

The EU's proposed Reform and Growth Facility for the Western Balkans

In November 2023, the European Commission published a Communication on a New Growth Plan for the Western Balkans,¹ comprising EUR 6 billion for 2024-2027 which would be additional to the current Instrument for Pre-Accession Funds. Of this, up to EUR 2 billion will be in non-repayable grant support and EUR 4 billion in concessional loans.

This announcement was followed by a public consultation on a proposed Regulation on establishing the Reform and Growth Facility for the Western Balkans, which will last at least until the end of April 2024.²

Regrettably, the proposal is already being debated and amended in European Parliament committees **before the public consultation has even finished**,³ sending a problematic message that the consultation is a mere formality, with no impact on the final result – hardly the example that the EU should be setting.

In addition, **no impact assessment** has been carried out on the Facility, with the Commission stating in its explanatory memorandum that this was due to ‘the political urgency of the proposal’.

This is unacceptable, particularly as the European Court of Auditors has previously found that EU funding via the Instrument for Pre-accession has had ‘little overall impact on fundamental rule of law reforms’ in the Western Balkans, despite rule of law being a priority sector.⁴ These findings serve as a warning that particular caution, analysis and wide consultation is needed in the design of new funds for the region.

¹ European Commission, [Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. New growth plan for the Western Balkans](#), European Commission, 8 November 2023.

² European Commission, [Have your say - Public Consultations and Feedback: Reform and Growth Facility for the Western Balkans](#), European Commission, 9 November 2023. The final deadline depends on when the consultation materials are available in all EU languages.

³ For details on the European Parliament adoption process, see [here](#).

⁴ European Court of Auditors, [Special Report 01/2022: EU support for the rule of law in the Western Balkans: despite efforts, fundamental problems persist](#), European Court of Auditors, 10 January 2022.

For more information

Pippa Gallop

Southeast Europe energy
policy officer

CEE Bankwatch Network

pippa.gallop@bankwatch.org

Learn more: bankwatch.org



The facility must be part of a wider, more coherent EU policy in the region

The establishment of an additional funding mechanism for the Western Balkans based on *ex ante* conditions that enhance fundamental reforms is a welcome idea that has potential. Nevertheless, its impacts can only be positive as **part of a wider and more consistent EU policy towards the region regarding rule of law**.

This must include much **clearer public messages and sanctions on governments** which do not show sufficient political will to adhere to the rule of law and transpose and enforce the EU acquis, and clearer rewards for those which do.

While additional funds for the region are welcome, a dose of realism is needed regarding how much can be achieved with EUR 2 billion in grants and EUR 4 billion in concessional loans, considering that concessional loans are anyway available from the European Investment Bank, albeit with different conditions. Such sums cannot be relied on to drive significant reforms and **can at most complement proactive and consistent EU action** across the board.

Excessive and simplistic focus on GDP

The Communication⁵ and proposed Regulation are out of step with today's reality and EU policy, **concentrating too much on GDP⁶ growth and too little on other indicators that tell us much more about socio-economic welfare**. The goals and indicators need to concentrate on social and environmental welfare, not abstract growth figures.

Although not all Eurostat data categories are available for the Western Balkans, various data is already collected and published for the region.⁷ This should also be improved during the coming years, for example via transposition of EU regulation 2019/1700 establishing a common framework for European statistics relating to persons and households by the Western Balkan countries.

Although the *goal* of the GDP indicator presented in the Annex of the Regulation is reasonable – to ensure that less well-off countries benefit from more funds – GDP is not the best metric, even of income. Gross National Income (GNI) would be more appropriate.

What is the money actually for?

Reading the Commission's Communication⁸ and the draft Regulation, it is not clear how the money is actually supposed to be used. The Communication contains seven '*Priority Actions for Integration into the EU's single market*'. However **in the Regulation it is unclear what the significance of these is** and whether they constitute priorities for the investments under the Reform and Growth Facility.

⁵ European Commission, [Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, New growth plan for the Western Balkans](#).

⁶ David Pilling, [5 ways GDP gets it totally wrong as a measure of our success](#), *World Economic Forum*, 17 January, 2018.

⁷ Eurostat, [Enlargement countries publications](#), *Eurostat*, accessed 6 March 2024.

⁸ European Commission, [Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, New growth plan for the Western Balkans](#).

In any case, they need to be changed. First, they are too wide and cannot achieve significant results without being more focused.

In addition, **it is absolutely inappropriate to concentrate only on facilitation of road transport (priority 4)**, and not railway transport and urban public transport. The EU has traditionally concentrated on TEN-T and particularly on motorways in the region, leaving its rail network in a parlous state. Moreover, the focus on cross-border networks leaves urban public transport neglected, despite its potential to improve the lives of millions of people on a daily basis. Therefore, in as much as TEN-T is followed, the EU must finally step up its funding for rail transport. However it should also step up its support for urban public transport and non-TEN-T rail connections.

Priority 7, on integration into industrial supply chains, also rings alarm bells. It entails a major risk of the Western Balkans countries mining **strategic raw materials for the EU while failing to apply EU environmental standards or achieve appropriate community benefits**. This priority should be adjusted to aim only at critical medicines, as well as processing, manufacturing and recycling of raw materials. Using EU money for extraction and exploration projects is not appropriate currently, with such low levels of environmental governance in the region.

Overall, if the EU is to avoid accusations of throwing money at the Western Balkans to make up for the lack of progress on the accession process, more narrow and specific goals are needed for the Facility, to ensure its effectiveness.

Public participation and the partnership principle are key to success

Public consultation of Reform Agendas and civil society involvement in the monitoring of funds is entirely missing from the draft Regulation, despite civil society's crucial role in ensuring the best use of public funds. **At the very least, the Reform Agendas must be publicly consulted** and this must be a condition for their approval by the Commission. Where they may entail significant impacts on the environment, Strategic Environmental Assessments must be carried out. In this respect, **Article 11 must be amended to allow more than three months** for the submission of Reform Agendas to the Commission by the countries, as at least 30 days will be needed for the public consultation alone.

The **Partnership Principle**⁹ must also be extended to all EU funds, including in the Western Balkans, in order to ensure appropriate monitoring, including by civil society. In this case, it **should be added to Article 4** of the Regulation on General Principles.

Requirements for public consultations on the Reform Agendas, DNSH assessments, and where applicable, Strategic Environmental Assessments, need to be **stipulated in Facility Agreements**, which must themselves be public. This should be stipulated in **Article 9 of the Regulation**.

Do no significant harm and leave no-one behind – but how will this be ensured?

The Recitals of the draft Regulation, as well as Article 4, make it clear that the investments under the Facility shall, among others, mainstream climate change mitigation and adaptation, biodiversity and environmental protection, human rights, democracy, avoid stranded assets, and be guided by the

⁹ See for example the [Commission Delegated Regulation \(EU\) No 240/2014 of 7 January 2014 on the European code of conduct on partnership in the framework of the European Structural and Investment Funds](#).

principles of ‘do no harm’ and of ‘leaving no one behind’. This is welcome, however the text of the Regulation contains no provisions on **how these will be regulated, carried out, publicly consulted and checked**. This needs to be specified in Article 9.

The experience from the EU Recovery and Resilience Facility shows that the DNSH assessment has often been done as an ineffective tick-box exercise behind closed doors, with no public input. Moreover it has often taken place before the exact nature of the measures has been established, making it hard to assess their impacts. In the case of the Reform and Growth Facility, the public must have an opportunity to have a say on DNSH assessments.

Exclusion of fossil fuels highly welcome and must be retained

Article 4 of the draft Regulation states that the Facility shall not support activities or measures which are incompatible with the Beneficiaries’ National Energy and Climate Plans, their Nationally Determined Contribution under the Paris Agreement, and ambition to reach climate-neutrality by 2050 or that promote investments in fossil fuels, or that cause significant adverse effects on the environment or the climate. This is very welcome. It is crucial to specify that fossil fuels and investments with significant adverse effects on the environment/climate are excluded as it cannot be taken for granted that NECPs and NDCs will not include such projects.

Biodiversity target must be separate to climate target

It is welcome that, according to Article 19, at least 37 per cent of the non-repayable financial support channelled through the WBIF should contribute to climate objectives, however the experience from the Recovery and Resilience Facility in central and eastern EU Member States shows that **biodiversity funding needs to have a separate allocation percentage**, otherwise it is crowded out by other sectors’ climate action funding.

Excessively concessional terms may encourage irresponsibility

According to Article 17, the loans are foreseen to have a maximum duration of 40 years and the background text states that it is appropriate not to start the repayment of the principal before 2034. **This seems designed to encourage irresponsible borrowing**, as most of the governments in the region will no longer be in power by that time.

Clearer transparency and disclosure requirements needed

Article 12 mentions general conditions for payments that have to be fulfilled for any release of funds, but the Regulation lacks specifics. Clearer requirements for transparency and oversight of the budget need to be spelt out. It needs to be clear to the public what is planned, what has been spent and what is still to spend, who is responsible for publishing this information, and in what format. This is not currently the case with any EU funds in the region, which are extremely difficult to track and as a result, the public does not have confidence that they are being used to the best effect.

The Western Balkans Investment Framework (WBIF) should only increase its competences on condition that it increases its level of transparency, publishing planned loans and grants at least a month before any financing decisions are taken. The EBRD and EIB already publish information about planned investments

and it is not clear why the WBIF does not do the same. This would ensure that any public concerns are able to be raised *before* decisions are taken and thus ensure the best use of EU public funds.

EU financial interests not adequately protected

Chapter IV **relies excessively on the beneficiaries** to self-report fraud and corruption. It needs to state more clearly **what the Commission 'shall' do** (not 'may do') to prevent such occurrences, for example in Article 23.4 and 23.5.

In particular, according to Article 23, for the portion of funds paid as direct budget support to the governments, it sounds like the Commission will **only** rely on the control systems of the beneficiaries. Even with improvements, it is not realistic that the change within 2-3 years will be sufficient to properly manage and control EU funds.

Also of concern is that under Article 23, the beneficiaries are only obliged to report irregularities, including fraud, to the Commission if they have been the subject of a primary administrative or judicial finding. Although it is understandable to want to limit fraud reporting to cases where it appears to be well-founded, **leaving it until it is subject to a primary administrative or judicial finding can take many, many years, and is much too late.**

Key recommendations

Define clearer and narrower goals for the Facility, focusing on social and/or environmental goals, not GDP. If the priority actions on transport and critical materials are to be retained, they must aim at rail and urban transport, not yet more motorways, and at critical medicines, as well as processing/manufacturing and recycling of raw materials rather than extraction.

Define clear and consistent public messages to the Western Balkan countries on their progress on fundamental reforms and set out clearly how the Facility fits into the overall Strategy.

Consider suspending the adoption of the Regulation in Parliament until an impact assessment has been carried out, including lessons learned from the previous European Court of Auditors' findings and its recent opinion on the Regulation; and until the public consultation has been completed and its results taken into account. If this is not deemed possible, find another means to demonstrate how the above will be meaningfully taken into account.

Amend the following articles of the draft Regulation:

- Article 4 to include the Partnership Principle.¹⁰
- Article 9 to stipulate that Facility Agreements must require public consultations on the Reform Agendas, DNSH assessments, and where applicable, Strategic Environmental Assessments, and that the Agreements must themselves be made public. It also needs to be clearer *how* DNSH assessments are to be done.

¹⁰ See for example the [Commission Delegated Regulation \(EU\) No 240/2014 of 7 January 2014 on the European code of conduct on partnership in the framework of the European Structural and Investment Funds](#).

- Article 11 to allow more than three months for the submission of Reform Agendas, in order to enable meaningful public consultations.
- Article 12 to set clearer requirements for public disclosure of information about final beneficiaries and progress with implementation.
- Article 17 to shorten the loan repayment period and grace period to discourage wanton borrowing.
- Article 19 to include a separate target for biodiversity spending under the grant portion of the Facility rather than the loan one.
- Article 23 to rely less on self-reporting by beneficiary countries; to ensure that the Commission takes a proactive role in overseeing the spending and to ensure that beneficiaries are obliged to report any fraud or corruption suspicions at an early stage, not waiting until court findings.



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