Under German leadership, major EU countries kept the Western Balkans high in the European agenda, adding more substance and impact to the general reform process in our region.

Whereas providing an optimal platform to pairing regional infrastructure projects with the financial support of EU and other international financial institutions, the Berlin Agenda further energized our integration processes. The agreed projects, including the Blue Corridor, energy distribution networks, Regional Youth Cooperation Office and Regional Economic area are best illustrations of the remarkable change in the region's political landscape and its perspective, with an increasing regional ownership.

A strong catalyst to this level of cooperation has been visa liberalization with the EU and within the region. This was a tangible process with direct impact to our citizen, removing not only physical but also psychological barriers, fundamental to building mutual trust and cooperation.

The Berlin process synergized a new dynamic of this essential feature and prerogative to European Integration – the open, constructive and concrete cooperation among 6 Western Balkan countries, under the best model offered by the European Union. Since the first Berlin meeting, much has improved in our multilateral and bilateral relations, with the Prespa Agreement standing as the most powerful example.

The London Summit evidenced serious challenges on security issues, related to bilateral disputes, cooperation and reconciliation, fight against organized crime and migration. It is of paramount importance that every step taken to solving these pertinent issues aims at results that are achievable, useful, constructive, implementable, and serve to progressing EU integration processes in our region.

I want to underline that the Berlin Process has strategically contributed to further boost NATO and EU enlargement in our region. They both remain irreplaceable strategic projects to consolidating peace, security and stability. Regardless of concerns for an "Enlargement fatigue" or for a "deepening versus enlarging" debate, the history of the EU has shown that enlargement has happened, and the EU and NATO borders have further extended, including in our region.

That is why Albania and Republic of North Macedonia have a real opportunity to open EU accession negotiations next June, and must further concentrate their energies to implementing key reforms. Keeping focus on strategic objectives and on reform agendas is the only path which can lead to entire region's full accession to the EU.

It is worth underlining that the Berlin Process brings together the best combination of policy-making, active civil society, business community's support and youth dynamism. A civil society that is directly involved in public action and exercises its oversight authority representing the best public interest certainly makes the process more dynamic, accountable and efficient.

I also find youth focused policies a wise approach towards regional reconciliation. More has to be done to increase education and employment opportunities to stop the human hemorrhage warningly affecting our countries.

Let us be inspired by the philosophy of our youngsters born in the era of peace, who want everything and want it now, while remaining equally realistic and down to earth that this sprint requires a great deal of work and efficient cooperation.

Keynote address by Knut Fleckenstein, Member of European Parliament

We are already connected. Whether we like it or not!

Inside the European Union there is a tendency to sometimes forget this, especially regarding those who are not - or not, yet - part of the EU.

So the issue is not about 'How to connect us to each other'. But 'How can we be smart about the inescapable connections that we share'. And 'How can we shape them in a way so they contribute to the well-being of all of us.'

Western Balkans as a region has its own unique challenges when it comes to connectivity. A first view of these challenges appears to every traveler that crosses through the regions' borders. From inside the EU, the Western Balkans are generally considered as one region. But I have found during my visits that this view is not always shared by everyone here. Rather, the divisions that still exist, whether political, physical, or in the frame of mind. And are quite hard to abolish. I would argue that we must overcome these barriers in our minds before we can fully reap the benefits of the inevitable connections that we share.

The next step is towards a more unified economic space. It is imperative that the Western Balkans realise its economic potential as a whole. This is not just about ports, railways, roads or energy networks. It must also be about political and legal connections.

This necessity has been acknowledged by the political leaders of Western Balkans and of the European Union. The Berlin Process is the clear proof. Regional cooperation is the core of the Berlin Process. It is a very relevant contribution to connectivity of institutions both within the region and between the Western Balkans and the EU. Connectivity Agenda on transport, energy and digital infrastructure is important for economic growth and jobs as well as for attracting new investments.

But barriers exist beyond the physical infrastructure. They can be regulatory. They can be found in excessive bureaucracy and weak institutional governance. They can be found in limits on people's mobility. Importantly, challenges in the rule of law and problems of corruption, amplify these obstacles and must be tackled.

Some barriers are also politically convenient for those in power. To get rid of them takes political leadership and courage. Hence the need for a mutual commitment, first of all from the leaders of the region, but also the EU and its Member States.

The Western Balkan countries are already committed to removing a large number of existing legal and regulatory barriers in the fields of transport and energy. The best illustration comes from the European Energy Union. However, much of the work still remains.

Positive impact can be observed in increased safety and competitiveness in the railway market and more efficient border-crossing procedures. The bilateral agreements that have been concluded between the countries are a very good sign.

Another milestone was the conclusion of the treaty on creation of Transport Community. This leads to economic benefits, growth in tourism and reduction of travel time and cost. In this context, the extension of the Trans-European Transport Network (TEN-T) to the Western Balkans is very important. TEN-T can provide immediate, visible, concrete and tangible outputs for the citizens during the journey to EU membership, affecting local growth and jobs and also mobilise EU support from the Connecting Europe Facility. There is also a very good reason why alignment and connectivity for transport are covered by Chapters 14 and 21 in the accession negotiations.

This brings the countries further along on their road to EU membership. And it will also come with concrete benefits in the short-term. For its part, the EU has invested a great amount of financial assistance in promoting this convergence. We will know its impact only when a truly functioning Regional Economic Area will contribute to decent jobs, regional cooperation and good relations among the countries.

The next development in connectivity is digital. In 2018, the Commission together with the Ministers of the countries launched a Digital Agenda for the Western Balkans. It includes heavy EU investment in broadband infrastructure aiming to mobilise strategic investments and foster economic growth. It also strengthens cyber-security, trust and digitalisation of industry. Extensive networking and training opportunities for young people and the Western Balkans will complement the EU's own initiatives in the digital field.

Finally, we have also agreed on a roadmap for lowering roaming charges between the EU and Western Balkans countries. This brings them closer to what has already been achieved for consumers inside the EU. We must make sure the benefits reach all regions, not just the capitals and large cities.

We must make sure the whole of society benefits by investing in training and education, which must be open to all population groups. More broadly, connectivity also serves to increase people-to-people contacts, particularly for the young generation. This is imperative to provide for the needed reconciliation and a strong foundation of good neighborly relations.

I see no alternative to the eventual membership in the EU of the Western Balkan countries. But there is a lot that can be achieved before the day comes when membership becomes a reality. If only, the region truly thinks of itself as a region and not a collection of disconnected islands. With greater scale, there are more forces for social and economic progress that can be mobilized.

Reaping the benefits of connectivity will not just be visible in tangible improvements of the living conditions of ordinary people - it is also essential to make progress towards EU accession. I would encourage everyone in the Western Balkans to see this as a common project for the whole region.

Keynote address by HE Luigi Soreca, Ambassador of EU to Albania

The year 2018 has been important for the Connectivity Agenda in South-East Europe. The Commission's Strategy for the Western Balkans and the Western Balkans Summit in Sofia and London all stressed forcefully the importance of connectivity and of regional co-operation for the European integration of the region. Through the Berlin Process, the EU and the Western Balkans have established a wide Connectivity Agenda. This Agenda is improving transport and energy links in the region and with the EU Member States.

In 2015, the Commission set aside one billion Euro in grants until 2020 to support the Connectivity Agenda. To date, we have already committed 70% of it, giving concrete support for infrastructure projects that directly benefit citizens in the region. In Albania, the EU is granting over 50 million EUR to the TËrana-Durrës railway and for the reconstruction of the port of Durrës. Feasibility studies have also started on the Adriatic-Ionian Highway.

The main building block of the Agenda is to establish the "Western Balkans core network" which will link all capitals, main economic centers and major ports in the region.

Connectivity however is not only a matter of physical infrastructure – whether of road, rail, power or gas. Infrastructures make sense if they are complemented by regional, institutional and regulatory measures which open markets, create a transparent regulatory framework, build investor confidence and remove barriers. And, most importantly ultimately connect people.

It makes little sense to invest heavily in state of the art roads or railways if trucks or trains get stuck at the borders. Our ambition is therefore to connect markets, economies and people through the establishment of a Regional Economic Area. The Regional Economic Area helps prepare to join the European Union – starting by harmonizing national standards and bringing down barriers to trade and investment. The European Commission estimates that about 80.000 new jobs could be created across the region if the respective economies are more closely integrated. For energy operating under EU-compatible rules such as unbundling utilities or allowing third-party access is an essential element of the connectivity agenda.

Looking back a year and a half after its inception, the Regional Economic Area is already delivering. First, CEFTA's additional protocol on trade facilitation came in force in April 2018, further contributing to eliminate barriers to trade. Second, a regional Investment Reform Agenda was adopted to harmonize investment policies on international best practices. Third, progress has been made on removing obstacles to mobility of researchers and recognition of diplomas.

Intra-regional trade has shown positive upward trend not seen in years showing a 13% increase in intra-CEFTA trade in 2017 compared to 2016. However, what matters is also what you trade. Export patterns in the Western Balkans are still dominated by low-skill, low-tech and natural resource-intensive products. We need investments that stimulate highly developed skills and entrepreneurship. The Agenda reflects the support to smart growth and the knowledge economy.

The most recent development regarding connectivity in Western Balkans is the adoption of a Digital Agenda in the Sofia Summit. The digital agenda ensures that citizens have the skills to match the demands of the new economy. It helps modernise public administrations, strengthen cybersecurity, increase connectivity, and boost research and innovation.

The Sofia agenda includes a roadmap to lower the cost of roaming. Lower roaming cost in the region are a pressing necessity to increase business connectivity. The Agenda also provides technical assistance for digital projects in the region. 30 Million euros have been earmarked under the Western Balkan Investment Framework for investments in the digital area, but unfortunately they are under-used as yet. This opportunity must be seized.

In Albania, we are assessing how to link the country to future regional broadband infrastructure to improve connectivity for health, education facilities, and other public services.

But the ultimate goal of the whole Agenda is to connect the people, the citizens of the region, with special focus on Balkan youth. This is the core of the Connectivity Agenda. Youth embodies everything our connectivity agenda stands for: not only connecting infrastructure and economies, but connecting people, promoting reconciliation and facilitating everyday mobility.

The Commission doubled the funding for Erasmus+ for the region and is launching a pilot project for mobility in vocational education and training. A Digital Opportunity Traineeship has been launched and the Commission is reflecting on the establishment of a "Western Balkans Youth Lab", providing space for innovative policy-making addressing the needs of young people.

The European Commission is proud to support the Connectivity Agenda for its very positive impact on neighborly relations. Creating links and connecting business and people hold the key to the prosperity and long-lasting peace for all in the region.

CHAPTER I

CONNECTIVITY IMPLEMENTED: ENLARGING THE SCOPE AND EXTENDING THE TIMELINE

Selected highlights of the Chapter

- Extending the timeline and enlarging the scope of the analysis on Berlin Process, allows us to focus on impact and efficiency beyond the end of the construction phase of infrastructure projects. It also makes possible to look into the larger context surrounding big infrastructure works including the institutions in charge.
- Country economic structure and its composition of external trade are key parameters in developing the architecture of transport networks and of respective investments.
- The place of the destination nod in the overall network is connected to the number of country neighbors, and of their economic strength as calculated by their place and weight in the global value chain.
- The degree of influence over the connected "nods" and on respective fluxes raises the issue of "controller of connectivity": whoever controls the nod(s) and the connecting networks, can influence the respective flux and mobility of factors. The more critical a nod is, the bigger the power of the nod controller.
- The more solidly one nod is grafted in, or contributes to the value chain, the bigger the exchanges among nods are, and the higher the return on investment of the respective infrastructure networks.
- The complex problems that Albania faces on land expropriation and the advantage that rail offers as compared to road, support the prioritization of rail versus road when planning for the Adriatic Ionian Corridor. Other factors such as central position of Durrës Port for international trade, or structure of trade make the rail even more attractive.
- The Cost-Benefit analysis of activities including the operations phase, in which risks of technical failure, or risks that may cause environmental problems may appear, becomes an important component of the project planning (identification, pre-feasibility studies, preliminary design, ESIA, and of main technical design) and of pre-construction and constrictions.
- For LIPs that count in the hundreds of millions of EUR and that have a significant and long term impact in the state budget and in the economic development of the country, an analysis through the lens of supply chains and comparative advantages and growth prospects of certain industries should be used.

Initially the Berlin Process was focused on transport and energy networks, reflecting the WB6 massive infrastructure deficit. EBRD estimates annual infrastructure investment needs of the region at 8-10% of GDP over the next 5 years¹.

As a direct reply to this need, two main connectivity initiatives started almost at the same time in the Western Balkans: the EU Connectivity Agenda / Berlin Process and the China Belt & Road Initiatives / 16+1 Cooperation Initiative². By the end of 2018 each initiative stood at circa EUR 8 billion of investments in infrastructure financed through loans.

The explanation of this increased interest in connectivity, relates to its expected impact on economic prosperity. Trade, investment and labour migration directly profit from better connectivity and higher mobility. They drive economic growth in one region and in between regions.

The plan (or the wish of policy-makers) is that in longer term, better connectivity can start off a virtuous circle, where all the components above interact and amplify each other. In this scheme the contribution of each connectivity channel to growth is likely to be affected by the strength of other channels³.

But this inter-connected and multilayered nature is relevant not only for economic variables and growth determinants, but also in for the larger society and political realm. Connecting citizen and institutions matters for the dissemination and adoption of knowledge, norms, standards and values, and ultimately contributes to the sustainability of investments.

On the other side, if we extend the timeline of analysis, we have the following connectivity dynamics according to expected impact:

- on the facilitation of trade: it is short term and activities fall mostly within the project cycle timescale. Actions mostly consists in improving logistics along freight routes and at Cross Border points, as well as enhancing through legal measures the functioning of the markets;
- on economic growth is in the mid-to-long term of more than five years and correspond to policy cycles and strategies. Actions involve the implementation of large infrastructure projects; designing, activating and enabling respective sector policies and legislation, improving country dotation in human resources, and identifying and following relevant GVC. Their aim is to capture the maximum of the added value from trade, finding the right spot in the GVC and becoming an FDI magnet.

Extending the timeline and enlarging the scope allows us to focus on impact and efficiency beyond the end of the construction phase of infrastructure projects. It also makes possible to look into the larger context around big infrastructure works including the institutions in charge.

1 Statement of Mario Holzner, Deputy Director of WiiW, Tirana Connectivity Forum, 8-9 Nov. 2018.

2 "The Berlin Process 2014-2018", A. Hackaj and K. Hackaj, Cooperation and Development Institute, Tirana 2018.

3 "Critical Connections. Promoting Economic Growth and Resilience in Europe and Central Asia", David Michael Gould (2018), World Bank Group

1.1. Connectivity is a multi-layered phenomenon

Connectivity is predominantly and instinctively understood as a two-dimensional phenomenon. It's easier illustration is in transport and energy networks, because these sectors provide the spatial context that allows us to visualize networks that connect two destinations (or nodes), in order to increase mobility and/or lower the transport costs in between.

The interaction amongst different ways of transport is the natural first step in explanation of the interwoven and multi-layered nature of connectivity. Each transport vector – road, rail, maritime or airborne – can be visualized as a thread that connects two different nodes (or hubs) in a map. In a context of scarce resources – from financial to land to expertise – the prioritization of one transport vector will affect the development of the rest of them. Concretely, in the investment phase diverting the budgetary resources towards road infrastructure will deplete the available funding for rail.

Box 1. Adriatic – Ionian Corridor: Road vs. Rail

The assessment of interaction between alternative connecting transport “threads” is a missing element we have observed in the Adriatic Ionian Corridor (AIC) Feasibility Study⁴. The AIC Traffic Analysis Report covers the land transport all along the eastern side of the Adriatic, without ever mentioning the existence of the maritime transport, of eventual short-shipping routes or cabotage, and how these transport alternatives can eventually interact with road and rail in this part of the Balkans.

This direct causality relationship becomes even more complex when 3rd variables, with no apparent connection to connectivity enter the scene. One of them is land expropriation.

1.1.a) Rail or road?

As regularly mentioned in the EC Progress Reports for Albania, unclear land ownership is one of the main limiting factors to FDI inflow. Trans Adriatic Pipeline (TAP) has dealt with this issue in a very satisfying way⁵. But their implementation experience shows that even with a perfect planning, huge budget (USD 1,50 billion only in Albania), a large presence of company staff on the ground and a pipeline track that went through low-value mountainous and rural areas, still it was very difficult to deal with problems of land ownership around the gas pipeline track.

Land ownership and its expropriation can and will impact the Adriatic Ionian Corridor (AIC), in Albania. In the case of AIC, the parameter of “expropriation” – i.e. cost and unclear ownership – will be many times more relevant than in TAP because AIC highway goes through highly populated areas in coastal Albania.

⁴ Feasibility Study for the Adriatic-Ionian Road Corridor (Route 1 and Route 2) Montenegro and Albania, WB14-REG-TRA-01, Traffic Analysis Report. Aug. 2018, WBIF, EIB (IPF 5)

⁵ All the references to TAP has been plucked from the upcoming publication: “Large Regional Strategic Projects: TAP, or the case of being pragmatic” (non confirmed title), prepared by CDI and supported by SECO (to be published in 2nd half of 2019)

But the land expropriation variable is much less relevant if the road highway becomes railway. The rail track is still physically there connecting North and South (down to Vlora). Moreover the distance on both sides along the rail tracks needed for the works, is much more limited than for a highway. As such rail affects much less parcels and “disturbs” a significantly lower number of inhabitants, than the road option.

The complex problems that Albania faces on land expropriation and the advantage that rail offers as compared to road, support the prioritization of rail versus road when planning for the Adriatic Ionian Corridor. Other factors such as central position of Durrës Port for international trade, or structure of trade make the rail even more attractive⁶.

1.1.b) Country economy defines transport connectivity priorities

The second connectivity layer goes beyond transport and involves other economic sectors of the country such as incoming FDI or trade. The working hypothesis is that spatial connectivity impacts the amount and the category of incoming FDI. *“Multinational companies (MNC) that primarily seek access to natural resources care more about preferential access to and land they wish to explore”*.

Country economic structure and its composition of external trade are key parameters in developing the architecture of transport networks and respective investments. In Albania given the place of minerals in its foreign trade structure, maritime transport, investment in Durrës Port and internal roads network linking the port to hinterland mining centers should be a priority.

The multi-thread approach also applied to within different economic and social policy orientations. For example, the heavy prioritization of public investment in connectivity infrastructure in transport and energy, impacts other sectors such as social infrastructure, education or health.

Finally, the multilayered nature of connectivity serves to better understand how phenomena in sectors without apparent connection, impact each other. For example, the increasing trend of WB6 emigration responds to internal social fracture and ever increasing inequality. A higher people-to-people mobility (from WB6 to EU) or a mass migration of middle class responds to the disconnection of Balkan citizen from mechanisms of national policy-making.

Infrastructure networks are the visible and intuitive part of connectivity phenomenon. Spatial connectivity is only one of its dimensions. The fully-fledged connectivity phenomenon can be better understood and acted upon only when combined with economic and social variables as well as growth determinants and placed in a cultural and political context.

6 Grant application form for Technical Assistance for (i) Detailed Design; (ii) ESIA and, (iii) Tender documents for the Durrës - Rrogozhinë segment, WBIF, Dec. 2018

7 “Foreign Direct Investment in New Member States of the EU and Western Balkans: Taking Stock and Assessing Prospects”, pp. 13, by La-Bhus Fah Jirasavetakul and Jesmin Rahman, IMF Working paper WP/18/187

1.2. Criticality of destination nod

The multilayered approach brings in the notion of “criticality of destination nod”, as well as its impact on the overall design of transport and energy network. This has direct consequences on the process of prioritization of connectivity infrastructure investments.

The economic value of one connection is measured by adding to the cost of the works, the cost of transport, the transport time and the importance of destination nod on the overall transport network. In this angle, the place of the destination nod in the overall network is very important. Its importance is connected to the number of country neighbors, their economic strength as calculated by their place and weight in the global value chain.

1.2.a) Infrastructure prioritization and logic of design

To illustrate the importance of the destination nod, we will use again the AIC. Even if the Gross Value Added indicator is included in the AIC Feasibility Study⁸, the fact that 75% of the foreign trade in Albania goes through Durrës port, is not mentioned in the document. Neither does the fact that Italy is Albania’s main trading partner, the main destination of Albanian emigration and the largest Albania-inbound FDI stock-holder.

On the other side, the bilateral trade value of Albania with Montenegro is very low⁹.

- Albania exported to Montenegro: 1,83% of total Exports
- Albania imported form Montenegro: 0,35% of total Imports

And the same picture is from Montenegro¹⁰ :

- Montenegro exported to Albania: 3,00% of total Exports
- Montenegro imported from Albania: 1,66% of total Imports

A wider picture of the overall trade for both countries provides a better idea of the respective priority destinations / hubs to connect to. Trade exchanges for 2018 show that for Albania is Italy while for Montenegro is Serbia. As a result Durrës Port becomes a priority destination nod for Albania, while Bar - Boljare highway becomes a priority strategic investment for the Montenegrin economy.

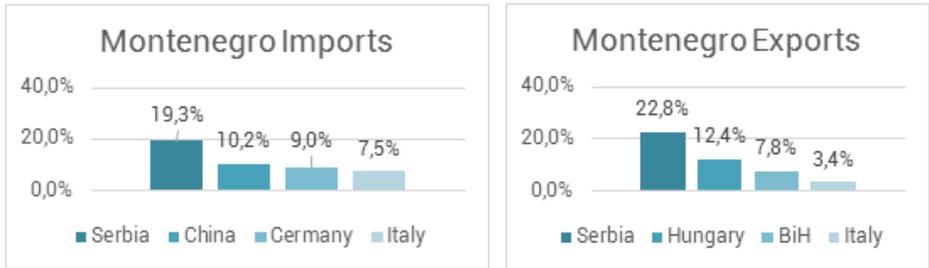
Basically, in the case of AIC in Albania the western-bound connectivity analysis (or the impact of) and interaction with Corridor VIII that connects Durrës Port with Bari Port – both Core ports – is missing.

⁸ Feasibility Study for the Adriatic-Ionian Road Corridor (Route 1 and Route 2) Montenegro and Albania, WB14-REG-TRA-01, Traffic Analysys Report. Aug. 2018, WBIF, EIB (IPF 5)

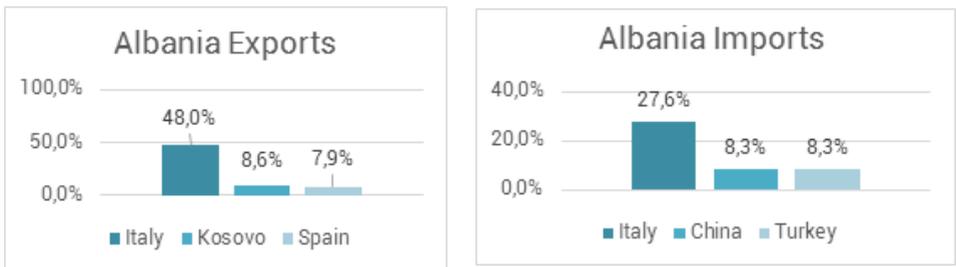
⁹ INSTAT – Albanian Institute of Statistics, Jan.-Dec. 2018 and authors calculations

¹⁰ MONSTAT – Montenegrin Institute of Statistics, Jan.-Nov. 2018 and authors calculations

Graph 1. Montenegro Trade Exchanges January - November 2018



Graph 2. Albania Trade Exchanges January - December 2018



The next argument is the connection of Albanian economy with the EU market through TEN-T network. The closest way for Albania and for Montenegro – and the cheapest transport – wise to access the EU markets – is to use maritime connections from both Balkan countries by linking them to the TEN-T Core Port of Bari.

The maritime distance is many times shorter than road link to Corridor X. The infrastructure investments are incomparably smaller as focused only on the core ports of Durrës and Bar.

Moreover the structure of trade exchanges and composition of Albanian foreign trade favors prioritization of the maritime transport.

Map 1. The Adriatic - Ionian Corridor. Logic of Design¹¹



Map 2. Graphic illustration of maritime connections of Albania and Montenegro to TEN-T Scandinavian - East Mediterranean Corridor¹²



¹¹ Feasibility Study for the Adriatic-Ionian Road Corridor (Route 1 and Route 2) Montenegro and Albania, WB14-REG-TRA-01, Traffic Analysis Report. Aug. 2018, WBIF, EIB (IPF 5).

¹² Map produced in the framework of activities "South Adriatic Connectivity Governance – SAGOV", a project implemented by CDI, Ministry of Infrastructure and Energy of Albania, Ministry of Transport and Maritime Affairs in Montenegro, Regione Puglia and European Movement Montenegro, under the Interreg IPA CBC Italy-Albania-Montenegro Programme.

The next problem is the logic of the design. From the projection of AIC Traffic Demand, we notice that the two small Balkan countries have a different demand evolution pattern. For Montenegro the projections show the need for a larger corridor along the coast. For Albania the projected demand shows an increased triangle-shaped traffic connecting Tirana, Durrës and Rrogozhina nodes, and a much lower traffic along the Albanian coast. Basically instead of a North-South simple transit corridor linking the Dalmatian coast to Greece, specific country patterns support a coastal motorway in Montenegro and a triangle-shaped one in Albania.

The logic of "extending TEN-T" is the predominant logic in the conception and design of the AIC. It explains the "North-South Corridor" logic, but it gives the same solution to different local problems. In Montenegro it aims to solve is the low capacity of current roads (as they were initially designed for lower traffic numbers) and to avoid of urban areas. Consequently in Montenegro AIC can be a "corridor".

Map 3. Traffic scenario without investment 2035¹³



In Albania, AIC should be designed not only to link the North with the South, but in function of tributary roads coming from hinterland and ending in Durrës, Tirana, Vlora or Shkodra. In Albania the country problem is the necessity to improve the connectivity of backward hinterland areas with the urban areas¹⁴. It remains to be seen in the completed Feasibility Study, if those different needs are taken into account.

¹³ Ibid.

¹⁴ Given the very high migration rate, road congestion would not be a major problem in Albania in the future.

1.2.b) Return on Investment vs. sustainability

The place and weight of the destination node in the global value chain and the overall transport network, is strategic for the costing of operation phase of the transport infrastructure. The goal is to avoid situations where the income from traffic does not justify the investment cost. A perfect example of such a situation is the Durrës – Kukës highway in Albania where the traffic numbers are quite low. Also the Belgrade – Budapest high-speed highway seems to not be very profitable either¹⁵.

ROI can be effectively calculated only if a detailed financial analysis of the infrastructure operations phase is included and becomes an integral and obligatory part of the assessment of the financing needs of the whole infrastructure project. Planning and executing only the infrastructure works, without taking into account the maintenance cost and income generated by operations phase hides or transfers to the operations phase the costs generated by works or by bad planning.

In this context, the efficiency of operations phase of a Large Investment Project (LIP) is directly impacted by the initial approach adopted to finance it: both piecemeal or complete project cycle and front-end approach.

Box 2. Masking weak institutional governance with the magic of PPP

The low available fiscal ceiling in WB6 has called for “innovative” LIP financing such as Public Private Partnerships (PPP). This has opened a public debate on PPP impact on national public debt.

The hidden PPP debt is a concern for Albania, mentioned by IMF, as well as by specialized media¹⁶. Currently the Albanian government counts as public debts only the yearly obligation, not the total amount for the overall duration of the PPP. The opposition counts it and claims the real debt has gone up to 83% of GDP, instead of the official 73%. They also contest the utility of selected PPP projects, their high cost¹⁷ as compared with other TEN-T infrastructure, and the “principle of zero-cost for the investor¹⁸”. Other concerns such as the high cost of capital of the PPP investor as compared to state borrowing, the very high profit norm of private investor, absence of competition, etc. have been raised by Albanian economists¹⁹.

The other rationale of using PPP is the freedom that the government has over the application of IFI rules during procurement, implementation and handing over. In Albania all the PPP offered in road infrastructure have been won by Albanian companies that have provided the first unsolicited proposal. The opposition has regularly claimed that their costs have been multiple of normal bill of quantities used for similar EU and / or IFI financed projects.

In May 2017 the Minister of Economy and Finance of Albania announced the end of “unsolicited proposals in 2019”. The acknowledged reason was to “improve accountability on financial and legal issues, finance and economy”. The two main problems identified were “reducing the fragmented decision-making and strengthening risk assessment processes”. The feasibility studies will be conducted only by government institutions. But while this remedies the fragmented decision-making, it does not solve the institutional challenges regarding LIP project management from design to monitoring of operations.

Risks of technical failure, or risks that may cause disruption and environmental problems may appear during the operations or maintenance phase. It will be the operation phase that will make visible the defaults or the foresight of the design, planning and implementation phase through the color of the bottom line. If not properly covered and / or identified during the “commissioning”, their cost will fall upon the WB6 governments and ultimately on the Balkan citizen.

Put in a regional context, ROI directly impacts the prioritization of a cross-border LIP. As each country follows its own national logic to define the strategic importance of the project (hence its position in the national financing line), often we find roads that were finished on one side of the border but still ongoing (or not even started) on the other side. This directly impacts the cost of transport in the country that has finished its part²⁰.

In conclusion, the Cost-Benefit analysis of activities including the operations phase²¹ becomes an important component of the project planning (identification, pre-feasibility studies, preliminary design, ESIA, and of main technical design) and of pre-construction and constrictions.

1.2.c) The right place in the right value chain

The efficiency of an investment in connectivity depends on the place of the to-be-connected nod in the global value chain and / or in the network.

The existence of Regional and Global Value Chains along connectivity corridors, and the cooperation among countries where those corridors go through, bring up the issue of the profitability during the LIP operations phase. The more solidly one nod is grafted in, or contributes to the value chain, the bigger the exchanges among nodes are, and the higher the return on investment of the respective infrastructure networks. Basically the largest the exchanges, the bigger the number people and freight tonnage, the higher the income generated by the infrastructure investment, and so is the ROI.

Modifications of GVC directly impact the efficiency of the connectivity corridors. For example, the global phenomenon of re-shoring and the explosion of services contribution in the GDP, are shortening the GVC. In the last ten years, the value of goods part of GVC that go through borders have gone down from 28,1% to 22,5% of the relative production. All over the world, production activities are coming back home and being established in regions around metropolises as they are closer to the demand.

16 See “The budget which foresees the catastrophe” (Nov. 2018), by O. Liperi and B. Hoxha, retrieved at: <http://www.monitor.al/buxheti-qe-projekton-katastrofen-financiare/>

17 See “Stratosphere Expenditures and New Financial Pyramids, Edi Rama Flower Street” (Nov. 2018), retrieved at: <https://www.syri.net/politike/210278/shpenzimet-stratosferike-dhe-piramidat-e-reja-financiare-rruget-e-florinj-ta-te-edi-rames-hellip/>

18 See “The PPP bomb in the future may lead to tax increases” (Nov. 2018), by P. Soko, retrieved at: <http://www.monitor.al/bomba-e-ppp-ve-ne-te-ardhmen-mund-te-sjelle-rritje-taksash/>

19 See “Why are we paying so much for the concessions?” (Nov. 2018), by K. Tomorri, retrieved at: <https://www.syri.net/op-ed/209856/pse-po-i-paguajme-kaq-shtrenjte-koncesionet/>

20 The rail connection, part of Corridor VIII Durrës (Albania) - Kërçova (North Macedonia) is an illustration.

21 Western Balkans Trade and Transport Facilitation Project, The World Bank, Project Concept, (Oct. 2017)

If to global free trade one adds the free services acquired through internet and incorporated in physical goods, (such as research, marketing, or logistics) around half of world trade is now composed by services, as compared to hard stuff. In that logic, more than road infrastructure what is needed is investment in smart specialization and focus on services with high added value. This requires putting the money in micro-connectivity and on creation, and support to growth of critical mass of knowledge²².

The identification of new connectivity corridors in function of GVC, makes absolutely necessary the assessment and analysis of potential GVC future scenarios. Industrial policy experts should complement the transport and energy teams involved in identifying, implementing, financing and running CA projects. In concrete terms, transport Single Project Pipelines should not be the exclusive competency of Ministries of Transport.

For LIPs that count in the hundreds of millions of EUR and that have a significant and long term impact in the state budget and in the economic development of the country, an analysis through the lens of supply chains and comparative advantages and growth prospects of certain industries should be used.

1.3. Connectivity Agenda and Institution building

As of end of 2018, with regard to the progress in Albania of Connectivity Agenda six work contracts had been signed, out of which four had broken ground. This has shifted the focus from project preparation and selection, to the capacity of institutions in charge to cooperate, implement and prepare to operate those infrastructure endeavors.

1.3.a) Connectivity Agenda exposes weak institutional governance

The limitations of local administrations during the implementation phase can be explained by the degree of complexity of LIPs, the low mass of narrow-focused specialists in public administration²³, as well as by the politisation of administration and the regular turnover of civil servants as identified by the many EC Progress Reports. In Albania, an aggravating factor has been the dissolution of research institutions and the attachment of research activities to Universities implemented during the Education Reform of year 2007²⁴, without the later having undergone a complete reform process.

Those developments, combined with the ever-lasting institution-building phase, have showed the institutional limits especially during LIP implementation. We have seen cases when national administrations rely on external consultants to monitor the services supplied by other external consultants.

Faced with the institutional challenge, very often the external assistance shifts from “capacity building” towards “technical assistance” to be spent on short-term, tactical and technical problems related to specific projects. Organisation development is addressed by “run-

²² “La globalizzazione cambia pelle: addio delocalizzazioni e bassi salare”, by M. Ricci at La Repubblica, retrieved at: https://www.repubblica.it/economia/2019/01/26/news/globalizzazione_salari_bassi-217501067/?ref=fbpr

²³ It is not realistic to expect from states that have from 600,000 to 2 million inhabitants to possess the same amount of specialised expertise – qualitative and quantitative – as from a country with the triple or more inhabitants. This problem will be ever more pressing in the future exacerbated by the phenomenon of emigration and brain-drain.

²⁴ Education Reform as per Law No. 9741.

of-the-mill" measures such as trainings, seminars and power-point presentations. Their impact is verified through project narrative and financial reports completed with activity photos, without dealing with or addressing the systemic root causes. In those cases, the incapacity of local institutions to absorb and deliver is "hidden" by the external consultants through the takeover of own institutional tasks and outcomes²⁵. To a certain extent, the public administration has been converted in a "holder of signature and official stamps".

Box 3. Dealing with weak institutional capacity

The "institutional stakeholder" issue appears in the composition of WBIF Key Requirement Checklist, which is Annex 1 of Grant Application Form for Technical Assistance. The "endorsement and consultant of relevant stakeholders" is only a box that is ticked (or not) as applicable.

This methodological tool does not take into account or gives any detailed information on their profile, technical and administrative capacity, the quality of their governance, inter-institutional coordination with other stakeholders, their eventual "capture" and their political power in the system, the difference in political strength between central government and local government, etc.

Neither the political and corruption risk does figure as relevant. Or this is the main limiting factor of such long-period, big budget endeavours. Those limiting features have been present regularly in the EC Progress Reports, extend through different governments, and are also relevant for negotiation process²⁶.

To take into account the capacity of beneficiary to properly implement and sustain the benefits of the project, we suggest to add an analysis of the institutional framework, not only a description.

Currently while the WBIF has improved its reviews of LIP grant application, its assessment still remain largely based on the information presented in the grant application form presented by the beneficiary institution. There is no in-depth evaluation of the applicant institutions / grant recipient when those are government entities. In general, EU Commission-supported blending facilities pay little attention to "concessionality, debt sustainability, or economic viability"²⁷ (the Commission has not established criteria for the economic viability).

In this context, it is very important to single out the EnC as the only regional connectivity-supporting organization that provides a detailed description of national authorities and of their challenges in its reports²⁸. In its September 2018 report, EnC analyses the progress, the operational problems, the institution limitations, and other institutional governance issues facing the national energy authorities for each WB6 country.

²⁵ A typical example is the case where an EU-contracted consultant (CONNECTA) very professionally points out 18 missing elements in a Grant Application Form (GAF) submitted by a WB6 institution for TA acquisition. But instead of pointing out the inability of the national administration to properly prepare the GAF in question, the consultant recommends to overcome this situation by re-drawing it. In that case, while the symptoms (non-professional GAF) are dealt with, the systemic problem (i.e. inability of national administration), is not.

²⁶ See template of Annex 1. Key requirement checklist, Grant Application Form for Technical Assistance, WBIF

²⁷ Special Report No. 16. The effectiveness of blending regional investment facility grants with financial institution loans to support EU external policies, European Court of Auditors, 2014

²⁸ Annual Implementation Report, Energy Community Secretariat, 1 Sept. 2018

1.3.b) Regional Project Implementation Unit organized by sector

To overcome the weak governance challenge and the low critical mass of narrow-focused specialists available, as well as to support institutional connectivity, we propose the creation of regional Project Implementation Units organized by sector. They'd be manned not by external consultants, but by delegated WB6 civil servants from all six WB countries. They can be set up at regional level. In their everyday work they will serve as sector PIUs with the necessary technical expertise to identify, design, plan and monitor the implementation of LIPs.

This task should be organized in close cooperation with existing regional organizations such as EnC or SEETO²⁹. WBIF and CONNECTA, can support it through a capacity building component that is targeted, relevant, sustainable and regional.

The same logic can also be envisaged also for the local government level. In a similar road infrastructure project going through the Municipality of Tirana³⁰, we noticed that Project Grant Application Form prepared by national authorities and submitted to WBIF, had taken quite extensively into account the LGU context and relevant documents such as Regional Development plans and Urban Planning Strategy. This is very important and relevant but one can argue it is because it impacts Tirana Municipality, which has the political standing, expertise and manpower to follow it up.

Smaller and less powerful municipalities cannot. For example, regarding AIC the Municipality of Shkodra - AIC entry point in Albania from Montenegro - has not received any official information as of February 2019 from central government on the road track traversing their municipality. Herewith a PIU / Agency that represent all LGU in regard with LIPs and protect their interest is necessary to be established at national level.

1.4. Geo-politics, climate change and other societal trends impacting connectivity

The world today is interconnected in many levels, politically, economically and culturally. But protectionist tendencies are on the rise. International alliances created after the 2nd world war are shifting, political norms are being modified, technological progress and climate change is impacting international trade patterns, globalization is connecting economies but creating fractures at home, inequality is increasing resulting in isolated and disconnected elites.

Those developments are eroding the trust in liberal democracies and social systems, resulting in protectionism and nationalist policies. They are also increasing the weight of geopolitics and unilateralism in defining international and trade patterns as well as connectivity networks. Some sectors are more affected than others: energy networks respond better to security concerns and building up resilience. Trans Adriatic Pipeline and IAP are clear examples of how geopolitics

²⁹ Both SEETO and EnC are focussed on normative component of regional cooperation. The LIP component is covered by WBIF, which is a consortium of private sector consultants

³⁰ Construction of the Tirana By-pass (Kashar-Vaqarr-Mullet): Detailed Design, Full ESIA and Tender Documents, Project Grant Application Form, WBIF Round 16

defines the connectivity networks. The degree of influence over the connected “nods” and on respective fluxes raises the issue of “controller of connectivity”: whoever controls the nod(s) and the connecting networks, can influence the respective flux and mobility of factors. The more critical a nod is, the bigger the power of the nod controller.

While Western Balkan countries have been working on improving connectivity infrastructure to reduce travel time between countries, new barriers have been set up at the borders by political problems and lesser regional cooperation. The 100% tax imposed on Serbian goods by Kosovo authorities nullifies any investment made in better roads connecting both Balkan countries.

The refusal of Serbian state-owned company EPS to recognize Kosovo sovereignty on its electricity network, zeroes the EnC advances as well as increases the cost of un-used electricity transmission infrastructure. And – true to the multi thread multilayered approach – 3rd countries are directly impacted as well (i.e. Albania or the EU clock system).

Balkan geo-politics has been crucial in prioritizing connectivity projects, identifying the trace, and acquiring the financing. An example is the Belgrade - Sarajevo highway. After 16 different versions of the route appeared and no agreement was reached, the final track was decided in Turkey following a meeting between Serbian President Aleksandar Vucic, Bosniak Member of the Presidency of Bosnia and Herzegovina Bakir Izetbegovic and Turkish President Erdogan³¹.

Last but not least, the prioritization of corridors where infrastructure investments have the highest impact on growth, underestimates the criticality and risk that those big markets and metropolis face vis-a-vis climate change / natural hazards / de-population etc. In the Western Balkans they are close to the shore, along of or blocking the rivers.

Moreover, economic development projections and sub-sequent network development scenarios are still based on the existence of a well-educated, cheap and available workforce. With the climate change, mass migration, declining fertility rates, and other relevant economic and labour market factors impacting the Balkans, many of those “location-related advantages” should not be taken for granted when planning long term infrastructure investments.

In this context the resilience becomes paramount in defining new connectivity infrastructure. Berlin process-induced connectedness also impacts the resilience of each Balkan country. How much WB6 will respond to the evolution of GVC, to the current protectionist wave, to climate change, or to internal EU dynamics, will depend on depth and width of WB6 multi-layered connectivity with European Union.

31 In October 2017, Turkish transport minister Ahmet Arslan and Serbian deputy prime minister Zorana Mihajlovic have signed a letter of intent to involve Turkey in building a 60km stretch of motorway between Serbia and Bosnia Herzegovina as an extension of the epic “Corridor 11” programme of works. For more info on role of Erdogan in selecting the track, see: <https://www.aa.com.tr/en/europe/sarajevo-belgrade-highway-to-bring-prosperity-envoy/1064350>, retrieved on 06 Dec. 2018

CHAPTER II

TRANSPORT IN CONNECTIVITY AGENDA: PROJECT GOVERNANCE

Selected highlights of the Chapter

- The efficiency component (or the calculation of the Return on Investment) of the infrastructure project has been replaced by the sustainability clause. But sustainability of an investment is different from its financial profitability.
- Another major problem affecting the efficiency of transport infrastructure, is the country's administrative capacity to identify, design, implement and operate such projects.
- In reality it is the sub-contracted external consultants that - due to ineptitude of national and local administration and their internal institutional blockages - mirror almost every step of project cycle and end up by taking center stage in the management of the infrastructure project.
- Until now, infrastructure support to the Balkans countries has been dealt with separately from countries' institutional reform.
- Even if the IFI loans have zero risk of default (being backed by sovereign guaranties they do not depend on successful operations phase) it is highly recommendable that WBIF includes in its screening process of project maturity, the capacity of Beneficiary to implement such large projects.
- Higher transparency and increased obligations that result from reinforced institutional cooperation between EU and WB6 during the implementation of joint projects, can become part of new and innovative strategic mechanisms that support the sustainable reforming and modernization of WB6 institutions.

Regarding the Connectivity Agenda in transport up to May 2018, eight grants for a total of EUR 288,70 Million have been approved by WBIF and construction has already started on four of them³². This allows our analysis to shift focus from project identification and financing³³, to the implementation and especially, the governance challenges.

The specificity of transport (as compared with energy) is that transport projects even if part of regional networks, can be functional even if not connected to the regional network (albeit with much reduced efficiency). Because of that characteristic we will use transport connectivity infrastructure to focus on the project governance. Its main characteristics is top-down, project-led and short term.

³² Monitoring Report, May 2018, WBIF

³³ For a comprehensive view of challenges in the first cycle of Berlin Process, see "Berlin Process 2014-2018", A. Hackaj & K. Hackaj.

II.1. Limits of current model of infrastructure project financing

The most important actor during the identification, design, financing, selection and implementation of Connectivity Agenda LIP is WBIF: a finance-blending mechanism composed by five international development banks and from the EU Commission³⁴.

Its DNA being "infrastructure project financing", until now WBIF has not covered the operations phase (or the post-construction). The way of splitting the financing creates problems in calculating the Return on Investment rate (ROI) of the whole investment in public works.

As a consequence this financing model transfers to the operations and maintenance phase, the cost overruns, technical problems and all other issues identified and incurred during construction phase. *"Now the debate impacting transport in Albania is how to maintain and service the transport network, not what or how to build"*³⁵.

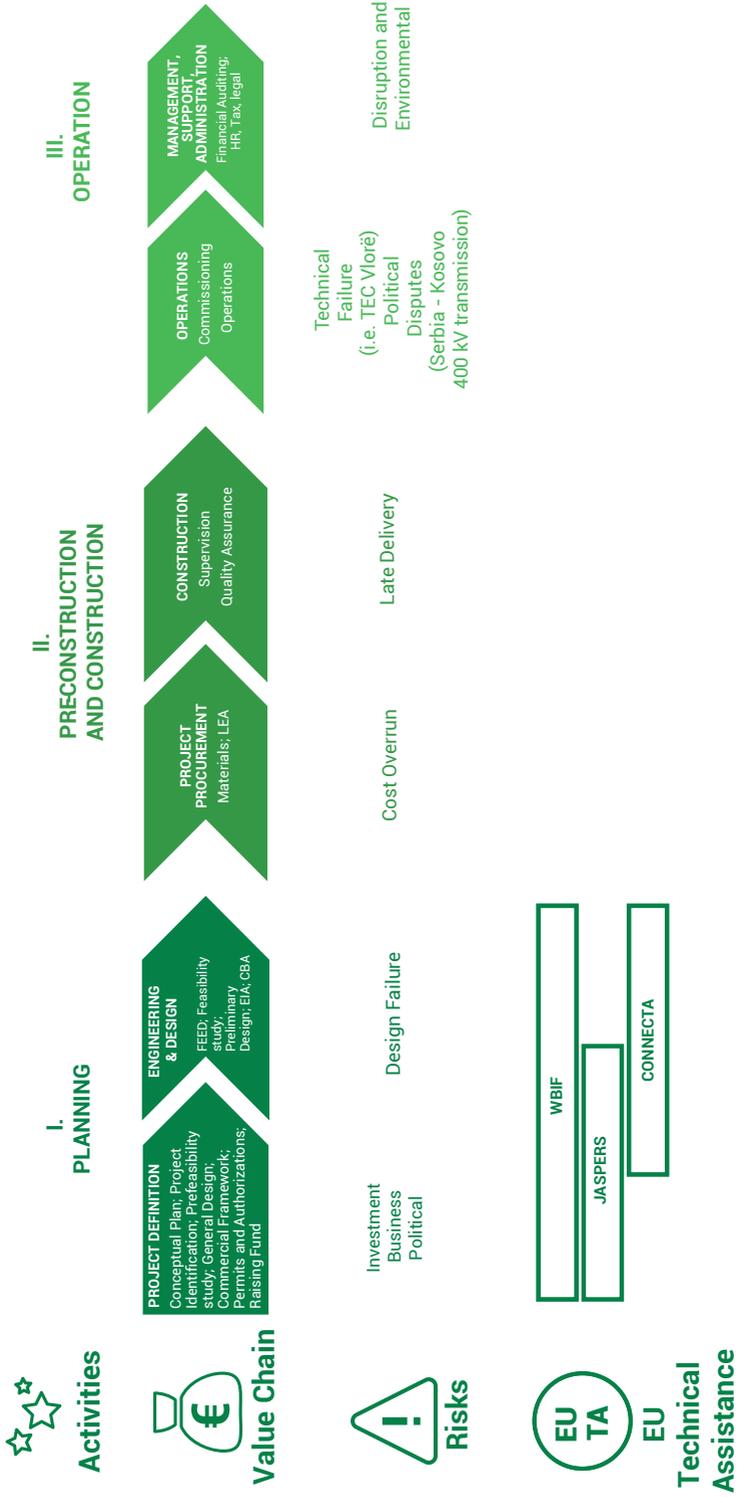
However, this problem has not affected the viability of international financial vehicles as their loan and credit lines offered up to the construction phase as they are backed automatically by sovereign guarantees. The efficiency component (or the calculation of the ROI) of the infrastructure project financing has been often masked by the sustainability clause. But sustainability of an investment is different from its efficiency and/or financial profitability.

Another important issue is the composition of project financing. Currently, grants are a small part of investments as compared with loans. This financing structure reflects the inability of Western Balkans countries to profit from EU structural funds. In a global context of rate increase, the high percentage of loans can have damaging effects in the public finances of the Western Balkan countries.

³⁴ For an exhaustive and comprehensive explanation of WBIF and its functioning, please consult "A Guide to the Western Balkans Investment Framework", WBIF 2018

³⁵ Statement of MP Eduard SHALSI, Chairman of Parliamentary Committee on Production Activities, Trade and Environment, at Tirana Connectivity Forum, 8-9 Nov. 2018

Figure 1. Distribution of Risk in cross-border Connectivity Agenda project



II.2. Inefficient institutional mechanisms

Until now, infrastructure support to the Balkans countries has been dealt with separately from countries' institutional reform. EU approach regarding the development of Western Balkans infrastructure has been financial and technical, but its dependency from and impact on national institutions has not been strategically assessed.

The Transport LIP stakeholders are the WB6 governments as represented by their different national administrative bodies or related ones (the most important are NIPAC, NIC, Line Ministries, Public Companies, LGU, Program Management Units, Private Sector), foreign donors, and the five banks (IFI).

To this tableau it must be added two large, almost systemic technical assistance programs: JASPERS (quality review for project documentation and development of strategies), and CONNECTA (preparation of infrastructure projects and implementation of connectivity reforms measures)³⁶.

This rich and complex institutional structure has not foreseen any mechanism of direct involvement of CSOs or LGUs in the LIP project cycle. In theory both stakeholder groups - CSO and LGU - are requested by law to be consulted during the: (i) preparation of the NSPP and other different national consultation mechanisms regarding the identification and prioritization of infrastructure projects; and, (ii) phase of pre-feasibility and feasibility study through the Environmental and Social Impact Assessment (ESIA).

The most used and ubiquitous activities used to involve the citizen, are the public hearings. However in reality many of those events have been accused by NGO as "shams". The consultation processes are ridden with inaccuracies, works have been approved to break ground in NATURA 2000 sites, and highway tracks have been changed to accommodate the business needs of oligarchs even if demolition of homes have been caused.

As a result, in reality LIPs in Western Balkans are identified, designed, financed, implemented and operated mainly within the institutional triangle of: (i) Government (Ministry of Finance and Ministry of Transport), (ii) EU Commission (on IPA grant support, WBI technical assistance and extension of TEN-T); and of, (iii) IFI (for loan modalities). The citizen and LGUs are very poorly represented.

This triangular mechanism cannot take properly into account the LIP impact on the communities it goes through and on LIP sustainability of operations once the works are completed. Large cross-border projects may connect countries and / or metropolis but there has been lesser attention to micro-connectivity, i.e. investments in infrastructure that facilitate the life of citizen in his community/neighborhood/city. The risk is building "tunnels that link two major markets" instead of "roads that connect people".

36 For JASPERS see: https://ec.europa.eu/regional_policy/en/funding/special-support-instruments/jaspers/; and for CONNECTA see: <https://www.wbif.eu/content/stream//Sites/website/library/WBIF-24th-PFG-Connecta.pdf>

II.3. Weak public investment management

Another major problem affecting transport LIPs, is the country's administrative capacity to manage - identify, design, implement and operate - such projects. "Public investment management frameworks in the region exhibit significant weaknesses, the strength of public investment management in the Western Balkans is circa 70% of their CEE peers"³⁷.

In the case of Albania, national institutions have been missing the human resource and institutional capacity to plan, implement and run transport policies, on top of building roads. "A lot of roads in Albania were build not on the base of analytical studies but based on political decisions. The low institutional capacity is the main hindering factor in transport connectivity of the country. With the hindsight one can also mention that lack of available data needed for future planning. Our institutions have not been able to drive this process"³⁸.

As a region, WB6's current challenges are to build capable institutions at the same time (and same importance) as building infrastructure; and, invest in local expertise. Acknowledging this, IMF brings the concept of "investing in investing" aiming at bolstering the capacity of Balkan countries to plan, select, and carry out infrastructure projects³⁹.

Also DG NEAR acknowledges the need for candidate countries to "... make further adjustments... and in particular (to) strengthen its administrative and implementation capacities"⁴⁰ on transport connectivity. This issue is an objective of the ongoing screening process, and in the case of Transport sector, concerns the alignment of the acquis in the field of transport policy as per negotiation chapters 14 and 21.

In a larger context, for countries that have not opened the EU accession negotiations⁴¹, Commission's view on implementation is that "*the national implementation system should be aligned on EU values (i.e. procurement, ESIA, etc.)*"⁴². So, in theory, the Contracting Authority - when it is not the EU - is responsible to identify, design, contract and implement the works. Lead IFI / WBIF / CONNECTA do the monitoring and provide TA wherever the national administration needs it.

But in reality it is the sub-contracted external consultants that - due to ineptitude of national and local administration and their institutional blockages - mirror almost every step of project cycle and end up by taking center stage in the management of the infrastructure project. The Beneficiary administration holds strongly to the procurement and contracting components of project cycle. The government also bears the totality of risk in all the phases of the project: planning, construction⁴³ and operation.

37 Public Infrastructure in the Western Balkans, Opportunities and Challenges, R. Atoyan & alii, IMF European Department, 2018

38 Statement of MP Eduard SHALSI, Chairman of Parliamentary Committee on Production Activities, Trade and Environment, at Tirana Connectivity Forum, 8-9 Nov. 2018

39 Public Infrastructure in the Western Balkans, Opportunities and Challenges, R. Atoyan & alii, IMF European Department, 2018

40 "Support to the Transport Sector in Montenegro", Country Action Plan for Montenegro, IPA 2017

41 By end of 2018, only Montenegro and Serbia have officially opened the negotiations. and Albania has started the pre-screening

42 Statement by Mr. Stephen STORK – Head of Operations, Rule of Law and Good Governance, EU Delegation to Albania, at Tirana Connectivity Forum, 8 - 9 November 2018

43 In the construction phase (procurement and construction) the risk should be transferred from government to the subcontractors. However, there have been recent cases where the government has not been able to exercise its prerogatives due to alleged corruption or ineptitude.

The low capacity and state capture phenomenon are real plagues affecting WB6 institutions and hampering LIP implementation. Even if the IFI loans have zero risk of default (being backed by sovereign guaranties they do not depend on successful operations phase) it is highly recommendable that WBIF includes in its screening process of project maturity, an assessment of the capacity of Beneficiary to implement the project. This must include an assessment of capacity of local staff, the institutional capacity to run LIPs, as well as its internal functioning and checks and control procedures.

Heavy and difficult as it may appear, this practice is commonly used by EU when awarding much smaller grants earmarked for local NGO (IFIs do the same for local privately-owned businesses). For grants as big as EUR 50,000, local NGO have to provide an extensive exposé backed by large documentary evidence on their project history, on their ability to run the operations, demonstrate the expertise of staff allocated to it and their ability to ensure continuation of the action during and after the project is over (under the "sustainability" clause).

In conclusion, the expertise and professionalism of governmental Implementing Agent / Contracting Authority should be an integral and separate part of each WBIF Grant Application Form and Loan Approval procedure.

Higher transparency and increased obligations that result from reinforced institutional cooperation between EU and WB6 during the implementation of joint projects, can become part of new and innovative strategic mechanisms that support the sustainable reforming and modernization of WB6 institutions.

CHAPTER III

ENERGY AND REGIONAL COOPERATION: NETWORK GOVERNANCE

Selected highlights of the Chapter

- In the Energy sector, the governance challenges are mostly at the level of regional cooperation.
- Connectivity in energy is highly dependent by cross-border cooperation and by geopolitics.
- Even if the WB6 have the same legal DNA as EU in the regulation of energy sector, there is a huge gap between transposition and implementation: only 43% of rules and regulations agreed at Energy Community were implemented as of November 2018.
- The logic of “working together” instead of “providing assistance” helps build trust and contributes to the sustainability of the energy project outcomes. The strengthening of partner capacity becomes a corollary outcome of the joint endeavor. Another very important outcome is networking, transmission of values and establishment of trust between different actors.
- Politics impacts energy connectivity. Berlin Process - being a politically-driven process - should focus during its second cycle on using its high political leverage to speed up the implementation of transposed laws, and support regional cooperation, and to exercise pressure to national politics and state-owned companies to respect regional agreements.

By the intra-governmental nature of the sector and the legal and regulatory profile of outcomes, the actors involved in regional cooperation in energy are mostly state-like and / or state-owned, with their majority coming from central government. Hence connectivity in energy is highly dependent by cross-border cooperation and by geopolitics. As such it can be qualified by features such as horizontal, pair-led, and with a medium-term action timeline.

WB6 energy generation and distribution is characterized by an outdated generation infrastructure, overwhelming dominance of coal (in Kosovo, Bosnia and Herzegovina and Serbia) and hydropower (in Albania), low energy efficiency, low energy prices and fragmented markets with limited cross-border trade operations⁴⁴.

Power interconnections – both within the region, and between the region and neighboring countries – are relatively in good state and have received new investment. Up to May 2018, four grants for a total of € 58.80 million had been approved by WBIF. But some of those connections are underutilized, due to a mixture of regulatory barriers, bilateral disputes and energy security concerns⁴⁵.

⁴⁴ Energy Sector - Summary, WBIF 2018

⁴⁵ How can the Western Balkans electricity mix be made sustainable?, by Jakov Milatovic and Damin Chung, EBRD Jan. 2019

In the Energy sector, the governance challenges are mostly at the level of regional cooperation. Because it is impossible to store energy and because the energy profile of WB6 make the self-sufficiency impossible, connectivity, regional coordination and an integrated regional market become paramount. This inter-dependency adds complexity in the regional policy-making in energy generation and distribution, as well as during energy LIP project cycle.

Moreover, the large concentration of coal-power plants in the region presents an additional challenge in the energy transition of the region. Out of 10 most polluting coal power plants in Europe, seven are in the Western Balkans.

Finally the contribution of the Balkans in the energy security of South Europe adds a very strong geopolitical component in the governance of energy sector in the Balkans, and expands the number of strategic actors to account with.

III.1. Transposition vs. implementation and the enforcement challenge

Even if the WB6 have the same legal DNA as EU in the regulation of energy sector, there is a huge gap between transposition and implementation: only 43% of rules and regulations were implemented as of November 2018⁴⁶. This is a strong indication of poor institutional governance of national actors as well as of their weak political will.

The 2018 EnC Report clearly states that the main challenges are linked with implementation phase. It duly identifies: (i) the gap between transposition of EU rules and their implementation in practice, as *"partially linked to systemic failures such as weakness of enforcement, corruption, lack of rule of law, political governance"*⁴⁷; and the (ii) powerlessness of EnC dispute settlement procedures in controversial cases.

The enforcement procedure applied at EnC is hybrid: half legal and half political. In this situation, there is need to consider creative ways of resolving disputes by using a combination of mediation and dispute resolution mechanisms.

EnC has also explored the involvement in dispute-resolution cases of strong and committed external partners from the EU. For example the German government is acting as intermediary in the dispute between Kosovo and Serbia on the non-functioning 400Kv line between both countries. The help from Albania has been very much appreciated as well⁴⁸.

46 Statement of Dr. Dirk BUSCHLE – Deputy Director of the Energy Community Secretariat in Vienna, Austria, at Tirana Connectivity Forum, 8-9 November 2018

47 "Knocking on the EU's Door through the Energy Community: Integration of Western Balkans into the Pan-European Energy Market", EnC 6 February 2018

48 Statement of Mr. Valdrin LLUKA – Minister for Economic Development, Kosovo at Tirana Connectivity Forum, 8-9 November 2018

Box 4. Working with EU Member States to implement the reforms

The Berlin Process was never meant to be a substitute for the EU Enlargement Process, but it brought this region back to the attention of EU Member States, confirmed its EU membership perspective and thus, helped accelerate the EU integration of this region.

This region already is part of Europe. It is therefore in our German, our European interest to make this region part of the EU on the basis of shared values and standards. The challenge is, however, to convince also the skeptics that it is in the EU' geopolitical and security interest to firmly anchor this region inside the EU! For that, fair but strict conditions for further EU integration, agreed upon by the EU member states, will have to be met.

Towards this aim, Albania, has since taken forward a justice reform and a so-called vetting process which has the potential to become a model also for other countries in the region. In other priority areas, however, as fighting organized crime and corruption, more tangible results will yet have to be achieved. A functioning rule of law as well as a strong justice system is also key for foreign investors who are interested to tap Albania's great economic potential.

Germany, the EU and EU member states are ready to support Albania in meeting these meet these challenges.

Extract from the speech of Dr. Susanne Schütz, Ambassador of Germany to Albania at Tirana Connectivity Forum, November 2018

III.2. The “working together” approach

Several bi-lateral initiatives linking EU Member States and WB countries are trying to address those problems. This is all the more necessary because of the intensity and technical complexity of cross-border energy connections, as well on the account of historical cooperation and geopolitical considerations.

Bilateral cooperation complements the regional dimension by focusing on selected areas as per well-defined interest of concerned countries. The logic of “working together” instead of “providing assistance” helps build trust and contributes to the sustainability of the project outcomes. Normally those bilateral agreements contain concrete and precise technical, legal and capacity-building components, and demand the involvement of specialized agencies and relevant system actors (market operators, transmission system operators, national regulatory authorities, etc.).

In that context the strengthening of partner capacity becomes a corollary outcome of the joint endeavor. Another very important outcome is networking, transmission of values and establishment of trust between different actors.

Box 5. Cross-Adriatic bilateral cooperation

An illustrative example is the cross-border cooperation with Italy. Italy is linked to the WB6s energy system through two underwater LIPs: a 400Kv electricity line from MNE, and through Trans Adriatic Pipeline from Albania. Even if both projects are privately financed and are not part of the Connectivity Agenda, they contribute to the enhancement of electricity connectivity in WBR, and of WBR with EU. By working together in joint projects, this endeavor creates the premises for the energy institutions on both sides of Adriatic to adopt common standards in technical issues, but also in legal field and institutional governance as well.

By 2019 the electricity systems of Italy and Montenegro will be connected through a DC submarine cable. In order to promote the efficient transmission rights on such a cable, ARERA together with the Italian Market Operator (GME) and the Italian TSO (Terna) has implemented a project which focuses on transferring to the National Regulatory Authorities of Albania (ERE), Montenegro (REGAGEN) and Serbia (AERS) the know-how on market coupling initiatives among EU members. Since the Italian electricity market is already linked with many EU markets, ARERA has been able to develop a deep knowledge of market coupling process.

Basically by working together to solve technical issues, the governance challenges such as network cooperation, institutional capacity and knowhow, etc become a corollary outcome.

III.3. Geopolitical context and 3rd actors

Energy - especially oil and gas - is not a commodity like the others due to its heavy geopolitical component. Non-market factors such as geopolitics, security and political stability affect and determine the energy cooperation amongst the Balkan countries, and of EU with the Balkans.

EU is a net importer of energy, and many energy connections go through the Balkans. As its biggest consumer of energy, Germany is a key actor in energy sector. As such its interest in the region is stability and secure supply of fossil fuels to South East Europe. In this context, Germany has been involved through KfW in the financing of construction of different electricity high voltage connections amongst WB6, as well as intermediating in regional cooperation disputes in the energy sector.

Box 6. Energy resources and geopolitics in EU and Western Balkans

Energy resources are considered as determinants of power. As per International Energy Agency, "in the mid-2020s, the US will become the world's largest exporter of LNG" The US wants and will use its role as a future energy export nation. This fits with the US President Donald Trump "America First" policy.

US allies are supposed to receive assistance from US LNG imports as compared with states, which could use "energy as a means of coercion", as Russia potentially could do. But in European market, Russian pipeline gas is cheaper than LNG from the US. Furthermore, there is not yet an inter-European pipeline capacity to transport LNG from the coasts to demand-centers throughout Europe.

Since the conflict with Russia due its annexation of Crimea, EU wants to reduce its strong dependence on Russian gas. Especially vocal are the countries of Eastern Europe, in particular Poland and Lithuania. Germany favors the bilateral gas pipeline project with Russia, i.e. North Stream 1 and 2, which bypass Ukraine. Being a strategic customer of cash-strapped Russia gas, gives to Europeans more bargaining power in energy prices.

In the Western Balkans energy geopolitics, is impacted by the Trans Adriatic Pipeline (TAP) designed to deliver Azerbaijani natural gas to Europe through the Balkan region, and the north-south Ionian-Adriatic Pipeline (IAP).

This energy involvement brings with it alternative gasification-options for Montenegro, Bosnia, Croatia and the rest of the Balkan region, helping them to avoid becoming locked into a Russian monopoly. Moscow in turn, is seeking to boost its gas sales by constructing a more direct transit route to the Balkans via Turkey and Bulgaria—the offshore/onshore TurkStream Pipeline, which will entirely bypass the current route through Ukraine. Particularly if completed early, TurkStream threatens to provide alternative gas supply options to Southeastern Europe, including the Southern Gas Corridor as well as future potential for liquefied natural gas (LNG) shipments to the region.

Excerpts from the speech of Dr. Wulf Lapins, Director FES Office in Tirana, at Tirana Connectivity Forum, 8 – 9 November 2018

Energy connectivity in the Balkan region is heavily impacted by decisions and developments in Europe and beyond. Competition between Russia and other suppliers (Azerbaijan, USA, etc.) in the field of natural gas deliveries to the region is expected to continue well into mid - long-term. The role of Ukraine as an important transit country, will diminished due to the construction of pipelines Nord Stream 2 and Turk Stream, but will still be relevant for the supply to South East Europe. The distribution of gas resources is being complemented by important investments in infrastructure (Southern Gas Corridor, Turk Stream 2, LNG terminal on Krk Island)⁴⁹. TAP puts Albania in a strategic place inside the EU natural gas network.

In conclusion, politics impacts energy connectivity. Berlin Process - being a politically-driven process - should focus during its second cycle on using its high political leverage to; (i) speed up the implementation of transposed laws, and support regional cooperation; and to (ii) exercise pressure to national politics and state-owned companies to respect regional agreements.

CHAPTER IV

**P2P CONNECTIVITY:
NEW COMMUNITIES,
NEW POLITY**

Selected highlights of the Chapter

- The higher cross-border mobility is being accompanied with a disconnection of citizen from policy-making dynamics at home, and by an increasing social fracture at national level.
- Reduced travel time does not figure amongst the top concerns of Balkan citizen.
- Citizen mobility has been amongst the silent “winner” of increased connectivity and lowering of barriers, but outbound migration is proving to be the biggest problem of Balkan societies.
- Higher people mobility is directly damaging the exercise of liberal democracy in already fragile Balkan countries by shifting the democratic pressure from the ballot box to the airport/ports desks.
- In the long term, connectivity networks with EU convey standards, rules, values and models of governance for our institutions. Regional corridors became polity areas per sé where those norms, values and governance models are transferred and applied.
- The Berlin Process has contributed for the P2P to go mainstream.

Our approach in enlarging the scope and extending the timeline allows the full introduction of people connectivity. People living, moving and / or settling down along transport networks and destination nodes, adds two additional lines of interaction and impact, beyond higher people mobility.

First, it affects the modalities of participation of citizen in the full project cycle of infrastructure projects (this issue was dealt with in the Transport chapter). The second component is the participation of citizen in monitoring the work of said-institutions and actively engaging in policy-making. So we shift from people mobility as a consequence of connectivity to citizen as a “definer” of connectivity. This approach is bottom up, citizen-led, long term.

The Berlin Process has contributed for the P2P to go mainstream: Vienna Summit established the role of civil society in Connectivity Agenda; Paris Summit launched RYCO, Trieste Summit launched the P2P; Poznan Summit will re-center on European values and on citizen-to-citizen connectivity (or c2c).

Box 7. The Poznan Summit

During its presidency of the Western Balkans Summit 2019, Poland will focus on most of the EU Enlargement Flagship Initiatives. Activities will focus on connectivity, economy, civil society (think tanks, NGO, youth, culture) and security.

One of the most innovative aspects of the Polish Presidency of the Berlin Process will also be sharing the Polish experience of economic and social development, with focus on the transformational power of the EU accession process.

Extract from the intervention of Amb. Wiesław TARKA, Coordinator for the Berlin Process Summit in Poznan 2019, Ministry of Foreign Affairs, Poland at TCF 18

IV.1. Side effects of higher spatial mobility

The traditional P2P discourse brings forward the importance of connectivity to the spatial mobility of citizen. In the Western Balkans it involves cross-border mobility. Its benefits vary from better schooling, better employment, better health care, etc., to the elimination of bilateral disputes. *“The RCC plans to revise its SEE strategy during 2019 so as to focus on areas in need of attention, such as enhancing measures to improve skilled labour force, removing obstacles to doing business and ensuring effective implementation of the connectivity agenda”⁵⁰.*

The higher cross-border mobility is being accompanied with a disconnection of citizen from policy-making dynamics at home, and an increasing social fracture. Youngsters in the geographical periphery of economic centers or those without access to the “social ascenseur/lift” are voting with their feet⁵¹. As a direct consequence of lowering of the mobility barriers, today young people from the Balkans (as well as WB6 professionals, and middle class in general) are emigrating.

The impact of increased spatial connectivity to the disconnection of citizen from institutional life and policy-making, are the un-foreseen side effects of higher mobility. We have willingly talked about the positive ones - such as reconciliation in the frame of the conflicts of the past and on those that support mobility of labour - but are less vocal about the unintended and undesirable effects of globalization, such as social fracture and mass-migration.

The negative effects of higher international citizen mobility on WB6 democracy must be taken into account during the planning and implementation of socio-economic policies in each WB6 country. More than consumers / users of connectivity infrastructure, WB6 citizen are its ultimate stakeholders. They are the actors that (should) impact through their democratic choice to whom to connect, through what kind of infrastructure and with what cost.

Focus on spatial connectivity and higher mobility may result in better roads, lower transport costs and easier access to markets, but under-investment in people and in social causes creates deep internal divisions in the political and democratic life of the countries. Main concerns for Balkan citizen are unemployment, economic perspective and corruption: reduced travel time does not figure amongst their top concerns⁵².

As a result the impact of infrastructure connectivity in WB6, should be complemented with a comprehensive analysis and relevant recommendations on people connectivity within their national and regional polity.

50 Statement by Majlinda BREGU – General Secretary-elect of Regional Cooperation Council, at Tirana Connectivity Forum 8 - 9 November 2018

51 “Disconnected: youth in disadvantaged areas”, by A. Hackaj & N. Zeneli, Friedrich Ebert St. ed., Tirana 2016, retrieved at: <https://library.fes.de/pdf-files/bueros/albanien/13806.pdf>, extracted on 14 January 2019

52 Public Opinion Survey - Balkan Barometer 2017, by RCC, ISSN 2303-2594, Year 3, Number 3

IV.2. Citizen Connectivity and new polities

The increased P2P mobility combined with an ever more harmonized legislative framework with the EU (thanks to the adoption of the *acquis*), has created new dynamics governing the relations of WB6 citizen with their life plans. Study, employment, health care, new technologies or the search for a better life today are not limited within the national borders.

The increased mobility, where the most important is the free movement in the Schengen area⁵³ and the facilitation of employment procedures for WB6 national in certain EU countries⁵⁴, have created a pull-effect which has been translated by a consistent and important migration wave.

According to the EUROSTAT statistics on the number of long-term residence permits by foreign nationals we see that the trend is clear: people are leaving the region (in 2008 some 300 thousand citizens of WB6 had long-term residence in EU28, in 2012 there were some 770 thousand and in 2017 around 1.4 million).

This phenomenon has modified the WBR national scene. As the massive migration wave has particularly affected the youth and the middle class, it has radically modified the social structure of the population. The relative proportion of very poor and of very rich in the dwindling country total population has been increasing and with it so has the inequality.

Combined with an ever-increasing inequality, paradoxically higher people mobility is directly damaging the exercise of liberal democracy in already fragile Balkan countries by shifting the democratic pressure from the ballot box to the street protests or airport/ports desks. Hence higher international connectivity has been translated into an internal social fracture.

Box 8. Western Balkans Youth Cooperation Platform (WBYP)

WBYP is a bottom up initiative partnership amongst six national youth congresses. It connects youth umbrella organizations in each Balkan country amongst them, as well as with policy-making mechanisms at national and regional level.

In 2018, WBYP asked youngsters all over Balkans to state three reasons why they would stay in their country. The answers pointed to the urgent need to ensure a qualitative education, gainful employment and significant participation in the policy-making processes.

Youth connectivity also involves being able to move upwards following one's life aspirations, at home or abroad.

As a result of this increased mobility, new dynamics have been created between WB6 citizen, the communities in which they are part of, and the polities in which they exercise their citizen rights. Education path becomes more and more international. We notice an overlapping and multilayering of citizen activities where the applicable laws, expected benefits, own contribution and even the common goods go beyond borders.

⁵³ Except Kosovo citizen

⁵⁴ Mostly from Germany

Citizen mobility has been amongst the silent “winner” of increased connectivity and lowering of barriers, but outbound migration is proving to be the biggest problem of Balkan societies. It is time to properly understand its cost and contribution for the country of origin and in countries of destination. Its larger impact on the “polity” and politics in WB6 and in the EU is becoming will define the Enlargement policy towards the Balkans.

Box 9. No plan B for the Balkan citizen

Since its launching in 2014 the Berlin Process initiative, has evolved, respecting and adapting to the reality. In the 2017 the Trieste Summit, brought in or formalised people-to-people connectivity so extending the spatial connectivity to include the Western Balkan citizen.

P2P is the basic brick of connectivity: connecting the region makes sense not only in infrastructure or economy, but also involves the social dimension by mobilising and bringing together our citizen.

Divisions still exist, and, in some cases, they cause bitterness, spite or even reluctance. But there is a growing consciousness and commitment in the region that joint work and focus on impact is the only way forward to resolve outstanding bilateral and internal issues.

Balkan citizen have chosen Europe. In that sense European integration of the Western Balkans is a transformational agenda, carried on by generations.

To that end, the RCC works hard, with the region and for the region, to positively impact citizens' lives. The New Regional Roaming Agreement which abolishes the WB6 roaming costs is in the pipeline; negotiations on mutual recognition of professional qualifications in the WB6 for Doctors in Medicine, Dentists, Architects and Civil Engineers are well on the way.

Irrespective of different opinions, no one can afford to stay on its corner, isolated, disconnected from each other and from European Union. Only by working together we can be and do our best. There is no plan B for the Balkans.

Extract from the intervention of Mr. Majlinda Bregu, Secretary General of Regional Cooperation Council at Tirana Connectivity Forum, 8 – 9 November 2018

People were leaving before and they will continue to leave. It is those who stay that condition the quality of local democratic institutions. Paradoxically, notwithstanding the media headlines, Western Balkans is exporting its educated middle class in the EU.

IV.3. Connectivity corridors as value conveyers

With the breakdown of trade unions or big companies where the workers used to gather, in WB6 the LIP are the only productive activity that employ or impacts directly a large number of people. Based on author's research on TAP, there were 3,000 employees involved, 12,000 households that went through the legal system to clarify their land ownership, or 46 community projects⁵⁵. As such their functioning (or non-functioning) is a very good indicator of the functioning of local institutions⁵⁶.

By their size, duration, impact and complexity, LIPs create the conditions for groups of citizen to gather around economic activities. The interaction with LIP management for many of them (especially in the rural areas) is the first power-related interaction outside politics.

The increased visibility of connectivity projects, has allowed Balkan citizen to understand how those investments impact him or her. Topics such as: (i) residual local benefits after the construction phase is over; (ii) priority given to infrastructure vs. social, education or public health; (iii) priority of connecting to TEN-T as compared to micro-connectivity, etc., have entered our public discussion.

In the previous section, we introduced the role that heightened connectivity has on the creating new polities and modifying existing ones. To the analysis of spatial and market connectivity we added people to people, social and politic variables. In this optic, in the long term, connectivity networks with EU convey standards, rules, values and models of governance for our institutions. Regional corridors became polity areas per sé where those norms, values and governance models are transferred and applied.

⁵⁵ Data extracted from "The list of Social and Environmental Investment projects per Municipality, financed by EUR 14 MiO amount", document produced by TAP in the framework of the research "Large Infrastructure Projects: Trans Adriatic Pipeline, or the case of being pragmatic", to be published by CDI in July 2019

⁵⁶ Other developments / dynamics that brings in direct the implementation of contact democratic rules with citizen are environmental projects and education / youth ones. Those cases join in one the threat to livelihood of a group of citizen and the gathering in one place of many people.

CHAPTER V

INSTITUTIONAL CONNECTIVITY: EUROPEAN VALUES, TRUST, INCLUSIVENESS

Selected highlights of the Chapter

- Connectivity serves as a litmus test to measure the impact on the ground and outcomes of EU Enlargement, and at the same time serves as a vector of change and of reforms for the local institutions.
- Measuring of IPA impact has not been on the donor radar. While we have been transposing EU laws and design the new institutions, we have not made sure that they continue to perform once the institutional building (and the respective EU technical assistance in capacity building) ends. Learning from past EU Enlargement waves, EU member states are wary of unpleasant surprises that may appear once WB6 countries become fully-fledged EU members.
- "Positive differentiation" offers deepening of integration amongst certain member states in areas defined as strategic, against a turbulent and menacing global context.
- The most radical change that positive differentiation would bring is the non-negotiable demand for increased loyalty required from member states for deeper Integration, and from candidate countries for quicker Enlargement dynamics.
- Trust and loyalty showed by the candidate countries are becoming the building blocks of Enlargement. The solidity and democratic functioning of local institutions becomes an absolute requirement.
- The EU conditionality becomes much more demanding and goes into the core values of the whole democratic system and of WB6 institutional framework. The implementation of connectivity projects or of engagements taken in the regional fora, make possible the scrutiny and verification of promises taken by politicians, and verifies the implementation of legal commitments.
- By involving the administration of candidate countries through institutional participation mechanisms, EU would apply peer pressure and provide incentives for furthering the reform of WB6 institutions.

As illustrated in the previous chapters, Western Balkans' inept and / or inefficient institutions impede the enforcement of the transposed acquis, make difficult the whole project cycle management in connectivity infrastructure, or simply do not deliver the expected and paid for services to the Balkan citizen. It can be argued that today, they are the main structural cause that slows down or block the reforms.

EU support has been focusing on the Copenhagen Criteria and especially on rule of law and institution building. Almost half of IPA allocation for each of the WB6 countries is spent in infrastructure works. But the measuring of IPA impact has not been on the donor radar.

The EU control has been focused primarily on the aid delivery process itself as witnessed by the high number of audits, and not on the delivery and the measuring the outcomes, or of assessing the tangible impact results of EU financial assistance. No public IPA impact assessment study exists as of December 2018.

As a consequence of this top-down approach, the biggest beneficiaries of EU money have been the national institutions, and significantly less the citizen and businesses. The 2018 Enlargement Strategy qualified WB6 as “captured states”. The civic engagement in the region remains low.

V.1. WB6 institutional quandary: captured states as members of EU Club?

By admission of the latest progress reports, Enlargement has “stopped” at institution building, assuming that they’ll function properly and efficiently afterwards. No control mechanisms have been established for the implementation phase. Consequently Western Balkans “states are captured⁵⁷” and their institutions are inefficient. Control and monitoring as applied by IPA assistance methodology, has not been able to identify, make public and address the degree of state capture⁵⁸.

Current Enlargement has adopted a top-down approach. EU Enlargement has been focusing on technocratic “low hanging fruits” such as translation and transposition of the *acquis* and on institutional architecture design. Citizens have not been able to engage sufficiently in the transformative processes.

While we have been transposing EU laws and designed institutions, we have not made sure that they continue to perform once the institutional building ends. But the challenge is to be aware that adopting a law is not the same as implementing it; building new institutions is irrelevant if the governing elites are corrupt or highly politicized; agreeing to cooperate in the region is meaningless if those agreements are not implemented; that providing external technical expertise to solve a precise problem is different from long term institutional capacity building; that we cannot build state institutions by a high staff turnover after each elections or change in the government.

In the current Enlargement approach, it is those very institutions that are responsible for Accession efforts and must deliver the expected results. The failure of the WB6 institutions to identify, prosecute and condemn the frauds or miss-management is one of the main sources of the failure of the institutions. At the top, the success of accession efforts is the responsibility of the political leaders in the region⁵⁹.

This brings the need for institutional monitoring and scrutiny, immediately followed by the question of how and by whom? Have we developed competent local know-how? Should we continue to use external technical assistance contracted by and accountable to the very institutions they should monitor? Is the “box-ticking method” efficient and sustainable to measure the institutional progress or assess its capacity?

57 “State capture implies a state of widespread corruption and exploitation of public resources for private gains, while neutralizing control mechanisms, whether by legal or illegal means”, definition given by Jelena Pejic, at “All Western Balkan countries need “Priebe Reports” to measure state capture”, retrieved at <https://europeanwesternbalkans.com/2019/02/08/priebe-report-state-capture-western-balkans/>

58 Ibid.

59 Statement of Alexandru ENE – Director of Western Balkans and Regional Cooperation, Ministry of Foreign Affairs, Romania, at Tirana Connectivity Forum, 8 - 9 November 2018

The current EU approach (process-oriented, based on project-cycle, with a heavy administrative component, and problem-solving) must be complemented by a very strong local component that is outcome-oriented, based on values, and that promotes the best cases instead of pretending solving regions with multiple problems. In this approach, an untapped resource are the European centenary institutions, and their expertise.

Box 10. Justice Reform in Albania

The Justice reform is a unique endeavor of Albania. Until November 2018 the “vetting process” – as it is known – has resulted in: 32 re-confirmations; 26 discarded; and 15 resignations. After the “institution building” phase, now we are focusing on radically improving “institution functioning”. This has improved the form of collaboration with EU and Member States where the “technical assistance in capacity building” is gradually being replaced by systemic institutional cooperation and political scrutiny, in the form of International Monitoring Operation.

The reform of the institutions needs to be strongly realigned with the overall reform of public administration. Albania has received a strong – technical, financial and especially political – support from some MS: Germany, Austria, Netherland as well as US, and of course the EU Commission⁶⁰.

Extract from the intervention of Etilda Gjonaj, Minister of Justice of Albania at Tirana Connectivity Forum, 8 – 9 November 2018

The shifting of attention from “transposition of acquis” and / or “institution building” to “implementation” and “impact assessment” brings to focus the importance of WB6 institutional governance. It requires a review of current Enlargement approach and of design of IPA.

The EU enlargement mechanisms need to be adapted to new target beneficiaries and endorse new impact methodologies. In the short term, we may need to upgrade the IPA financial disbursement parameters, by adding the variable of “European values” and of “organizational ability” of WB6 institutions. These are difficult to define, require innovative benchmarks, and are complex because they extend in a long timeline and are not measured by project lifetime. They request to focus on the impact and to actively involve the citizen in the process.

Connectivity serves as a litmus test to measure the impact on the ground and outcomes of Enlargement, and at the same time serves as a vector of change and of reforms for the local institutions. By focusing on impact and having a much higher visibility, connectivity dynamics brings local reality in the enlargement cognitive bubble.

As the Balkan institutional system is “locked” institutionally from inside, at least in the short term, the change can come only from the grassroots initiatives, and citizen pressure. To amplify their power they must be supported from outside democratic institutions. The best actor of change from outside is the EU.

60 Statement of Etilda GJONAJ – Minister of Justice of Albania in Tirana Connectivity Forum, 8 - 9 November 2018

V.2. EU crisis, positive differentiation and Enlargement

We are entering a difficult phase in the EU's re-engagement with the WB region, with increasingly skeptical voices on the future of the EU's enlargement agenda. These are likely to increase during the forthcoming European Parliament elections and could affect the hoped-for outcomes for the June 2019 European Council, particularly as regards the official opening of Enlargement negotiations with North Macedonia and Albania.

Learning from past Enlargement waves, EU member states are wary of unpleasant surprises that may appear once WB6 countries become fully-fledged EU members. Enlargement stakeholders need to take into account and swiftly adapt to this context.

Three developments illustrate the context in which EU integration and consequently, Enlargement is impacted:

- an increasingly volatile EU neighborhood, including the changing behavior of regional and global players and traditional partners, is having its impact, especially on Europe's stability and security;
- Brexit as an unprecedented phenomenon. Been accustomed only to expand in the past, shrinking is a shocking process for the Union. Brexit dynamics raises fundamental questions about the notion of EU membership and of the duties and obligations raised by candidate country participation in the European integration process;
- the rule of law and values crisis in the EU. Some Member States have been backsliding on the fundamentals of membership, showing signs of decreasing loyalty towards the European integration process. The imperative of "shared-values Europe" is coming forward as compared to the predominant normative and market-based EU integration discourse.

In this context the "EU deepening" process is understood both as internal consolidation and further integration⁶¹, a dynamic in which "positive differentiation" could indeed play a significant role. Contrary to "negative differentiation" (i.e. UK was its biggest beneficiary using the opt-out leave options), "positive differentiation" entails deepening of integration amongst certain member states in areas defined as strategic, against a turbulent and menacing global context. The corollary result is a concentric circles Europe.

Regarding its impact in EU Enlargement, positive differentiation could lead to swifter EU accession. This would take the form of possible entry of WB6 countries in the outer circles of the EU. In that hypothesis, Enlargement becomes more palatable to reluctant EU member states. While the downside of this development may be a fuzzy membership, EU deepening through positive differentiation nonetheless entails increased loyalty both from member states and from candidate countries. For the Balkan candidate countries, this may imply increased EU scrutiny during the accession process. EU conditionality becomes thus more demanding and requires from WB6 constitutional systems a solid track-record in compliance with core values.

61 "Deepening for President Macron is more positive differentiation", statement by Prof. Christophe HILLION, at Tirana Connectivity Forum, 8 -9 November 2018

Higher transparency and increased obligations that result from reinforced institutional cooperation between EU and WB6, should become part of strategic mechanisms that support the reforming and modernization of those very institutions. This implies stronger and organic cooperation amongst the EU and member states institutions, with their Balkan counterparts. We call it institutional connectivity.

In the long term, connectivity networks of WB6 institutions with their European peers, convey standards, rules, values and models of governance for our institutions. In the current context innovative ways need to be explored to involve those institutions in working together in joint issues with their WB6 counterparts. Those relations should be horizontal and not hierarchic, defined by common interest, be based on joint values, and trust must be among major cooperation outcomes.

V.3. Europe of shared values: from "carrot-and-stick" to "scrutiny"

EU Enlargement must be redesigned with sufficient competencies and resources to keep candidate countries anchored in their European bedrock, and safe from drifting away politically, economically and socially. As the current problems with new MS are showing, a decision based only on political and normative indicators may overlook the very building blocks of those countries which are the quality of their institutions, the societal values and the integrity of politics. As a result, the new EU approach must have a conditionality that will be:

- *Wider*: more areas of adaptation will include common foreign and security policy, economic policy, fundamental rights, the rule of law;
- *Stricter*: it should secure that the core EU principles are sufficiently engrained in the constitutional and institutional fabric of the candidates, and increased requirements of loyalty from Member State as well as from Candidate Countries.

EU is susceptible to become even more scrupulous as regards compliance with the core principles (Art. 2). "Values are the backbone of EU integration⁶²". Values are climbing back to the higher levels of the EU political agenda. Trust and loyalty showed by the candidate countries are becoming the building blocks of Enlargement. The solidity and democratic functioning of local institutions become an absolute requirement. Public declarations of the elites or high-level policy-makers about their commitment to EU are not sufficient anymore.

The carrot and stick approach cannot be efficient when one tries to share values and build trust. Moreover the carrot and stick as it is applied today misses both coherence and credibility. First, because the WB6 elites have not suffered by the EU "stick" (even if the Justice Reform in Albania has started to produce its first effects). It has been the simple WB6 citizens that have born the consequences of delayed visa liberalization, corruption of their governing elites, or state capture.

62 statement of Alexandru ENE – Director of Western Balkans and Regional Cooperation, Ministry of Foreign Affairs, Romania, at Tirana Connectivity Forum, 8 -9 November 2018

Second, the carrot has been applied in the Accession dynamics to frontrunners while the stick to latecomers. And the more a state lags behind, the bigger the EU stick becomes. In the current Enlargement wave for example, the EU uses the carrot with frontrunners Montenegro and Serbia by promising and/or delaying the membership date initially set in 2025, or by opening / delaying new chapters. The stick is been used in relation to the "latecomers countries" i.e. Kosovo (introduction of additional conditions for the visa liberalization such as border correction with Montenegro), or by adding additional political conditions in the case Albania (i.e. electoral reform), or even essential changes in the state symbols such as the change of name in the case of North Macedonia.

An Enlargement process based on shared values and trust, requires focus on the reforms and on the way they impact the WB6 citizen. This implies a change in the design of EU support and the monitoring of its impact on the ground. The normative angle of transposition of the *acquis* and the reporting by chapter, must be complemented with the scrutiny of the institutions in charge, and by measuring the impact on the citizen.

Scrutiny is paramount for maintaining the pressure and support to the candidate country institutions in charge of Accession. Increased scrutiny ensures efficiency during implementation, and reinforces sustainability by making sure that institutions keep delivering until the EU rules and regulations become part of their institutional DNA.

By design, the accession process impacts every institutional component in the candidate country, their internal procedures as well as inter-institutional cooperation mechanisms. Hence, scrutiny must be pervasive and not only top-down, procedural or institutional. It should be applied from the political level, down to lower institutional layers and also cover the implementation and assessment of the impact. Here, also WB6 civil society plays a crucial role in the monitoring and scrutiny of the performance of institutions and policies.

In concrete terms, the new IPA III should be accompanied with detailed scrutiny of WB6 institutional governance and a tailor-made "intrusive monitoring mechanism of reforms"⁶³. This will ensure that EU money is being spent well and will make certain that it is having the intended impact, that is sustainable and irreversible. The Six Flagship Initiatives - part of 2018 February Enlargement Strategy - should be immediately completed with complete and granular action plans, respective financial resources and a monitoring and impact assessment methodology.

63 "The EU's re-engagement with the Western Balkans: A new chapter long overdue", by Erwan Fuere, CEPS Policy Brief, No. 2019/01, 10 Jan. 2019

V.4. Using connectivity to improve institutional governance: role of IPA

Institution building is one of the main components of IPA. The functioning of Copenhagen Criteria and the subsequent design and delivery of IPA1 and IPA2 have been based on the assumption that once the institutional architecture is right and the capacity building is over, the rest - i.e. their functioning - will flow naturally.

As the procedural component of Enlargement has been designed to be carried by the institutions, this procedure has not properly taken into account the quality of administrations themselves, their organizational culture, or their human capacity to implement. Moreover, the high staff turnover level, negatively impacts the capitalization of know-how and skill upgrade received during the capacity building process.

As showed in chapter two and three, Berlin Process and implementation of connectivity agenda projects, have showed the limits of this approach. These limits were made visible in the course of LIP implementation and while applying governance mechanisms in regional networks. IPA 2 has been focused mostly on institution building and infrastructure works⁶⁴. Efficiency during implementation, quality of service delivery, and impact assessment have not been covered sufficiently.

Box 11. Increasing efficiency of EU spending: contribution of CSO

CSO are holders of critical mass of knowledge on many activity sectors, key reforms and / or Chapters of *acquis*. Moreover, locally-based CSO have a vested interest in the efficiency of impact of the EU financial aid and its sustainability, beyond the bottom line. Their work on the ground is crucial for enriching and complementing the policy making processes.

As such, qualitative civil society opinion should become a constitutive element of the local contribution in the overall process of institutional building projects.

The mid-term evaluation of IPA II published in 2017⁶⁵ by EC concluded that IPA II had an increased focus on performance and results, including through a newly established performance framework. However, the report highlights the need for improvement, resulting in particular from the weak quality of indicators, the lack of a proper monitoring and evaluation frameworks at local level and the insufficient quality of data collection in beneficiaries.

The IPA III (2021-2027) proposal from the EU Commission sheds light on the way the EU executive body envisages its action in WB6. The overall approach of IPA III seems to focus on how to streamline and make efficient the disbursement mirroring specific objectives and performance. The Commission version introduces a shift in the proposed programming framework, moving it from per-country allocation to priority-based allocations under the 'fair share' principle.

64 "The Berlin Process 2014-2018" (Mar. 2018), by A. Hackaj and K. Hackaj, retrieved at: <http://cdinstitute.eu/web/wp-content/uploads/2018/03/The-Berlin-Process-2014-2018.pdf>, pp. 23

65 SWD(2017) 463 final, COMMISSION STAFF WORKING DOCUMENT 'Evaluation of the Instrument for Pre-accession Assistance (IPA II)', Brussels, 15.12.2017

The programming and performance framework, based on the needs and performance criteria and the fair share principle, can be further operationalised and fine-tuned during the course of IPA III preparation, implementation and evaluation.

To our understanding, up to now⁶⁶ there is no detailed mention in the IPA III planning documents of eventual mitigating measures tackling state capture – as evidenced by the EC progress reports - or the ability / ineptitude of WB6 institutions to efficiently implement IPA assistance. The mechanisms that assure that institutions will deliver the impact and services to the benefit of the citizen seem to be taken for granted.

In this regard, the European Council has requested⁶⁷ the Commission 'to annually assess the implementation of the IPA programming framework, describing how the performance approach and fair share and performance approach were effected. This assessment should also include a state of play on the level of funding for each objective as well as for each IPA beneficiary countries'. This annual assessments should enable IPA Committee to have adequate information and provide guidance regarding the modulation of the scope and intensity of assistance.

Regarding the implementation of "carrot and stick" tool, IPA III changes the way the budget is allocated. Programming is based on themes and priorities, rather than by country⁶⁸. At a first glance, it becomes evident that this may favor the experienced front-runners and the countries that have the critical mass of specialized civil servants and institutions to cover all the intricacies of such programs.

More importantly, by introducing "market-logic" competition amongst countries in the acquisition of EU funds, IPA III may adversely impact the regional cooperation component.

IPA III, clearly refers to connectivity, brings the "impact" into focus and "assures coherence with selected EU policies". But much bigger attention must be paid to the assessment and scrutiny of the ability of WB6 institutions to properly implement their engagements and operate efficiently. The way the EU disbursement is conditioned and monitored, directly affects its efficiency, outcomes and impact on the ground.

In this form and amount, IPA can and should also be used to also solve common EU-WB6 problems not only the Balkan beneficiary problems. For example a part of the allocated amount in IPA II was diverted to deal with issues that were not initially planned such as migration as stopping the migratory flux was vital for certain EU Member States. This joint-work was carried on successfully and has been hailed as a very good example of collaboration between EU and WB6 respective administrations.

Only by working together EU and WBs institutions will be able to effectively exchange good practices and embed them in the DNA of WB6 administrations. Long term relations based on common objectives establish mutual trust, create new connections among civil servants and

66 Negotiations for IPA III will probably resume with the new European Parliament.

67 ST 7456 2019 INIT, 'Proposal for a Regulation of the European Parliament and of the Council establishing the Instrument for Pre-accession Assistance (IPA III)', retrieved at: <https://data.consilium.europa.eu/doc/document/ST-7456-2019-INIT/en/pdf>

68 Instrument for Pre-accession Assistance (IPA III), EPRS, V. Lilyanova and M. Svasek, PE 630.298, Nov. 2018

spun webs of human relations beyond contractual targets. Finally, working together on joint issues makes easier to understand the functioning and challenges of WB6 administrations all by increasing their transparency and scrutiny of their work.

The European Court of Auditors has raised the role of IPA as a learning tool contributing to the capacity of WB6 administrations. To *"...raise effectiveness under IPA I and II, the Council underlines that the Commission should continue supporting sustainable regional cooperation, which along with strengthened administrative capacity" and "administrative bodies should be actively encouraged to use the good practice developed in these IPA structures as a learning tool for strengthening other parts of the public administration outside these structures"*⁶⁹.

In the short term, the Berlin process and its focus on connectivity, provides the space and political support for IPA III to efficiently support the WB6 institutions through a relevant diagnosis and scrutiny of their solidity. The implementation of connectivity projects or of engagements taken in the regional fora, make possible the scrutiny and verification of commitments taken by political elites, and verifies the implementation of such commitments.

By using IPA to support full project cycle planning, EU allows for the market-based return on investment to replace soft and subjective "sustainability" criteria. This replacement puts a clear financial bill to the institutional capacity in implementation of IPA. It also gives the closest measure possible to an impact assessment of EU financial assistance to WB6.

V.5. First connecting, then building trust, and finally getting in: utility of inclusiveness

In the long term, institutional cooperation in selected technical measures and policies the connectivity concept applied to institutions can bring together civil servants from Member States and Candidate Countries in one virtual team. In the end, working together builds up trust and shared values.

Today the WB6 have a legal context and an economy virtually integrated with the EU⁷⁰. Their WB6 institutional framework mirrors the EU one. The big fracture however remains at the institutional level as the WB6 institutions are captured, suffer from poor governance as indicated in previous chapters, and very often also from initial design faults⁷¹.

69 Special Report No 21/2016 by the Court of Auditors: "EU pre-accession assistance for strengthening administrative capacity in the Western Balkans: a meta-audit" - Council conclusions, COWEB 31, ELARG 12, FIN 141, Brussels, 22 Feb. 2017 (OR_en)

70 M. Bonomi, and D. Reljic. December 2017. "The EU and the Western Balkans: So Near and Yet So Far." SWP Comments

71 Due to the missing critical mass of expertise in relatively small-population countries, exacerbated by massive migration and brain-drain, and by the cacophony of experts having advised the initial institutional set up phase.

Box 12. Berlin Process as a fully-fledged socio-political project

Sometimes there is a perception that much is expected from the Berlin Process. But it was never thought off to becoming an infrastructure forum. This would be a too simple reduction of the original idea.

We need to get back in 2014, to what the WB6 countries wanted to discuss with their EU partners regarding their accession and reforms. This does not have to be necessarily discussed only at the Prime Ministers level. Sector policies such as education and employment are very important. And so are cooperation in security, migration management of fight against radicalisation.

Sector cooperation should also be reinforced with the EU and EU member countries. This will allow for better results, creation of networks of cooperation, and most important: creation of trust and long-term relationships.

In this angle, connectivity becomes of strategic value not only for infrastructure, trade or the mobility of people, and especially youth, but also for establishing strong connections amongst Western Balkans and EU institutions.

In addition, connectivity projects create the necessary conditions for higher people mobility, resulting in the transmission of our best values, which are our common European values. In this view, Berlin Process is not only infrastructure-related, but it becomes a fully-fledged socio-political project. The active involvement of so many actors - policy-makers, business, civil society, etc. - shows that we are on the right path.

Excerpts from the speech of Dr. Walter Glos, Head of Albanian Office of Konrad Adenauer Foundation, at TCF 18, November 2018

After significant advances in the institutional building phase, the WB6 challenge is to radically improve their functioning. This will determine the pace of their accession to EU. The good news is that with the hindsight now we can identify the errors, and properly design and apply their cleaning up. In this endeavor, the help of European institutions is paramount.

In the context of EU positive differentiation and of the need for radically improved WB6 institutional governance, the inclusiveness of Candidate Country institutions in the European polity becomes the next mechanism of Enlargement approach.

In practical terms, this means that in certain sector policies and debates, candidate countries would be able to participate to EU polity. Ambitious as it may seem, there is the previous example of CEECs participation in Convention on the Future of Europe as observers. Well before being fully-fledged members, CEEC took part in discussions on the future of Europe. Can this format be replicated with SEE candidates? Can we resuscitate (and redefine) the role of the European Conference?

Inclusiveness is crucial in building trust. By involving the administration of candidate countries through institutional participation mechanisms, EU would apply peer pressure and provide incentives to reform and maintain its pace. Immediately sectors of immediate mutual interest such as migration, security, crime, etc. can be used to extend the meetings of EU Council in the same style as European Conferences.

Stronger institutional cooperation with the administration of EU Member States would create additional incentives within the WB6 civil servants to better engage and prepare their institutions in their way to full membership. *Inclusiveness of Candidate Country today conditions a functional Member State tomorrow*⁷². Institutional connectivity and “working together” doctrine between MS and candidates, at all levels is key in this context.

Box 13. Connectivity as an impact-oriented development policy

The “Tirana-Connectivity-Forum 2018” with its current conference-approach “Reforming-Deepening-Enlarging” shows that the so-called “Berlin-Process” in the Western Balkans is vividly alive and will be also in future an annual benchmark for experts, researchers and policy makers focused on furthering WB-6 regional cooperation and WB-6 connectivity agenda.

This event is a long term joint commitment of three German political foundations and of Tirana-based think tank Cooperation and Development Institute. This evidently shows that our partnership is a good example of joint collaboration and of political pluralism.

The TCF18 brings an important contribution into the methodology of studying connectivity and of its inter-relations with Enlargement and engaged reforms in WB6. But transposing the different and also difficult connectivity-targets from theory into reality is not an easy task and cannot be seen on short-term-level. Connectivity is as great as it is costly and needs promotion of good governance and maintenance of people’s dedication, interest and patience on the topic.

Especially the achievement in youth-connectivity in WB6 countries will continue to be a spearhead for maintaining peace and supporting development in that fragile region. Hanns Seidel Foundation is actively engaged on crating the base conditions to facilitate youth connectivity and mobility. It supports an internet-based platform, which allows youngsters and representatives of youth organizations in WB6 countries to enable and create joint networks, to present themselves, to introduce their profiles, to look for partner institutions and to develop common projects.

Such achievement is a good example of sustainable contribution in impact-oriented development policy by shifting attention and resources to grassroots movements.

Excerpts from the speech of Dr. Klaus Fiesinger, Regional Director for South-East-Europe, Hanns-Seidel-Foundation Offices in Tirana, Belgrade, Sofia and Zagreb, at Tirana Connectivity Forum, 8 – 9 November 2018

72 Statement of Prof. Christophe HILLION, Tirana Connectivity Forum, 8 - 9 November 2018

For issues that directly impact the future of Balkans, *“EU needs to include WB6 when planning its own economic and social policies”*⁷³. In this dynamic, all by keeping the decision-making procedure at the hard core of EU functioning, different groups of experts, CSO, government structures, etc. can participate as observers and discussions in EU fora and / or agencies.

Inclusiveness (or institutional connectivity) can permeate not only administrations or relevant policy debates, but also political parties. *“SPD is willing to invite the sister parties from the WB6 as observers in SPD Group Meetings after the European elections. Another form of institutionalized cooperation can take place in the Committee of the Regions.”*⁷⁴

Moreover, in the world of today surrounded by so many uncertainties, connectivity and inclusiveness anchor the WB6 to EU, and increase their resilience. By focusing on implementation and impact, they manage better the expectations and avoiding the built up of anger and frustration in the population of Western Balkans countries.

73 Statement by Sonila QATO – Minister of State for Protection of Entrepreneurship, Albania, Tirana Connectivity Forum, 8 - 9 November 2018

74 Statement by Knut Fleckenstein – MEP at Tirana Connectivity Forum, 8 - 9 November 2018

Conclusions

Better connectivity contributes to higher economic growth and more jobs, increased global competitiveness and trade, and to the mobility of people, goods and services.

Connectivity networks convey knowledge, values, norms, standards and governance systems.

Better EU-WB6 connectivity - in infrastructure, people-to-people and institutional - multiplies the impact of EU transformative power. EU can use reinforced institutional cooperation with WB6 to achieve goals of common strategic interest, improve the scrutiny of WB6 institutional reforms, and ensure the sustainability of their transformation.

The regional development in the Balkans during the last 25 years has been explained, justified, rationalized, implemented, rewarded, constructed in the EU integration framework, and through the inevitable European belonging identification. Notwithstanding the volatility in the EU integration, delays in EU Enlargement process, or debate about shared values and trust, it will be impossible to wipe away the European connection from WB6 countries.

Today, the Berlin Process brings an innovative and much necessary complement to EU Enlargement. Through connectivity pillar it links the businesses and the citizen. Through regional cooperation, institutional connectivity and inclusion, it increases the scrutiny on WB6 institutional governance all by contributing to their performance, transparency and trust-building.

WB6 are geographically surrounded by EU member states. Their economy is a part of EU value chain, a prime destination for the EU FDI, and the biggest hosts of Balkan young emigrants.

Berlin Process has made visible this interconnectedness. It has underlined the importance for the region to be well connected with the EU for higher growth, better resilience and for the well-functioning of its young institutions.

WB6 countries should use Berlin Process dynamics to increase their convergence pace with EU and wipe out the "elements of state capture" by improving the governance of their institutions.

EU can use reinforced institutional cooperation with WB6 to achieve goals of common interest, improve the scrutiny of WB6 institutional reforms, and ensure the sustainability of their transformation.

The need for EU deepening has been accompanied with a "gradual shift of EU membership borders" as illustrated by of "sector integration" and "front-loading". Those developments offer a first glimpse on what can be the next EU integration dynamics.

However, in today's turbulent world at least two questions arise:

- How this EU-centered connectivity can be used to amplify the transmission of European norms, values, standards of governance towards WB6 institutions, as well as contribute to their adoption and exercise?
- How, in an increasingly connected world, the EU Enlargement dynamics can better benefit from a multi-layered connectivity?

For the Balkans countries to fully profit from EU connectivity agenda, they need to go back to fundamentals and harness the common good of our good old shared European values.

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