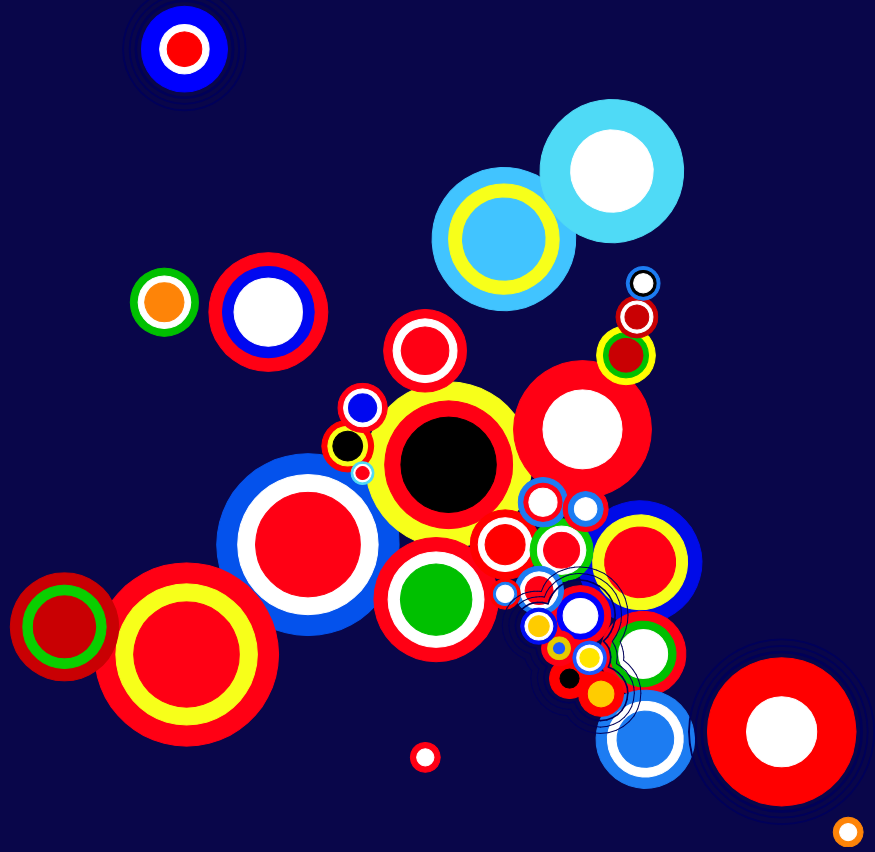




INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II)



MULTI-COUNTRY INDICATIVE STRATEGY PAPER (2014-2020)

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PART I: INTRODUCTION

1. Purpose

This Multi-country Indicative Strategy Paper hereinafter referred to as "Strategy Paper" sets out the priorities for EU horizontal and regional financial assistance for the period 2014-2020 to support Albania, Bosnia and Herzegovina, Kosovo*, the former Yugoslav Republic of Macedonia, Montenegro, Serbia and Turkey. It translates the political priorities set out in the enlargement policy framework including the stabilisation and association process into key areas and sectors where cross-border and multi-country assistance will be most useful to support the enlargement countries prepare to meet the accession criteria. It is designed to be consistent with the national strategies as set out in the Country Strategy Papers and to complement and enhance them by supporting regional and territorial cooperation, facilitating coordination and effective horizontal implementation mechanisms.

The Instrument for Pre-Accession Assistance (IPA) II¹ is the main financial instrument for providing EU support to the beneficiaries in implementing reforms with a view to Union membership. Financial assistance under IPA II pursues the following four specific objectives: (a) support for political reforms, (b) support for economic, social and territorial development, (c) strengthening the ability of the beneficiaries to fulfil the (future) obligations stemming from EU membership by supporting progressive alignment with the Union *acquis*, (d) strengthening regional integration and territorial cooperation. Furthermore, the IPA II Regulation states that financial assistance shall mainly address five policy areas: a) reforms in preparation for Union membership and related institution-and capacity-building, b) socio-economic and regional development, c) employment, social policies, education, promotion of gender equality, and human resources development, d) agriculture and rural development, and e) regional and territorial cooperation.

In order to increase the impact of the EU's financial support, assistance should be concentrated on the areas where reforms or investments are most needed to meet accession criteria and tailored to take into account the capacities of the countries to meet these needs. Assistance under regional programmes should be directed towards areas where similar or joint efforts by several countries are needed, or where investments will produce a positive impact in several countries.

EU assistance is only one of the means to achieve the necessary progress. When deciding on priorities for action, due account needs to be taken of the means of the beneficiaries themselves, as well as of the support provided through other EU instruments and by other stakeholders, in particular the international community, bilateral donors or International Financial Institutions. Preference should be given to providing financial assistance under a sector approach where possible, which ensures a more long-term, coherent and sustainable approach. This also allows for increased ownership by national authorities, facilitates

¹ Regulation (EU) No 231/2014 of the European Parliament and of the Council of 11 march 2014 /establishing an Instrument for Pre-accession Assistance (IPA), OJ L 77/111.

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

cooperation among donors, eliminates duplication of effort and brings greater efficiency and effectiveness.

With a view to delivering the priorities set out for EU financial assistance for the beneficiaries for the coming seven years, this Strategy Paper contributes to the targets and expected results identified in the Country Strategy Papers and identifies the objectives pursued, the key actions and actors and sets out indicative financial allocations.

The priorities defined for financial assistance will serve as a basis for the (multi-) annual programming of IPA II funds in 2014 to 2020. The indicative financial allocations allow for an appropriate amount of assistance to remain available for reward on the basis of an assessment of performance and progress over a period of several years but not later than in 2017 and 2020 respectively, as defined in the IPA II Regulation.

This Strategy Paper should be reviewed at mid-term and revised as appropriate. It may also be revised at any time on the initiative of the European Commission.

2. Consultation on this Strategy Paper

In preparation of the strategic programming exercise for the period 2014 - 2020, the European Commission has held consultations with the National IPA Coordinators, the EU Delegations, civil society organisations, Member States and other donors, International Financial Institutions as well as international and regional organisations, in particular the Regional Cooperation Council. A strategic dialogue with the European Parliament has been conducted.

Both the European Commission services and stakeholders have emphasised the need to concentrate human and budgetary resources on a limited but key number of priority areas. In the selection of priorities for EU assistance outlined in this Strategy Paper, account has also been taken of the South East Europe (SEE) 2020 strategy and EU macro-regional strategies, the lessons learned from the programming and implementation of IPA I and the findings from internal and external consultations.

PART II: ANALYSIS OF THE NEEDS AND CAPACITIES

1. Overall situation in the enlargement countries

When planning pre-accession assistance, the needs and challenges of the enlargement countries to meet the political and economic membership criteria and to align themselves with the Union *acquis* must be the starting point. Both the Western Balkans and Turkey face important challenges, which are common to all of them - although to a varying degree - and are reflected in the enlargement policy framework, notably the EU enlargement strategy.

Summarising, the challenges in the area of **democracy and the rule of law** include the functioning and independence of institutions guaranteeing democracy, empowerment of civil society, fighting organised crime and corruption, ensuring independent, impartial, efficient and accountable judicial systems, as well as safeguarding fundamental rights such as freedom

of expression and rights of persons belonging to minorities as well as vulnerable groups, notably Roma. Further progress is also required as regards reconciliation, overcoming the legacy of the past and resolving bilateral problems, while regional cooperation needs to be fostered.

The economic crisis has underlined the need for all countries in the region to strengthen their governance, in particular **economic governance** and improving competitiveness in order to meet economic accession criteria. None of the Western Balkans enlargement countries enjoys the status of a functioning market economy, public financial management systems need strengthening and structural reforms need to be prioritised and competitiveness enhanced in order to support fiscal consolidation, tackle high external imbalances as well as high unemployment. The European Commission growth forecasts for candidate countries foresee a return to higher growth rates for Turkey after a relative slowdown in 2012, while for the Western Balkans more limited economic growth is expected. Especially in the Western Balkans, growth prospects significantly depend on recovery in the EU.

As regards **competitiveness and growth**, significant challenges remain in all enlargement countries, in particular as regards job creation. This includes the agri-food sector, even though the region has the land, labour, location, and climate needed to potentially supply domestic and European markets with high-value products. A return to previously high growth rates is only possible in case further structural reforms are accomplished, making the economies more competitive and attractive for investors. Growth prospects are better in the potential candidates, which due to their lower integration into the EU economy have been less affected by the economic crisis and have less developed economies. On the other hand, the growth prospects of all enlargement countries are hampered by their extensive vulnerability to the climate change and their dependence on fossil fuels. Addressing unemployment is a key priority in the Western Balkans, with the average rate at 23%. Countries are facing a significant challenge in ensuring that new jobs accompany the forecast growth. This will also require considerable investments in infrastructure networks (energy, transport, water and environment and social infrastructure), comprehensive action to mitigate and adapt to climate change in order to shift to a low-carbon and climate resilient development path, as well as greater private sector and trade development. In the latter areas, investments are particularly needed to create a favourable business climate for small and medium-size, innovative enterprises and for developing access to finance. In addition, in the context of the SEE2020 Strategy, the EU should help countries in the Western Balkans to better respond to market signals, integrate the agriculture in expanding regional and international markets, improve efficiency and provide alternative jobs outside agriculture. Regional cooperation and exchanging best practices are an efficient way of promoting rural development in particular in border areas which need to be better interconnected with the neighbouring regions. These challenges would be best tackled following a comprehensive approach based for instance on the concept of Area Based Development.

2. Context for the planning of assistance

2.1 Regional cooperation in the context of the EU Enlargement Strategy

The Strategy Paper concentrates on issues for which there is a clear need for regional cooperation in order to achieve results that a beneficiary listed in annex I of the IPA II Regulation ("IPA II beneficiary") is less likely or even unable to achieve alone or where there

is an advantage from providing horizontal support because joint efforts are more cost-effective.

While the priorities for action towards meeting the objectives for each of the countries will be based on country-specific needs and capacities, in view of the common challenges for the enlargement countries a number of **common priorities for pre-accession assistance in the period until 2020** can be set out. This relates in particular to the priority of IPA II assistance to support the enlargement countries in **addressing the fundamentals first**. Broadly speaking, these fundamentals can be grouped in two main areas of intervention: democracy and the rule of law, and competitiveness and growth.

As regards **democracy and the rule of law**, a number of common priorities can be identified for support through IPA II:

Strengthening **democratic institutions** which remain fragile in a number of enlargement countries, including support for electoral and parliamentary reform and promoting inter-parliamentary cooperation between national parliaments of the region and those of the EU Member States and the European Parliament. Strengthening the **judiciary** to improve legal predictability and to ensure fair and timely proceedings.

The new approach to **economic governance** with a focus on tackling the economic fundamental first allows enhanced strategic and targeted support for national reform priorities. Enlargement countries will be asked to prepare annual National Economic Reform programmes, resulting in more targeted policy guidance, and biennial Competitiveness and Growth Programmes on key sector reforms underpinning competitiveness resulting in Commission guidance through the progress reports as part of the annual Enlargement Strategy. The reforms outlined in the respective programmes will be underpinned by IPA II assistance, initially in particular to provide technical assistance to the enlargement countries to support the introduction of the new approach on economic governance but as of 2015 onwards increasingly as the main input for the programming of IPA II assistance in key sectors such as energy, transport and environment and climate action.

There will be continued support for **public administration reform (PAR)**, with particular emphasis on building a merit-based civil service system, including transparency, de-politicisation and meritocratic recruitment processes, as well as for making use of the PAR principles as a practical reference framework for measuring progress. These principles cover policy-making; PAR coordination; civil service and public administration organisation and functioning; **public financial management (PFM)**, and public procurement. Strengthening PFM, including revenue administration and collection, budget preparation, budget execution with cash management, public procurement systems, accounting and reporting, debt management, public internal financial control and external audit, is an integral part of the new EU enlargement strategy. In coordination with actions foreseen under IPA national programmes, support will be provided for preparation of comprehensive PFM reform programmes/action plans, as well for their implementation.

Increased support for **civil society**, including capacity building and encouraging the creation of an enabling environment for its development and greater involvement of stakeholders in reforms, including through greater transparency of government action and spending.

The beneficiaries need in particular to join forces and cooperate to **fight organised crime**. This involves strengthening cooperation with international law enforcement organisations

operating in criminal justice, police investigations and witness protection, thus enabling effective exchange of information and evidence during investigations and prosecutions. Mixed-migration and border management capacities will be further supported. Where in the context of the accession negotiations action plans are established to meet the requirements under chapter 23 and 24, IPA II support will specifically target these requirements. Special attention will be given to facilitating close cooperation and coordination with all relevant EU agencies, EU Member States and international organisations that could help implement these action plans.

Promoting **freedom of expression and media** through EU financial assistance in a more structured and strategic manner and in close cooperation with key international organisations.

As regards **competitiveness and growth**, the following common priorities can be identified for support through IPA II:

Boosting **competitiveness and innovation** to allow participating in the global economy and improving the overall business environment including the capacity for research and innovation, by invigorating trade, integration and export-led growth. A particular focus is needed on private sector development and SMEs;

Investing in **education, employment and social policies**, to increase access to education systems, improve their quality and relevance, activate labour markets, align and improve the skills base to meet labour market needs, promote gender equality and foster social inclusion as well as investing in health;

Investing in improved **transport and energy** interconnections within the region and with the EU, to promote sustainable economic growth, jobs, trade and cultural exchange;

Investing in the area of **environment and climate action** to promote protection of the environment, quality of life particularly in the areas of water, waste management and air pollution, climate change adaptation and mitigation including disaster risk reduction, and the development towards a resource-efficient, low-carbon and climate-resilient economy.

In programming IPA II assistance to support competitiveness and growth, and within the specific context of each of the enlargement countries concerned, the Commission will take due account of the **Europe 2020 Strategy** introducing five EU headline targets for 2020², as well as the regional strategy **South East Europe 2020** which promotes a comprehensive approach to the economic development of the region. Where appropriate, synergies with and funding from other EU instruments will be sought.

IPA II will continue to provide support to territorial cooperation programmes and measures. This will take place in particular through IPA cross-border cooperation activities - both at borders between enlargement countries and between them and adjacent EU Member States - and through the participation of relevant enlargement countries in ERDF transnational and interregional cooperation programmes with EU Member States.

² The headline targets focus on employment, R&D, climate action, energy management, education, and poverty reduction.

2.2 Relevant (macro-) regional strategies and initiatives

The Europe 2020 Strategy³ introduces five measurable EU headline targets for 2020, backed by seven flagship initiatives. While Turkey aims to align directly with the Europe 2020 Strategy, the Western Balkans countries adapted this strategy to their specific situation. The regional strategy **South East Europe 2020** is modelled on the Europe 2020 strategy, and it seeks to promote a comprehensive approach to the economic development of the region by stimulating key long-term drivers of growth – innovation, skills and trade integration. Regional headline targets to be achieved by 2020 have been set for five development priorities: integrated, smart, sustainable, and inclusive growth, as well as governance for growth. The regional targets will be translated into national targets and action plans. As concerns education, the beneficiaries are voluntarily following and making efforts to converge to the Education and Training 2020 strategy and its benchmarks.

The **South East Europe Transport Observatory (SEETO)** is the regional transport co-operation platform. It defines the SEETO Comprehensive Network that interconnects the region and the neighbouring EU Member States. It is the indicative extension of the TEN-T into the Western Balkan. SEETO co-ordinates further development of the infrastructure network and improvement and harmonisation of regional transport policies and technical standards. It is an effective coordination and communication network amongst the regional partners and the European Commission. Until the **Transport Community Treaty** is signed, SEETO will continue to function in this respect. However, the overall goal is the signature of the Treaty that would allow a deeper integration of the Western Balkan transport market into the EU on the basis of the relevant EU transport policies and legislation.

The Treaty establishing the Energy Community aims to create a stable regulatory and market framework capable of attracting investment in gas networks, power generation, and transmission and distribution networks. In October 2013, the Ministerial Council adopted an **SEE Energy Strategy** outlining the key objectives and actions needed to create a regional energy market, as well as the investment needs for energy efficiency and renewable energy. They also adopted a list of projects of interest for electricity and gas interconnections that would contribute to the Western Balkans economic development and further EU integration.

In October 2013, Ministers from the six Western Balkan countries and Croatia endorsed the **Regional R&D Strategy for Innovation**. The overall aim of the Strategy is to stimulate growth, competitiveness and employment through four specific regional actions: i) improve the research base and conditions for research excellence; ii) promote science-industry collaboration and technology transfer; iii) enable business investments in research and investment and start-up creation and iv) strengthen the governance of research and innovation policies.

In its conclusions of 22 October 2013, the Council recognised the added value of macro-regional strategies provided inter alia by strengthening integration of the Member States concerned and cooperation with third countries in the areas of common interest and in addressing common challenges of the respective macro-region, by promoting multi-level governance by encouraging cooperation between regional, national and local levels and by improving access to financing for development of project ideas. The Council emphasised the importance to align available financial sources with the objectives of macro-regional

³ COM(2010)2020 of 3 March 2010

strategies and to prioritise operations deriving from these strategies. These considerations are equally valid for funding from IPA II.

More specifically, the Council encouraged the Member States to strengthen cooperation with the countries of the enlargement zone under the **EU Strategy for the Danube Region** (EUSDR⁴) and the forthcoming EU Strategy for the Adriatic and Ionian Region (EUSAIR).

Building on the enlargement process, the Danube Strategy has put in place a cooperation structure to address common challenges and to achieve four strategic policy objectives: Connecting the Danube Region; Protecting the environment, Building prosperity and Strengthening the Danube Region.

The **Adriatic-Ionian Strategy** intends to build on the lessons learnt inter alia from the EUSDR and will focus on a limited number of areas of mutual interest, where the added value of cooperation is the highest: Blue growth; Connecting the Region; Environmental quality; and Sustainable tourism. Capacity building, communication, research, innovation and businesses support are cross-cutting issues.

2.3 Conditions for managing pre-accession assistance

The majority of IPA assistance in the form of horizontal and regional programmes is managed directly by the Commission since one of the key features is the need for close coordination and cooperation with multiple beneficiaries. Cross-border cooperation with EU Member States and transnational cooperation programmes will be implemented under shared management with the relevant EU Member States.

Substantial specific know-how and experience in supporting the reform agenda of the beneficiaries is available in international organisations such as the World Bank, the Organisation for Economic Cooperation and Development (OECD), the Council of Europe, the International Office for Migration (IOM) and UN organisations including the office of the United Nations High Commissioner for Refugees (UNHCR) and the United Nations Office for Drugs and Crime (UNODC), the European Central Bank (ECB) or the International Monetary Fund (IMF). They have specific expertise in governance including economic governance and key conventions linked to democracy, human rights and the rule of law. The Commission does have a keen interest in making available this pool of know-how and experience to the beneficiaries. Likewise, the Financial Institutions such as the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), the Council of Europe Development Bank (CEB) or the Kreditanstalt für Wiederaufbau (KfW) provide significant amounts for investments in the beneficiaries. Close coordination and co-financing will be important to ensure focus and enhance the overall impact of the assistance.

A significant part of the financial assistance provided under horizontal and regional programmes will therefore be managed under delegation agreements with the international organisations and Financial Institutions.

⁴ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions "European Union Strategy for Danube Region" (COM/2010/0715 final)

2.4 Donor coordination and complementarity with other EU assistance

In defining the scope of horizontal and regional support, the European Commission will seek coherence and complementarity with other external action instruments and with assistance granted by EU Member States, EIB and other donors. In particular in the area of investments, the Commission will continue to systematically consult also with other donors. The Western Balkans Investment Framework (WBIF) has proven to be a successful forum for cooperation among all stakeholders. It is a unique platform where the Western Balkan countries alongside the EU, the International Financial Institutions (IFIs) and bilateral donors can identify, prepare and implement priority socio-economic investments through the pooling of expertise and financial resources. These investment projects are deemed to be (i) important for national or regional strategies and the EU accession process and (ii) financially viable. The Regional Housing Programme provides a well-coordinated mechanism for channelling donor funds through a single implementation mechanism implemented by the CEB.

2.5 Consistency with EU policies

Financial assistance in the priority areas identified in this MCSP will be granted in line with, and in support of, the enlargement strategy for the Western Balkans and Turkey. It will be shaped to be consistent with other EU policies in the same area, in particular with the Europe 2020 strategy and applicable EU macro-regional strategies, the flagship initiatives of the EU to boost growth and jobs and the climate policy objectives of the EU. Furthermore, the objectives agreed under the SEE 2020 Strategy represent important benchmarks for the reform efforts of the countries and the financial assistance under IPA II will be used to support meeting these targets.

PART III: THE OVERALL DESIGN OF HORIZONTAL AND REGIONAL PRE-ACCESSION ASSISTANCE

Assistance under this MCSP will support reforms and investments in line with the key challenges identified in Part II in complementarity with assistance provided under the Country Strategy Papers. It aims at creating favourable conditions for the IPA II beneficiaries to meet the membership criteria and speeding up the transposition of the Union *acquis*.

Assistance under this MCSP will be delivered along the following four axes, each one presenting one dimension of the added value of the horizontal and regional programming:

- i) Horizontal support to sector policies and reforms;
- ii) Regional structures and networks;
- iii) Regional investment support;
- iv) Territorial cooperation.

Horizontal support to the formulation of national sector policies and related reform strategies is needed in particular in the sector **Democracy and Governance** including Public

Administration Reform, economic governance and public finance management, as well as **Rule of Law and Fundamental Rights**. The support should focus on granting the beneficiaries access to the combined available know-how of EU and international organisations and best practices and should be tailored to the specific situation of each beneficiary. It should also comprise support to strengthening Civil Society as a relevant actor in a democracy as well as support to free and independent media and support for evidence based policy making (statistical cooperation) and strengthening regional monitoring tools (e.g. by taking inspiration from EU monitoring mechanisms in the rule of law area).

Regional structures and networks are expected to make a major contribution to the development of the beneficiaries in particular in the following sectors:

- **Democracy and Governance** (inter alia through the Regional School for Public Administration - ReSPA),
- **Rule of Law and fundamental rights** (in areas such as police and judicial co-operation, the management of mixed migration flows etc.) through bodies such as the Prosecutors' Network, International Law Enforcement Coordination Units (ILECUs),
- **Environment and climate action** (through initiatives such as the Environment and Climate Regional Accession Network -ECRAN),
- **Transport** (SEETO),
- **Energy** (Energy Community),
- **Competitiveness and Innovation** including trade (Central European Free Trade Agreement, CEFTA, Regional Rural Development Standing Working Group, SWG),
- **Education, employment and social policies** (Education and Employment Platforms).

Particular emphasis should be given to strengthening the Regional Cooperation Council (RCC) in order to ensure swift and efficient implementation of the regional SEE 2020 Strategy.

Regional investment support should be directed towards projects having a clear regional dimension which contribute to the socio-economic development of more than one IPA II beneficiary and address in particular investment needs related to the development of the competitiveness of businesses, the connectivity between the IPA II beneficiaries and the EU Member States, protection of the environment and mitigation of and adaptation to climate change. Particular emphasis should be put on attracting private capital to the region in order to boost growth. The main instruments for such support are the blending facilities WBIF, Green for Growth Fund, as well as the Regional Housing Programme.

Territorial cooperation is to foster good neighbourly relations and promote the socio-economic development of border regions. The priority areas for cross-border cooperation are set out in Annex III of the IPA II Regulation. The scope of the assistance for the participation of IPA beneficiaries in ERDF transnational cooperation programmes and in cross border cooperation or sea-basin programmes under the European Neighbourhood Instrument are established in accordance with the regulatory framework of those instruments.

Finally, while programming IPA assistance, specific attention will be paid to a number of cross-cutting issues that impact more than one sector and therefore require action across a number of sectors. These include the prevention of and fight against corruption, environmental sustainability and climate action, gender equality, strengthening of democracy, human rights and civil society participation as well as protection of cultural heritage as appropriate. Climate relevant expenditure will be tracked across the range of IPA II

interventions in line with the OECD-DAC's statistical markers on climate change mitigation and adaptation.

The indicative financial allocations per dimension resulting from the priorities defined in this strategy paper are set out in annex 1.

PART IV: EU ASSISTANCE DURING THE PERIOD 2014-2020

This Strategy Paper complements interventions at national level. Consequently the results, indicators and targets are identical to those used in the Country Strategy Papers. This part will only include some additional results and indicators which are considered to be specific for regional interventions.

It builds on the lessons learned from IPA I, which demonstrated that progress towards meeting EU membership criteria is best achieved by a mix of measures planned both at national and at regional level. The IPA interim evaluation and meta- evaluation recommended that the Multi-beneficiary programme should develop more rigorous selection criteria for programmes and focus on areas with clear needs for a regional approach. It also concluded that further efforts are needed to involve regional stakeholders more in programming and that national administrations should be involved in project implementation as a way to improve ownership and coordination.

Other conclusions concern economies of scale in horizontal programmes versus efficiency risks, due to the complex organisation for implementation of multi-beneficiary assistance under IPA I.

Under IPA II the efficiency concerns will be addressed by more effective coordination, as illustrated already through the WBIF, focusing on fewer priorities, comprehensive and longer-term planning and, where relevant, a sector approach.

1. Horizontal support to sector policies and reforms

1.1 Needs and capacities

Democracy and Governance, especially PAR has been a key priority for the accession process, but the policy dialogue with the countries has been weakened by the absence of a specific accession related PAR framework. In addition, assistance provided so far has focused on supporting specific and sometimes isolated actions rather than on supporting a PAR reform based on a commonly agreed and comprehensive reference framework outlining the overall needs for PAR support. A more comprehensive approach building on systematic analytical annual assessments of the national governance systems by OECD/SIGMA, providing analytical input for detailed PAR action plans and ongoing high-level policy dialogue in the Special Groups on PAR, will remedy earlier shortcomings. This includes establishment of, and agreement on common PAR principles (covering policy making, PAR coordination, civil

service and public administration organisation and functioning, PFM and public procurement), which provide the more comprehensive PAR reference framework.

Good public governance (including economic governance) and **Rule of Law** are also important for sustainable socio-economic development and stability. In the course of the accession process, the IPA II beneficiaries are expected to build up their administrative, institutional and judicial capacities for the adoption and correct implementation of the Union *acquis* including through participation in **EU agencies**. They also need to comply with relevant Council of Europe conventions and standards as well as OSCE/ODIHR recommendations. Weak institutions, inefficient public administration, weak public financial management, flaws in law enforcement and lack of proper statistics and related assessment on organised crime and corruption in the beneficiaries, all hamper socio-economic development and delay the necessary reforms.

Public administration reform including de-politicisation of the civil service and making it more professional remains a significant challenge. Embedding meritocratic principles, tackling corruption and ensuring satisfactory administrative procedures, including human resource management policies, are of utmost importance. The beneficiaries need an efficiently organised public administration that ensures accountability and transparency and guarantees sound and efficient service delivery to citizens and businesses, a system of checks and balances and a reliable public financial management system. They must strengthen parliamentary oversight over the executive and reinforce cooperation between national parliaments. They also need more and better quality **statistics** to support evidence based policy making and planning.

Under the new approach to **economic governance**, national reform priorities will be identified in the annual National Economic Reform programmes and biennial Competitiveness and Growth Programmes. The former will address challenges in areas such as public finance, monetary policy, private sector development and the labour market. A platform offering the possibility of peer reviews, transfer of knowledge and exchange of best practices should be organised.

An empowered **civil society** is an essential component of a participatory democracy. Although IPA beneficiaries are gradually adopting legislation and strategies more favourable to civil society development, engagement with civil society remains weak. An enabling legal and financial environment should be promoted while also ensuring that the necessary structures and mechanisms are in place for civil society to cooperate effectively with public authorities, including social dialogue. At the same time, to fulfil their role and become credible, civil society organisations (CSOs) need to improve their autonomy, representativeness and accountability. To participate effectively in the political process, they have to strengthen their capacity for analysis, monitoring and advocacy while also becoming better at networking, partnership and coalition building. The IPA II beneficiaries must guarantee an open and pluralistic media landscape which allows for a culture of critical and independent journalism. Media politicisation and media cronyism remain the most serious problems affecting the quality of media in the region. The independence of regulatory authorities is constantly challenged and not sufficiently supported by law. The judiciary is far too often used to silence critical media. A recent evaluation of EU support to Civil Society in Western Balkans and Turkey confirms that overall the EU's priority objective has, to a significant extent, been achieved. However, capacity building of Civil Society should be reinforced, with a particular focus on further empowerment of CSOs, as well as on enhancing

their role in the Enlargement Strategy. There is a need for over-arching regional scale support which offers an integrated combination of non-financial and financial assistance.

In addition to migration flows from the Western Balkans following visa liberalisation, the Western Balkans has in recent years also become an important route for transitory migratory flows from outside the region. The increasing pressure requires the countries to step up their efforts to develop protection-sensitive migration management systems for asylum, irregular migration and overall border management issues.

Education has an impact on various facets of **social and economic development** and is a key driver of sustainable development. Higher education in particular is an important catalyst for achieving progress in other social sectors. The IPA II beneficiaries need to improve the quality of higher education and an important element of this is the modernization of study programmes.

Erasmus+ is the new European programme for education, training, youth and sport. It addresses the challenges of quality, relevance, staff development, access to international networks, by offering a balanced mix of actions addressing individuals, institutions and higher education systems. Through its **two types of mobility** actions ("credit" and "degree" mobility), Erasmus+ will have an impact on the personal development and employability of students but also a structured and sustainable impact on universities. This is particularly the case of "**credit mobility**" (short-term Erasmus type mobility) that has an impact not only on individuals, but also on institutions which need to develop better services to send and receive foreign students, compare and upgrade curricula, improve teaching and strengthen their institutional leadership and management to gain international visibility. Erasmus+ will enable the IPA II beneficiaries to benefit from the EU-wide systems and their experience in supporting reforms, have access to models and assistance for developing new methodologies and programmes and for organising peer reviews and assessments. The above needs cannot be covered by action at national level alone. In addition, youth mobility and capacity building for youth workers and organisations will be provided under Erasmus+ via special funding provided by IPA II for the participation of the Western Balkans.

1.2 Objectives, results, actions and indicators

The overall aim is to enhance **democracy and governance and Rule of Law and fundamental rights** by further improving the professionalism of the public service and the effectiveness of the judiciary, build capacity and improve efficiency of service delivery (including e-governance), strengthen public financial management and thus enhance the overall quality, reliability, integrity, transparency and accountability of public administration.

The beneficiaries require state-of-the-art knowhow and relevant experience with related reforms and international standards and conventions, available in international organisations such as the OECD/SIGMA, World Bank, the IMF, the European Central Bank, OSCE/ODIHR as well as the Council of Europe. The IPA II beneficiaries need to familiarise themselves with the working methods within the European Union including through the most important EU agencies. Since the challenges are broadly similar, the support to be provided to the individual IPA II beneficiaries should therefore be managed through the multi-country programme, but tuned to the specific situation of each IPA II beneficiary, so that the support addresses specific national needs and problems. Support should help IPA II beneficiaries to enhance economic governance and also to meet public financial management standards, preparing at the same time the ground for possible sector budget support. It should build on

the main elements: the National Economic Reform Programmes and the Competitiveness and Growth Programmes. The Employment and Social policy Reform Programmes (ESRP) can be used as well as a basis for country specific reform. Support might also be required for interim civilian organisations such as the Office of the High-Representative (OHR) in Bosnia and Herzegovina.

In addition to results, indicators and targets included in the national CSPs, the following indicators are linked to the regional assistance:

- Overall effectiveness of the governments (Source: SEE 2020)
- Number of Erasmus+ students from the region completing an EU Master programme (Source: Commission).

Public administration reform (PAR) is an essential component of democratic governance and the rule of law. In this area, joint actions including peer learning and networking offer a cost effective and coherent way to support the region, whilst ensuring that the interventions are tailored to the individual needs of each beneficiary. Actions will involve annual assessments, country action plans and the preparation of PAR principles with clear indicators to facilitate the policy dialogue with the beneficiaries in the Special Groups on PAR. The following broad areas will be covered by the PAR principles: policy-making; PAR coordination; civil service and public administration organisation and functioning; public financial management. Depending on the size of the beneficiary, governance structures need to be multi-layered. The capacities of local administrations need to be enhanced in close cooperation with the Committee of the Regions and the Council of Europe. Support for reinforced cooperation between national parliaments might also be considered.

Concerning economic governance, assistance is provided to support the implementation of the country-specific policy guidance issued in the context of the fiscal surveillance mechanisms through technical assistance to be provided in strong cooperation with IFIs. Support for PFM also contributes to country-specific PFM reform agendas, enhancing IPA II beneficiaries' revenue administration and collection, budget preparation, budget execution with cash management, public procurement systems, accounting and reporting, debt management, public internal financial control and external audit.

Support should also be provided for building the capacity of **statistical services** to improve the conditions for evidence-based policy making and to harmonise the statistical methods and standards with EU norms, including the robust quality management now applied to European statistics. Geospatial data need to be collected, made available and processed in all beneficiaries in a coherent manner to underpin political choices. Moreover, there is a need of in-depth research and analysis of **organised crime and corruption**, relying on evidence based surveys in all the beneficiaries.

Support to **civil society** is following the EU guidelines for the support to civil society in the enlargement region⁵ and should be focused on creating the conditions for enabling and stimulating participatory democracy. This means supporting the development of civil society

⁵ http://www.tacso.org/doc/doc_guidelines_cs_support.pdf

dialogue, empowering civil society to create demand for enhanced transparency, accountability and effectiveness from public authorities, as well as to facilitate a greater focus on the needs of citizens in policy making. With regards to **media integrity and freedom of expression**, in line with the EU guidelines support will contribute to improved conditions for an independent and accountable media, in a situation where a regional approach would add value and improve the effectiveness of a local/national initiative. Special attention should be given to (i) the enabling environment and resulting responsibilities of main actors, (ii) advancing media to a modern level of internal governance, and (iii) increasing the capacity and representativeness of journalists' professional associations.

In order to support the development of effective **migration management** systems, efforts will be made to enhance cooperation and coordination between the IPA II beneficiaries, in the areas of information exchange, identification of irregular migrants and translation services. Solutions will be offered on assisted voluntary and non-voluntary return. Adding to national efforts, support may be provided to develop asylum systems in line with international standards.

Further quality improvements should be made in the development of higher education systems in the enlargement countries through cooperation between local higher education institutions and those of the EU Member States. Capacity building projects between peers will aim to develop and modernise curricula as well as teaching and learning practices, upgrade facilities and equipment, improve university governance and create better links between higher education and the labour market. In addition Erasmus+ offers two types of mobility actions ("credit" and "degree" mobility) which will have an impact on the personal development and employability of students but also a structured and sustainable impact on universities. Overall projects in the education sector should result in improved quality of higher education, enhanced relevance for the labour market, improved university administration, greater regional cooperation between universities, increased mobility of students resulting in enhanced skills for students and staff and better employability prospects for students and academic staff and enhanced intercultural understanding.

The Technical Assistance and Information Exchange instrument (**TAIEX**) will help beneficiaries address key challenges identified in this document by providing short-term capacity building with regard to the approximation, application and enforcement of EU legislation as well as advice about EU best practices. It is largely demand driven and facilitates the delivery of appropriate tailor-made public sector expertise to address issues at short notice. TAIEX assistance will be mobilised both on multi-country and on bilateral levels. TAIEX support can also be called upon to support priority sectors established by IPA Country Strategy Papers and in response to unforeseen priority needs relevant to the course of (future) accession or stabilisation agreement negotiations. Technical assistance through the TAIEX instrument comes in different formats and across a wide range of areas. Partner administrations can benefit from TAIEX's flexibility to help meet wider training needs in EU legislation through organising workshops and seminars which can reach a significant number of officials. Narrower, more specialised needs can be met through the expert mission format. Study visits on request of beneficiary partners are a complementary institution building service.

Financing will also be provided for support measures for the implementation, monitoring, audit and evaluation of IPA programmes, as well as for information and communication activities.

1.3 Types of financing

Horizontal support will be provided in particular through: TAIEX; Indirect Management Delegation Agreements with international organisations such as OECD/SIGMA, World Bank, IMF, ECB, IOM, UNHCR, UNODC, OSCE/ODIHR and the Council of Europe; Co-financing of the operational costs of the OHR will also be envisaged; Support for the National Statistical Systems through grants and technical assistance managed by Eurostat; Support to civil society through the Civil Society Facility (CSF), as well as support to freedom of expression and media integrity, from both multi-country and national IPA funds; Financial contribution for participation in the Erasmus+ programme (EUR 226 million overall, indicatively with 60% for mobility and 40% for capacity building) including the youth dimension of the programme as well as for the participation to a selected number of EU agencies.

1.4 Risks

The main risks involve horizontal support provided by bodies or institutions without a sufficiently clear mandate and experience, or support that is not tailored clearly to the national needs and priorities. These risks are addressed through a rigorous selection mechanism privileging long standing partnerships which have already demonstrated a clear added value. Another element is to ensure that the horizontal support is based on a clear national needs assessment done in close collaboration with the beneficiaries, the EU Delegations, the geographical units, relevant Commission services and other stakeholders.

2. Regional structures and networks

2.1 Needs and capacities

Regional cooperation remains a catalyst for the enlargement process. The beneficiaries face a number of common problems which they could more efficiently address through peer review and sharing of good practices.

Regional cooperation is a key enabling factor for comprehensive reforms and the return to sustainable economic growth. Lessons learnt from the previous planning period include in particular the need for the Regional Cooperation Council (RCC) to shift focus from the organisation of a significant number of regional meetings to more guidance for the definition of sector reform strategies and tighter monitoring of the implementation of such strategies. The new SEE 2020 Strategy is a good basis for addressing this weakness and support to the RCC should focus on its role in monitoring the implementation of the SEE 2020 strategy and in helping the enlargement countries implement their national action plans.

Additionally all enlargement countries preparing for accession need to align their national legislation to the *acquis* and to gradually adapt to the Union standards and practices. This task is facilitated by regional organisations or bodies set up by the beneficiaries in many sectors.

However, participation in regional structures and networks will produce the expected impact only if such participation is specific and inclusive, and firmly linked to national reform priorities. An all-inclusive approach to the socio-economic development of the beneficiaries would include the less favoured local communities in border areas.

To be able to meet the accession criteria and to implement the national action plans established in the context of the Stabilisation and Association Agreements or the accession negotiations, the beneficiaries need to set up and actively participate in the newly established as well as already existing specialised networks linking the competent authorities.

In the sector **Rule of Law and Fundamental Rights**, the beneficiaries need in particular to join forces and cooperate to fight organised crime. This involves strengthening cooperation with international law enforcement organisations operating in criminal justice, police investigations and witness protection, thus enabling effective exchange of information and evidence during investigations and prosecutions. There is a need for close cooperation and coordination with relevant EU agencies, as well as with EU Member States and international organisations.

The 2013 thematic evaluation of Rule of Law assistance to the Western Balkans identified a number of lessons learned and recommendations at programming, implementation, and monitoring level. The most significant lessons relate to the challenge of local political will and ownership and local capacity to plan, implement, monitor and develop the programmes' activities over time. Joint action at regional level, peer learning and networking are the most appropriate ways of overcoming the existing difficulties and are the best means of enhancing ownership and political commitment in all participating countries.

The beneficiaries need to cooperate in particular in the following structures and networks (further structures may be added as appropriate):

- **Democracy and Governance:** The Regional School for Public Administration (ReSPA) provides a unique framework for networking and learning related to public administration reform in the Western Balkans. It comprises networks of experts who prepare regional comparative studies on specific issues related to governance including the fight against corruption. It also has a governance structure with Ministers who could ensure the necessary national follow-up. The operational budget of ReSPA is financed by the IPA beneficiaries, whereas EU funding is required for the training and networking programme in line with the EU accession process and the overall Governance priorities of the beneficiaries.
- **Environment and climate action including civil protection:** the Environment and Climate Regional Accession Network (ECRAN) provides an interface between the regional aspects of environmental protection and climate action and the respective national priorities, helping the beneficiaries to exchange information and experience related to the preparation for accession and to assist their progress in the transposition and implementation of EU environmental and climate *acquis*. The Union Civil Protection Mechanism is the EU framework for cooperation in the field of disaster prevention, preparedness and response, and it is open for participation to the EU candidate countries and potential candidates. Regional capacity building programmes based on cooperation with the Mechanism should ensure their preparedness to join the Mechanism (if not done yet) and their further integration.
- **Transport:** The South East Europe Transport Observatory (SEETO) defines and monitors the development of the Comprehensive transport Network for South East Europe. It functions as the indicative extension of the TEN-T into the region. In addition SEETO fosters co-operation in alignment of certain transport sectors with the EU *acquis*. This concern the creation of the SEE railway transport area based on the relevant railway *acquis*, a road safety forum and a border crossing facilitation as well

as an intermodal working group. The aim in the future is to sign the Transport Community Treaty which should allow the region to further evolve by introducing the necessary policy reforms. The Treaty institutions should build on the work done by SEETO.

- **Energy:** The Energy Community Treaty extends the EU internal energy market to South East Europe and beyond. Its goal is to create a single and stable market and regulatory space to attract investments. The 2013 Energy Strategy identifies the key actions needed to complete a regional energy market with competitive prices and secure supplies, whilst saving energy, using less polluting energy sources and reducing the carbon footprint from the energy sector.
- **Competitiveness and innovation:** The enlargement countries will prepare an annual structural and competitiveness reforms programme, which will be submitted to the Commission in parallel with the macroeconomic and fiscal programme. The Commission will evaluate this programme and issue recommendations. Such comprehensive approach to competitiveness, in particular coordination of the multiple sectors important for competitiveness (transport, energy, employment, education, etc.), will result in better impact of concrete actions. A major step for the liberalisation of trade flows took place in 2006 through the signature and ratification of Central European Free Trade Agreement (CEFTA). Efforts must now focus on the full implementation of the agreement by all signatory parties. The major issues on the agenda of CEFTA include the further reduction and eventual removal of non-tariff barriers to trade, improvement of trade logistics, harmonisation of norms and standards, as well as the protection of intellectual property rights and patents. The role of the CEFTA secretariat in tackling obstacles to trade and free movement of goods and services in the region should be enhanced. In the framework of the Western Balkans Regional R&D Strategy for Innovation, the IPA II beneficiaries in the Western Balkans and Croatia agreed to set up supra-national structures to manage the implementation of the regional Strategy (regional technical assistance facility). This structure and other initiatives to develop regional networks of excellence" should be encouraged and supported.
- **Education, employment and social policies:** The enlargement countries need to develop their human capital, improve their education systems at all levels, reduce the size of the informal economy and increase the level of employment or self-employment in particular of women and persons belonging to minorities. They should encourage the creation of a wider regional labour market and promote mobility of students and workers. Technical assistance and support is necessary to enable the governments to implement meaningful, comprehensive and sustainable policies for tackling the above challenges. The Commission has established specific platforms for Employment and Education, which convenes the relevant ministers and senior decision makers in the enlargement countries to help steer and support the national reforms in these areas. These platforms and other initiatives to develop "networks of excellence" should be encouraged and supported.

2.2 Objectives, results, actions and indicators

Actions at regional level will concentrate on supporting the functioning of existing regional organisations, bodies and platforms through a contribution to their administrative and operational costs and on supporting specialised networks through contribution agreements,

grants and technical assistance. The setting up of additional, specialised organisations, bodies and platforms covering the needs of several beneficiaries will be supported as appropriate.

In addition to the indicators, results and targets included in the national CSPs, the following indicators are linked to regional assistance:

- number of information requests addressed to another country linked to a criminal investigation (Source: International Law Enforcement Cooperation Units)
- volume of trade (export plus import) as a percentage of GDP.

Particular emphasis will be put on the Regional Cooperation Council (RCC) to ensure an efficient implementation of the SEE 2020 Strategy with a view to strengthen the economic and job creation potential of the region. The RCC will need to develop a comprehensive and reliable public monitoring mechanism in cooperation with the SEE 2020 national and regional stakeholders.

In the sector **Democracy and governance**, priority will be given to the Regional School of Public Administration (ReSPA) and its extensive networks and training programme. This includes networks preparing regional comparative studies which identify best practices and proposals for how to address issues such as making asset declarations systems more effective and thus be able to fight corruption at national level.

ReSPA will also play a role in enhancing cooperation in the sector **Rule of law and fundamental rights**. In this sector, further actions at regional level will concentrate on enhancing cooperation and coordination between law enforcement and judicial bodies at European and international level. This will be done by facilitating the exchange of information and data via secure communication channels, providing effective legal and investigative tools and supporting joint operations. Priority will be given to strengthening the Prosecutors' Network, International Law Enforcement Coordination Units (ILECUs), witness protection programmes and cooperation of judicial and law enforcement bodies operating in the beneficiaries at regional and international level in the fight against all forms of organised crime, including criminal organisations involved in illegal migration, and money laundering. Support might also be provided to other relevant regional organisations either directly or via the Regional Cooperation Council.

The enlargement countries will continue to be assisted in developing their strategic thinking and planning the transposition and implementation of the **Environment and C *acquis***, including their investments needs and their prioritisation by the Environment and Climate Regional Accession Network (ECRAN). As regards civil protection, support will be considered to implement the EU legislation and to integrate the IPA II beneficiaries into the Union Civil Protection Mechanism. Support for **Transport** will ideally be provided to the secretariat of the Transport Community (once established) to help it implement the provisions of the new Treaty once signed. Until then, the co-operation in the transport sector builds on the work undertaken by SEETO which should be supported and, if possible, strengthened.

Support will continue for the **Energy** Community Secretariat assisting the beneficiaries in fulfilling their obligations in transposing and implementing the energy *acquis*, as well as the agreed targets for energy efficiency and renewable energy. **Competitiveness and innovation** will be promoted through support to the preparation of the bi-annual competitiveness and growth programmes and technical assistance provided by IFIs to ensure implementation of the programme and its institutional coordination. Support for the continued implementation of the SEE 2020 strategy will also be provided. In addition, support will be provided through

CEFTA and other trade-related organisations. The assistance will be geared to improving the current low levels of competitiveness, intra-regional trade and trade integration in global markets and enhancing the capacities of market participants. Assistance will also be provided to facilitate the promotion of Area Based Development (ABD) projects in a limited number of marginalised rural border regions. **Innovation** will be promoted through the Regional Platform for Research and Innovation under the auspices of the Regional Cooperation Council under the pillar "Smart specialisation" involving regional stakeholders leading to regional collaboration and networks. In doing so, beneficiaries need to invest more and better in research and innovation, prioritising investments to leverage wealth generation from other available economic assets.

Education, employment and social policies will be supported through the Employment and Education platforms managed by the Commission. The latter comprises the Ministers of Education and their key staff, Commission staff, EU experts and other regional players when appropriate. Support should be granted to joint and/or coordinated action to increase employability and the potential for self-employment.

2.3 Types of financing

Indirect Management Delegation Agreements with regional and international organisations such as the RCC, ReSPA, CEFTA, the Transport Community and the Energy Community Secretariat, IOM, UNCHR, UNODC and the Council of Europe; Indirect management and grant contracts with EU Member States for instance to support actions requiring specific law enforcement expertise (international prosecutions and investigations, witness protection programmes etc.); Service contracts and/or grant agreements to support specific networks such as SEETO, ECRAN, SWG and the Platforms for Employment and Education, including agreements with the European Training Foundation (ETF) for specific support measures.

2.4 Risks

Regional networks and structures must be inclusive and effective. The main risk involves failure to translate general political agreements on inclusiveness into progress in specific networks. This can only be addressed through continued political dialogue with the parties concerned and monitoring of progress in specific networks. Another potential risk involves regional networks not being able to identify the key priorities and/or ensure a clear link between the discussions and lessons learned at regional level is translated into concrete actions nationally. This risk can be addressed by focusing on impact and results and requesting all networks to report on concrete results of their work rather than merely looking at inputs such as meetings organised.

3. Regional investment support

3.1 Needs and capacities

The overall investment needs cannot be covered by public funds alone and require therefore blending of government funding, IPA grants, loan financing and private capital. In addition to action undertaken at national level, regional level support is needed to enable and speed up investments in core projects which are relevant not only for the country where the investment takes place, but for the entire region and/or the interconnection to the Union.

The WBIF demonstrated its value as a unique instrument for donor coordination and blending grants and loans. It has proven to be a successful forum for cooperation among all the stakeholders and a platform where the Western Balkan countries alongside the EU, the International Financial Institution (IFIs) and bilateral donors can identify, prepare and implement priority socio-economic investments through the pooling of expertise and financial resources. These investment projects are deemed to be (i) important for national or regional strategies and the EU accession process and (ii) financially viable. The current pipeline of projects under preparation comprises more than 150 investment projects with an estimated investment value in excess of EUR 13 billion. However, the impact of the WBIF can be increased by more rigorous selection procedures, leading to single sector pipelines and projects with a stronger emphasis on the regional dimension, as well as through additional innovative funding mechanisms.

Under IPA II both national and multi-country assistance will support the enlargement countries in infrastructure development according to the following broad principles. A National Investment Committee should be set up by each IPA II beneficiary; this committee would be chaired by the national authorities with the participation of the EU Delegations, IFIs and other donors and regional organisations; its main objective would be to prioritise projects for both preparatory studies and mature investments. Preparatory projects (studies and technical assistance) with the involvement of an IFI should be channelled through the WBIF and be implemented using MCSP funds. Regarding mature projects, MCSP funds would be used in principle for regional investments, whereas national IPA funds would support mainly national/local investments.

The WBIF's structures and procedures then need to evolve to meet the challenges of its dynamic operating environment.

To increase competitiveness, businesses need to move further up the value chain and to offer specialised, high quality and high value-added services and products. In this context, the conditions and capacities of small and medium-size enterprises (SMEs) need to be further improved. The governments need to facilitate their emergence and growth through improvements in the business and investment regulatory environment including supporting the ability of businesses to compete and innovate through ICT and broadband improvements, training and digital skills development. Setbacks from the economic crisis, which resulted in the credit crunch, need to be overcome.

Following the conflicts of the 90's, there is still a very high number of persons displaced within and beyond the borders of Bosnia and Herzegovina, Croatia, Montenegro and Serbia. These countries have agreed to work jointly to find sustainable solutions for the remaining refugees and displaced persons. The 74,000 most vulnerable refugees and displaced persons are targeted by the Regional Housing Programme (RHP) as an integral part of the Sarajevo process, a first tranche of EUR 234 million have been pledged by donors (90% of the funds coming from EU) at the Sarajevo conference in 2012. An additional EUR 260 million is needed to cover all identified costs. As a response to the severe flooding which hit Bosnia and Herzegovina and Serbia in May 2014, support will be considered for infrastructure reconstruction, as well as to build greater resilience against future natural disasters.

3.2 Objectives, results, actions and indicators

Existing financial instruments for pooling grants, loans and expertise and joint preparation of technical viable and bankable priority projects will be developed further and new innovative

financial instruments will be set up with a view to enhance donor coordination and to attract private capital to secure the financing of major investment projects having a regional dimension.

In addition to results, indicators and targets included in the national CSPs, the following are linked to the regional assistance:

- Value of investment projects made in the region (source WBIF, national budgets, IPA funds);
- Annual foreign direct investments (FDI) inflow per capita (Source SEE 2020);
- Number of families being integrated and settling in houses (source CEB & Commission).

The **Western Balkans Investment Framework** will remain the main instrument. Financial support to the WBIF should be considerably increased because the WBIF is a unique platform for donor coordination and the identification of key priorities for the region.

The prioritisation of infrastructure development should be planned using one single mechanism involving the relevant stakeholders. These should include national administrations (with the Ministries of Finance playing an important role), the Commission (both geographical and regional units), IFIs and bilateral donors. This should result in a list of priority projects, i.e. a single project pipeline per sector.

Further development of financing mechanisms is needed (blending loans and grants, new financial instruments, promote private sector participation in financing, etc.) to ensure access to finance for large infrastructure projects linking the Western Balkans and Turkey to the EU.

The development of these infrastructures should be backed by technical assistance in project preparation and implementation and calls for a coordinated and strategic approach in the region.

Investment support for the environment will focus on water supply, wastewater treatment and waste management. The initial focus will be on the largest agglomerations (densely populated and industrialised areas) and environmentally sensitive areas.

Assistance for transport will concentrate on facilitating the necessary investments on the TEN-Ts extension into the Western Balkans, the SEETO comprehensive network. Assistance should take into account the priorities defined in the SEETO Multi Annual Network Development Plan.

Assistance for energy will support the implementation of the Energy Community Treaty through the WBIF, as well as via the WBIF supported Regional Energy Efficiency Programme and the Green for Growth Fund.

Assistance for all sectors should encourage improved design of infrastructure projects so that investments are made more resilient to current and future climate risks, as well as should promote the limitation and reduction of greenhouse gas emissions.

In the context of WBIF, the **Enterprise Development and Innovation Facility (EDIF)** provides for a comprehensive set of complementary measures to improve access to finance for SMEs and to foster economic development in the region. It does this through creation of preconditions for establishment and growth of innovative and high-potential companies and stimulating the emergence of a venture capital system. The EDIF provides early-to-

development stage equity financing, development and expansion capital to established SMEs, improves SMEs' access to bank lending and lowers the cost of borrowing. It also supports the governments in implementing priority reforms to create a favourable regulatory environment for innovative and high-potential SMEs.

The **Green for Growth Fund (GGF)** is promoting investment in energy efficiency and renewable energy by household and SME energy consumers and by small renewable energy producers. The structure of the Fund is a Luxembourg registered SICAV designed to accommodate both public and private investors with a layered risk/return structure. In addition, the Fund has a Technical Assistance Facility (TAF), supporting it in fulfilling its role as a market enabler and bridging the knowledge and skills gaps. The Commission will continue to monitor its contribution allocated to the C shares, the work of the TAF, and the overall implementation of the GGF objectives.

The issue of refugees and internally displaced persons will be resolved by providing durable housing solutions through the Regional Housing Programme (RHP).

3.3 Types of financing

Financial support will be channelled through the **Western Balkans Investment Framework (WBIF)**. Priority will be given to blending grants and loans and innovative financial instruments to attract private capital including the GGF; EDIF is implemented through Indirect Management Delegation Agreements with the European Investment Fund (EIF) and in close cooperation between the Western Balkan beneficiaries, the Commission, IFIs (EIB/EIF and EBRD taking the lead) and others, including the World Bank and OECD. In addition, technical assistance in support of reforms or direct assistance to SMEs should be based on a limited number of Indirect Management Delegation Agreements with key partners, including OECD, EBRD, EIB/EIF and the World Bank. Grants to CEB will be made (as RHP fund manager) for the Sarajevo process for the completion of the first pledging conference and additional financing following the second pledging conference planned for 2015; Investments in new financial instruments to be set up as appropriate.

3.4 Risks

The main risks involve separate decision making mechanisms for different funding sources, lack of agreement on single sector pipelines and insufficient coordination related to the timing and priority setting for specific segments of the overall key national and regional priorities. This can be addressed through a rigorous application of the rules and procedures already established under the WBIF as well as by using a mechanism such as the Western Balkan 6 to get the beneficiaries to reach political agreement on the timing and priority setting for each segment of the overall regional priorities established through SEETO and other relevant structures.

4. Territorial cooperation

4.1 Needs and capacities

Key lessons learned about cross-border cooperation at intra Western Balkan borders were identified in two interim evaluations in 2010 and 2011 on respectively the governance

structures and performance of the assistance and will be taken on board under IPA II. The new elements include most notably a single contracting authority per CBC programme, a single financial envelope per programme, fewer thematic priorities and a reduced geographical scope to ensure greater focus.

There is a particular need to foster sustainable local development and increasing the prosperity of people and communities in remote and rural border areas which are often lagging behind economically. Over the years, border regions have turned into marginalised peripheries, where access to markets is limited, knowledge and technology transfer from the core difficult, and demographic indicators deteriorating. However, in many of those areas a considerable potential exists, which, if unleashed, would reverse the trend and lead to an increase in rural prosperity. Sustainable development of targeted border areas would foster employment and contribute to furthering regional cooperation and good neighbourly relations.

Participation in cross-border programmes with EU Member States and transnational and interregional cooperation programmes is a good way of preparing for the cooperative decision making in the Union and the management of Structural Funds. Cross-border cooperation is furthermore a key vehicle for fostering reconciliation and dealing with the legacy of the past in the Western Balkans.

4.2 Objectives, results, actions and indicators

Good neighbourly relations remain the overall objective for territorial cooperation, and it will be assessed through the following result/indicator:

- Number of CBC programmes (Source Commission).

During the period 2014-2020 the **following CBC programmes** are foreseen:

(a) IPA CBC with Member States: Croatia-Bosnia and Herzegovina-Montenegro; Italy-Albania-Montenegro (trilateral); Croatia-Serbia; Hungary-Serbia; Romania-Serbia; Bulgaria-Serbia; Bulgaria-the former Yugoslav Republic of Macedonia; Bulgaria-Turkey; Greece-the former Yugoslav Republic of Macedonia; Greece-Albania; Greece-Turkey; Cyprus-Turkey;

(b) IPA CBC with countries covered by the European Neighbourhood Instrument (ENI). The possibility of having IPA CBC programmes between Turkey and its neighbouring ENI countries is being considered;

(c) IPA CBC at intra-Western Balkan borders: Serbia – Bosnia and Herzegovina; Serbia - Montenegro; Montenegro - Bosnia and Herzegovina; Montenegro - Albania; the former Yugoslav Republic of Macedonia - Albania; the former Yugoslav Republic of Macedonia - Kosovo; Albania - Kosovo; Montenegro - Kosovo. The possibility of developing CBC programmes between Serbia and Kosovo and Serbia and the former Yugoslav Republic of Macedonia will be considered. Each of these IPA CBC programmes will focus on a maximum of 4 (of the following) thematic priorities as listed in Annex III to the IPA II Regulation: (1) promoting employment, labour mobility and social and cultural inclusion; (2) protecting the environment, promoting climate change adaptation and mitigation, risk prevention and management; (3) promoting sustainable transport and improving public infrastructures; (4) encouraging tourism and cultural and natural heritage; (5) investing in youth, education and skills; (6) promoting local and regional governance, planning and administrative capacity

building; (7) enhancing competitiveness, business and SME development, trade and investment; (8) strengthening research, technological development, innovation and ICT.

Between these priorities, a selection should be made jointly by the IPA II beneficiaries involved in the cross-border programme, according to the specific situation of the border region. Indicators and objectives are then consequently defined in the programmes at the level of each selected thematic priority.

Projects prepared under the Area Based Development (ABD) approach to facilitate sustainable growth in defined geographical areas in cross-border regions in the Western Balkans, in particular rural areas characterized by specific complex development problems, will be considered for funding under cross-border cooperation programmes.

IPA II will also finance, as appropriate, the participation of eligible regions of IPA II beneficiaries in transnational cooperation programmes under the Structural Funds' European Territorial Cooperation objective as well as in cross-border cooperation programmes under the European Neighbourhood Instrument (ENI). These programmes are subject to specific priority areas as defined in the corresponding Regulations and programmes.

As regards to **ERDF transnational cooperation programmes**, IPA II beneficiaries are eligible to participate in four programmes: the "Danube" programme, the "Adriatic-Ionian" programme, the "Mediterranean" programme and the "Balkans – Mediterranean " programme.

The geographical scope of the "Danube" and the "Adriatic-Ionian" transnational programmes matches that of the corresponding macro-regional strategies. According to the Regulations of the European Structural and Investment Funds 2014-2020, these programmes will support the implementation of the strategies, including their governance structures.

Turkey is the only IPA country which is eligible to the ENI sea basins programmes, namely the Black Sea Basin programme and the Mediterranean Sea Basin programme. IPA II will continue to support the participation of Turkey in the Black Sea Basin aiming to achieve a stronger and sustainable socio-economic development of the Black Sea Basin region.

In addition horizontal support will be provided for capacity building for cross-border cooperation in particular to strengthen local authorities.

4.3 Types of financing

Support will be provided primary through grants. Investments can also be financed if within the objectives of the programmes. Technical assistance is provided in order to improve the capacities of the institutions involved in the implementation of territorial cooperation programmes.

4.4 Risks

The main risks involve lack of capacity in the beneficiary institutions to manage the complex programming procedures foreseen notably for the CBC programmes between IPA beneficiaries. This will be addressed through targeted technical assistance to the joint operating structures in the IPA II beneficiaries. Another risk involves lack of political

agreement related to the establishment of two additional intra-Western Balkan CBC programmes which can only be addressed through the continued high level dialogue between the concerned parties.

ANNEX 1: INDICATIVE ALLOCATIONS (million EUR)

	2014	2015	2016	2017	2018-20	Total 2014-20
A. Horizontal support	152.0	122.5	136.5	115.5	395.5	922.0
TAIEX and Statistics	20.0	21.0	20.0	21.0	59.0	141.0
Advisory functions of international organisations	49.0	40.0	25.0	32.0	91.0	237.0
Civil Society and Media	25.0	5.0	30.0	5.0	60.0	125.0
Erasmus+ including the youth dimension	33.0	34.0	35.0	35.0	110.0	247.0
Horizontal measures	25.0	22.5	26.5	22.5	75.5	172.0
B. Regional structures and networks	9.0	27.0	31.0	10.0	57.5	134.5
C. Regional investment support*	158.1	181.9	177.9	216.3	772.8	1506.9
WBIF, EDIF, GGF and other blending instruments	148.1	91.9	177.9	216.3	772.8	1406.9
RHP	10.0	90.0	0.0	0.0	0.0	100.0
D. Territorial co-operation	28.9	33.6	44.6	68.6	219.5	395.2
TOTAL	348.0	365.0	390.0	410.4	1445.3	2958.6

* Including unallocated funds for Bosnia and Herzegovina.

ANNEX 2: INDICATORS

Multi-Country	INDICATOR	SOURCE	Mile-stone	Target	BASELINE	
			2017	2020	2010	2011
Horizontal support to sector policies and reform	Government effectiveness (Rank)	World Bank		20% increase		
	Number of Erasmus+ students from the region completing a EU Master programme	Commission				
Regional structures and networks	Number of information requests addressed to another country linked to a criminal investigation	International Law Enforcement Cooperation Units				
Regional investment support	Value of investment projects made in the region	WBIF, national budgets, IPA funds				
	Annual FDI inflow per capita	Eurostat				
	Volume of trade (Exports and imports) as percentage of GDP	Eurostat				
	Number of families being integrated and having houses	CEB & Commission				
Territorial cooperation	Number of CBC programmes	Commission	9	10	8	8