

# From quantity to quality



**How to improve the infrastructure project selection process under the Western Balkans Investment Framework**

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## Glossary

IFICO – International Financial Institution Coordination Office

IFIs – International Financial Institutions

IPA – Instrument for Pre-accession Assistance

NIC – National Investment Committee

NIC TA – National Investment Committee Technical Apparatus

NIPAC – National IPA Coordinator

PFG – Project Financiers’ Group

SEA – Secretariat of European Affairs

SPP – Single Project Pipeline

SSPP – Single Sector Project Pipeline

SWG – Sector Working Group

WBIF – Western Balkans Investment Framework

WBIF SC – WBIF Steering Committee

## Executive summary

The Western Balkans Investment Framework (WBIF) provides finance and technical assistance for investments, particularly in infrastructure, energy efficiency and private sector development. It is a joint initiative of the European Union (EU), international financial institutions (IFIs), bilateral donors and the governments of the Western Balkans.

The WBIF's Single Project Pipeline (SPP) is a list of priority projects (both technical assistance and investment grants) that countries propose for financing by the WBIF selected via a specific selection process. This list is intended to ensure economic, efficient and effective prioritisation and implementation of those projects with highest importance for the Western Balkan countries. This briefing covers the preparation of the SPP, including how it is being used as a mechanism for implementation of the EU's Economic and Investment Plan (EIP) for the Western Balkans.

At least 50 per cent, or EUR 3 billion, of the EU's new Reform and Growth Facility is also planned to be disbursed through the WBIF. Considering that the main objective of this Facility is to speed up reforms in the Western Balkan countries, it is even more important that the WBIF selects projects in a way that is transparent, participatory and in line with EU acquis.

In addition, the briefing provides a detailed analysis of the process of identifying, programming and prioritising projects for the SPP in North Macedonia as a basis for applying for investment projects under the WBIF's calls. North Macedonia is considered one of the most advanced countries in certain aspects of decarbonisation and energy transformation, because it has a coal phase-out date and a Just Transition Roadmap. However, the case study in this briefing shows discrepancies between commitments made in strategic documents and how projects are prioritised for financing.

The main finding of the briefing is that in North Macedonia, the entire process is plagued by inconsistencies between sectors and ministries, such as the use of different selection methodologies for the creation of sector-specific project lists known as Single Sector Project Pipelines (SSPP). As a result, it is impossible to understand how some of the projects are categorised and prioritised.

As a result of this unstructured and non-transparent process, North Macedonia's SPP contains projects that have been selected on purely political bases and are not clearly linked to the country's priorities set out in the strategies, plans and programmes adopted by the parliament. Furthermore, the SPP does not properly prioritise projects that would have a demonstrated high cost-benefit ratio if implemented. Important projects with high potential for positive impacts that have already secured financing but have not yet been implemented due to lack of political will and institutional capacity can also be found in the SPP, raising questions about the country's dedication to energy and environmental reforms.

An illustrative example is the project *Construction of state road R1209, Section Tetovo – Border crossing with Kosovo (Prizren)*. It appears on the list of 'mature' projects in North Macedonia's most recent SPP from 2024, but was not present in previous SPPs. The road is supposed to go through the heart of the Shar Planina National Park and is strongly opposed by the national park authorities. Although on the 'mature' projects list, this project, like several others, has been assigned the lowest maturity level (at the time of the SPP's approval, no project documentation has been prepared) and a low strategic relevance score of 52.4. This indicates that it has been prioritised for political reasons rather than strategic ones.

Another example of the inexplicable ranking and prioritisation of projects on the SPP is the ‘mature’ project *Gas Interconnection Republic of North Macedonia – Republic of Kosovo*, ranked second on the list in terms of its maturity level and level of priority for implementation – even though Kosovo has decided not to go ahead with the project.

As a result of this dysfunctional selection process, North Macedonia’s 2024 SPP lists no fewer than 181 projects, despite the country’s obvious lack of capacity to implement more than a few such projects at once. Twelve are marked as ‘under implementation’, but even some of these suffer from serious delays.

No fewer than 73 of these projects are in the transport sector, most of them for roads, showing a massive inter-sectoral imbalance and failure to promote modal shift towards more sustainable transport types.

Fossil fuel infrastructure projects costing between EUR 1.4 and 1.8 billion are also on the list. Yet only EUR 215 million worth of much-needed grid improvements and two energy efficiency projects of EUR 50 million (one an ongoing World Bank project with disbursed funding from the EU’s Instrument for Pre-accession Assistance (IPA)) are included.

Many of the identified issues in North Macedonia’s SPP are closely linked to the lack of clear guidelines and requirements from the WBIF related to categorisation, prioritisation and transparency. Although this report does not analyse the SPPs from other Western Balkan countries, similar risks are present in their SPP development, because much of the process has not been institutionalised and is unsupervised.

One of the ways such inconsistencies can be averted is by the inclusion of different stakeholders (like academia, civil society, chambers of commerce and relevant representatives from various institutions that are not from the target sector) in the preparation of the SSPPs. However, the Sector Working Groups (SWGs) responsible for the SSPPs are either not operating transparently or, as in the case of the energy sector, have not been established. This needs to be changed first.

In order to overcome these issues, the European Commission must update the WBIF methodology for the creation of SPPs and require the establishment of SWGs whenever necessary, as well as proper regulation of their work. In practice, this means that the European Commission ensures that a national legal regulation is adopted and applied in the recipient countries where the responsible bodies and institutions are clearly defined before the SPP is accepted as a tool to make informed financing decisions.

In addition, the SWGs’ work must be transparent and participatory and project selection done by including various relevant stakeholders in order to ensure the selection of projects that are actual strategic priorities, but also to avoid conflicts between strategic priorities of different sectors. To ensure this, the SWGs should include at the very least academia and civil society, but the final draft SPP also has to go through proper public consultation before it is sent for government adoption.

The existing SPPs should be revised through an updated process before any future financing decisions are made through the WBIF. This will also lead to a more efficient and effective implementation of the process for obtaining funds, and will probably speed up the implementation of projects and reforms in the recipient countries.

Furthermore, the greening component of WBIF financing needs to be more transparent, with a clearer emphasis on modal shift in transport and more support for circular economy investments such as waste

prevention, re-use, recycling and composting. Financial support for new fossil fuel installations in the Western Balkans must be discontinued, and this includes ceasing to provide technical assistance or financing for gas projects or any projects that extend the lifetime of existing fossil fuel infrastructure. Thus, ambitious targets for deep renovation of buildings, prioritising the integration of heat pumps, heat storage systems, and other sustainable renewable energy-based technologies for production and storage of electricity and heating should be supported to increase the share of sustainable renewables and implement energy savings in different sub sectors.

## Introduction

The objective of the Western Balkans Investment Framework (WBIF)<sup>1</sup> is to increase the capacity of its recipient countries – Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia – to finance strategic infrastructure and other priority investments in line with European Union (EU) accession priorities and national strategies.

Established in 2009 as a joint initiative of the EU, financial institutions, bilateral donors and beneficiary countries, it includes the European Commission, Council of Europe Development Bank (CEB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Germany's KfW Development Bank (KfW), the World Bank Group (WBG) and Agence Française de Développement (AFD).

The WBIF finances the preparation and implementation of infrastructure projects through grants from the European Commission's Instrument for Pre-Accession (IPA)<sup>2</sup> and 20 bilateral donors,<sup>3</sup> blended with loans provided by the six participating financial institutions and financing from the recipient countries.

It provides financing and technical assistance for investments within the following priorities:<sup>4</sup>

- transport;
- clean energy;
- environment and climate;
- a digital future; and
- the private sector and human capital.

Due to the role of the WBIF in distributing EU funds under the IPA, including the EUR 9 billion allocated under the 2020 Economic and Investment Plan (EIP) for the Western Balkans<sup>5</sup> and at least half of the EUR 6 billion from the Reform and Growth Facility for the Western Balkans,<sup>6</sup> it is of utmost importance that the WBIF prioritises the most strategically important projects that contribute to the environmentally and socially sustainable and resilient development of the beneficiary countries.

A condition for using WBIF funds is for the Western Balkans beneficiary countries to establish a system of selection and prioritisation of strategic infrastructure projects according to an adopted WBIF methodology. This is to ensure national and international funds are used in the most effective, efficient and transparent way.

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<sup>1</sup> WBIF, [Western Balkans Investment Framework](#), WBIF, accessed 5 May 2024.

<sup>2</sup> European Commission, [Overview - Instrument for Pre-accession Assistance](#), European Commission, accessed 5 May 2024.

<sup>3</sup> WBIF, [WBIF Bilateral Donors](#), WBIF, accessed 5 May 2024.

<sup>4</sup> WBIF, [Western Balkans Investment Framework A Guide](#), WBIF, March 2020.

<sup>5</sup> WBIF, [Economic and Investment Plan for the Western Balkans](#), WBIF, accessed 3 May 2024.

<sup>6</sup> European Commission, [New Growth Plan for the Western Balkans](#), European Commission, accessed 12 July 2024.



This briefing describes the process of project selection and prioritisation under the WBIF and examines how it works in reality, through the case of North Macedonia. It then provides recommendations on the changes needed in order for the most relevant, feasible and strategically important projects to be selected in a transparent and accountable manner.

## WBIF governance and the Single Project Pipeline

### Structure and governance of the WBIF

Grant related operations are approved and supervised by the WBIF Steering Committee (WBIF SC) and prepared and monitored by the Project Financiers' Group (PFG). Administrative, technical, and logistical support is provided by the WBIF Secretariat.

The Steering Committee consists of the European Commission, the Assembly of Contributors (all contributors to the European Western Balkans Joint Fund),<sup>7</sup> and the aforementioned six financial institutions. They meet twice a year in June and December, and their tasks include approving eligible grant applications. The observers are: the recipient countries, EU Member States not contributing to the Joint Fund, Western Balkans Enterprise Development and Innovation Facility (WB EDIF) members not already included as WBIF SC members, and other expert bodies.

The members of the PFG are the European Commission and six financial institutions; bilateral donors, EU Member States and the recipient countries are kept informed about the work of the PFG. They also meet twice a year, in May and November. They are responsible for the technical screening and assessment of all requests for financial support, providing recommendations to the Steering Committee for approval, and monitoring the implementation of grant operations.

The Steering Committee typically organises two calls for technical assistance and one call for investment grants per year, and the PFG assesses project applications.

### The National Investment Committee framework

The WBIF has created a project selection structure for applications for technical assistance and investment grants, which entails the creation of a Single Project Pipeline (SPP) of recipient countries' strategic investment projects in the WBIF priority sectors. This structure is referred to as the National Investment Committee (NIC) framework.

The National IPA Coordinators (NIPACs) are national bodies that are responsible for coordinating and monitoring the EU assistance under all five IPA components (categories of projects that can be funded).<sup>8</sup>

The NIPACs are essential for coordinating all relevant stakeholders in the development of the SPP, such as NICs, line ministries, finance ministries, public companies and utilities, local authorities, private sector entities and civil society organisations. The NICs are most often chaired by the deputy prime minister or the

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<sup>7</sup> WBIF, [Western Balkans Investment Framework A Guide](#).

<sup>8</sup> European Commission, [Commission Implementing Regulation \(EU\) 2020/891 of 26 June 2020 amending Implementing Regulation \(EU\) No 447/2014](#), EUR-Lex, 26 June 2020.

minister of finance of the recipient country, and they are responsible for endorsing the final SPP. The NIC has a Technical Apparatus (NIC TA) responsible for preparing and sending the SPP for approval to the NIC.

The work of the NIC is organised on three levels. The first level is composed of high-level permanent members by function from relevant ministries and representatives from the government. They coordinate the preparation of the SPP, consider different opportunities for financial support, and present plans for realisation of the projects to development partners upon the SPP's adoption by the government.

The second level of the NIC, the technical working group, is the basic operational body that formulates, promotes and supervises the implementation of the sectoral approach from concept into practice. It consists of a chairperson and members and deputy members from relevant bodies and institutions, such as representatives from the Ministry of Finance, the office of the prime minister, etc.

The third level consists of working groups for programming in the following sectors: transport, environment, energy, and social (education, health, culture and the judiciary). They are responsible for the operational implementation of the programming process, creation of the SSPPs and providing feedback to the higher levels. The Sector Working Groups (SWGs) are established within line ministries and consist of relevant ministries' focal points for cooperation with the NIC TA, final beneficiaries (such as local authorities, public companies, agencies, etc.), representatives from civil society organisations, and other relevant stakeholders. They are essential for the planning, implementation and monitoring of sector policies; programming of EU assistance; and donor coordination.

The NIC framework and the sector-wide approach is intended to ensure that SPPs are coordinated with national strategies and that dialogue between different sectors takes place for a more efficient and more effective use of funds.

Representatives from the Delegation of the European Union (DEU), international financial institutions, and bilateral donors active in the recipient country may attend the meetings at all levels of the NIC.

As stated on the website of the Secretariat of European Affairs (SEA) of North Macedonia,<sup>9</sup> the main elements of the country's NIC framework are the following:

- **National and highest political ownership**, to be demonstrated by the periodic ratification and submission of the SPP by an NIC to the relevant bodies (DEU, WBIF, financial institutions, etc.) for further processing.
- **Transparency**, which must be demonstrated by the structured processing of projects through the project pipelines and by which key national stakeholders are involved. The line ministries are responsible for preparing SSPPs using a methodology that considers the project processing flow, structured appreciation of set priorities, decisions taken in the process and consultation process with other actors, such as the Ministry of Finance and DEU, financial institutions, etc.
- **Prioritisation at two levels:** (1) at the level of the line ministries, where the SSPPs are prioritised, and (2) at the level of NIC / Ministry of Finance, where all the SSPPs are merged into the SPP. The

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<sup>9</sup> Secretariat of European Affairs of North Macedonia, [The National Investment Committee \(NIC\)](#), *Secretariat of European Affairs of North Macedonia*, accessed 28 June 2024.

priorities must be aligned with national and EU priorities (country strategy papers, partnership agreements, etc.).

- **Structured European Commission and financial institution involvement at two levels:** (1) at the moment of relative maturity of the SSPPs at the level of the line ministries, and (2) at the moment of ratification of the SPP at the NIC / Ministry of Finance or prime minister level.

## The process of developing Single Project Pipelines

To develop an SPP with projects that meet both national and EU standards, local and national authorities are supposed to follow an eight-step methodology proposed in 2015<sup>10</sup> by the International Financial Institution Coordination Office (IFICO), a service provider procured and financed by the European Commission. The following list of sequential steps are necessary preconditions for a specific project to be included in the SPP.

### 1. Identification of a list of relevant projects by line ministries

The first step assumes identification of important infrastructure projects that drive the realisation of sector strategies or national/regional socio-economic development programmes. Project ideas generated by final beneficiaries and line ministry databases, as well as projects supporting national strategic action plans and master plans, are taken into consideration during the prioritisation process.

The identified projects are expected to be implemented within at least seven, and preferably 10, years, and should not only include new projects, but also those under preparation or implementation due to their impact on the fiscal space and borrowing capacity of the recipient country.

### 2. Strategic Relevance Assessment (SRA) by SWGs

After collecting the proposed project ideas by sector, line ministries submit Project Identification Forms (PIFs) to the respective SWGs.

As stated in the methodology: *‘The strategic relevance of each project needs to be assessed by the SWGs according to their compliance, consistency and coherence with the criteria of the general and sector policy objectives and/or fulfilment of the sector objectives defined in (sector) strategic documents.’*

### 3. Preliminary SSPPs defined by SWGs

Each SWG is responsible for selecting the most relevant projects based on their strategic relevance assessment, preparing a SSPP and submitting it to the NIC TA to perform a maturity check on each project.

### 4. Classification of projects in the preliminary SSPPs according to maturity by the NIC TA

The NIC TA conducts a maturity check on each project in the SSPPs based on the information provided in the project profiles classified according to the following maturity status:<sup>11</sup>

<sup>10</sup> WBIF, [IFICO Methodology for Selection and Prioritization of Infrastructure Projects](#), WBIF, 22 May 2015.

<sup>11</sup> However, please note that as explained below, North Macedonia for some reason does not use this ranking system.

- Group 1 – Ready for tendering and investment realisation
    - Group 1a – Technical documentation prepared, ready for tender preparation or tendering
    - Group 1b – Preparation of technical documentation ongoing and ready for tendering when finished, or some final approvals/permits are missing
  - Group 2 – Ready for preparation of technical documentation
    - Group 2a – Projects with spatial planning documentation completed with preconditions for land acquisition in place
    - Group 2b – Projects with gaps in spatial planning documentation with preconditions for land acquisition still pending
5. Determination of financing sources

The NIC TA engages in formal negotiations with the Ministry of Finance, NIPAC, IFIs, and other donors to agree on financial support to individual projects in the pipeline, and on the fiscal space available for those projects.

6. Consolidation of the SSPPs into one SPP by the NIC TA

After the determination of financing sources, the NIC TA together with the Ministry of Finance and the NIPAC creates the SPP.

7. Adoption of the SPP by the NIC/government

The final SPP is submitted to the NIC for ratification and depending on the status of the NIC in the recipient country, it may afterwards go to the government for approval.

8. Project preparation/implementation

After the adoption of the SPP by the government of the beneficiary country, an application can be submitted whenever a suitable WBIF call for applications is open. The WBIF application process is identical for both technical assistance and investment grants; however, the application cycles vary in eligibility requirements, frequency, and timing. Each project application goes through the following steps when applying for funding:

Step 1 - Call for proposals

Step 2 - Preparation and submission of project applications

Step 3 - Lead IFI endorsement

Step 4 - European Commission project screening

Step 5 - Project assessment by PFIs

Step 6 - Partner financial group review and recommendation

Step 7 - Steering Committee approval

An application for technical assistance or a grant should be accompanied by an official letter with a positive opinion from the recipient country's ministry of finance on the possibility of public borrowing for the relevant investment project, since such grants accompany loans from IFIs. The investment project should also be supported by an IFI or development bank that was involved in the negotiations.

## Case study: North Macedonia's Single Project Pipeline

In North Macedonia, an NIC and SPP<sup>12</sup> (consisting of 120 projects) were first established in 2015.

The SPP has been revised four times. In 2018, the list was revised in order to comply with the work programme of North Macedonia's government from 2017 to 2020.<sup>13</sup> In 2020, with the adoption of the EIP for the Western Balkans, another revision took place.<sup>14</sup> In 2022 the list was revised again and contained a total of 162 investment projects.<sup>15</sup> Most recently, the list was controversially updated again in May 2024. This revision took place following parliamentary elections, during the technical mandate of the outgoing government.<sup>16</sup> It now contains 181 projects.

The process of establishing the 2022 SPP in North Macedonia is described in a report<sup>17</sup> published on 23 December 2022 by the State Audit Office. The report covers the procedures for obtaining investment grants in the period from 2015 to 2022, as well as the procedures for obtaining technical assistance carried out in the period from 2019 to 2022.

Between 2009 and 2022, North Macedonia applied to all 28 calls for technical assistance that were published, as well as to all seven calls for investment grants. According to the data published on the WBIF website, since 2009, the facility has supported an estimated EUR 3 billion<sup>18</sup> in public sector investments in North Macedonia, including EUR 900 million in loan agreements. The country has received 48 grants worth a total of EUR 486.5 million in technical assistance and investment co-financing. The EU IPA grant support channelled through the WBIF accounts for EUR 466.3 million and covers both technical assistance and investment projects.

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<sup>12</sup> Secretariat of European Affairs of North Macedonia, [North Macedonia's first SPP established in 2015](#), *Secretariat of European Affairs of North Macedonia*, accessed 27 August 2024.

<sup>13</sup> The revision of the SPP done in 2018 is not available online.

<sup>14</sup> Secretariat of European Affairs of North Macedonia, [North Macedonia's SPP revised in 2020](#), *Secretariat of European Affairs of North Macedonia*, accessed 27 August 2024.

<sup>15</sup> Secretariat of European Affairs of North Macedonia, [North Macedonia's SPP revised in 2022](#), *Secretariat of European Affairs of North Macedonia*, accessed 27 August 2024.

<sup>16</sup> Secretariat of European Affairs of North Macedonia, [North Macedonia's SPP revised in May 2024](#), *Secretariat of European Affairs of North Macedonia*, accessed 27 August 2024.

<sup>17</sup> State Audit Office of North Macedonia, [State Audit Report 'Process of obtaining and using funds from the WBIF'](#), *State Audit Office of North Macedonia*, December 2022.

<sup>18</sup> WBIF, [North Macedonia](#), *WBIF*, accessed 27 May 2024.

## North Macedonia's responsible bodies and institutions within the National Investment Committee framework

A decision on the establishment of an NIC was adopted by the government of North Macedonia in July 2015.<sup>19</sup> The government appointed a national IPA coordinator for the management of EU funds (IPA II) – the Deputy Prime Minister for European Affairs – and a deputy national IPA coordinator – the Minister of Foreign Affairs – for the first time in October 2015.<sup>20</sup>

The responsibilities of the national IPA coordinator are defined by the EU regulation for IPA II and IPA III, the Framework Agreement with the EU which is ratified by law, and the Decree on IPA II.

The NIC TA, on behalf of NIPAC, together with the Ministry of Finance, is the responsible institution for the preparation and monitoring of the SPP. In North Macedonia, the NIC TA is represented by the Secretariat of European Affairs (SEA) established as a separate expert service of the government of North Macedonia regulated by the Law on the Government of North Macedonia.<sup>21</sup>

The Secretariat of European Affairs on behalf of the government of the Republic of North Macedonia and the NIPAC, which is supported by the Technical Apparatus of NIPAC - Department for EU Funds and Other Foreign Aid, together with the responsible Department for International Financial Relations and Public Debt in the Ministry of Finance, coordinate the entire process of investment projects financed through IFIs and development banks.

Relevant ministries and institutions identify planned and ongoing investment projects within WBIF priority areas. This list is approved by the North Macedonian government and ratified by the first level of the NIC; it represents the basis for the submission of applications for technical assistance and investment grants. Only projects that are part of the NIC-endorsed SPPs can be proposed for WBIF investment grant co-financing.

### North Macedonia's Sector Working Groups

Considering that the SWGs are preparing the preliminary list of priority projects that should fulfil objectives defined in strategic documents through an assessment of their strategic relevance, it is of utmost importance that their work is transparent and participatory. The initial project identification and selection process done within these groups drives the prioritisation of investments in major infrastructure projects that can impact the overall development of sectors, and as such, their selection process has to be subject to scrutiny from academia, civil society organisations, and other line ministries.

Due to the sectoral approach in IPA II aid programming, eight SWGs<sup>22</sup> were formed in North Macedonia in March 2015 by means of a decision taken at the 65<sup>th</sup> session of the government of North Macedonia.

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<sup>19</sup> Government of North Macedonia, Decision no. 42-7457/1, 14 July 2015.

<sup>20</sup> Government of North Macedonia, [Decision no. 42-9777/2](#), *Official Gazette of the Republic of North Macedonia*, 183, 22 October 2015.

<sup>21</sup> Government of the Republic of North Macedonia, [Law on Government of North Macedonia](#), *Government of the Republic of North Macedonia*, 1 June 2019.

<sup>22</sup> Foundation Open Society Macedonia, Eurothink: Center for European Strategies, Reactor – Research in action, and Center for Civil Communication, [SHADOW report from monitoring work and effects of sector working groups in the period January 2019-February 2020](#), *Foundation Open Society – Macedonia*, 2020.

According to the state audit report, for programming the aid in IPA II, an additional four SWGs were established in the following years. However, there is no reference to a decision to expand the number of SWGs. The twelve SWGs are based on the thematic priorities for assistance laid out in Annex II of Regulation (EU) No 231/2014 on establishing an Instrument for Pre-accession Assistance (IPA II),<sup>23</sup> but adjusted to fit the distribution of competencies between line ministries. The initial idea was that they would be coordinated by the SEA, but later on, they were coordinated by the line ministries. The line ministers were appointed chairs of SWGs to raise the level and efforts of the relevant institutions for implementation of the sector-wide approach. Thus, each SWG has one or more chairs (a line minister or several line ministers when needed), a co-chair (head of cooperation at the EU Delegation in the Republic of North Macedonia) and members. The members are representatives from relevant institutions, the donor community, foreign embassies and civil society.

The 12 SWGs and their respective lead institutions are:

1. Public administration reform (Lead institution: Ministry of Information Society and Administration);
2. Public finance management (Ministry of Finance);
3. Justice (Ministry of Justice);
4. Internal affairs (Ministry of Internal Affairs);
5. Competitiveness and innovation (Government of North Macedonia – Deputy Prime Minister Responsible for Economic Matters);
6. Agriculture and rural development (Ministry of Agriculture, Forestry and Water Economy),
7. Transport (Ministry of Transport and Communications);
8. Environment and climate action (Ministry of Environment and Physical Planning);
9. Education, employment and social policy (Ministry of Labour and Social Policy, and Ministry of Education);
10. Regional and local development (Ministry of Local Self-Government);
11. Roma integration (Minister without Portfolio Responsible for Roma Matters, and Ministry of Labour and Social Policy); and
12. Health (Ministry of Health).

The SWGs' main mandate is to coordinate IPA programming at the national level.

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<sup>23</sup> European Union, [Regulation \(EU\) No 231/2014 of the European Parliament and of the Council of 11 March 2014 establishing an Instrument for Pre-accession Assistance \(IPA II\)](#), *EUR-Lex*, 11 March 2014

A report by the Open Society Foundation on the IPA II sector working groups<sup>24</sup> in North Macedonia finds that the functionality, effectiveness, transparency, general dynamics and work mechanics greatly differ among individual SWGs. The report also assesses the involvement of civil society organisations in the sector working groups as an important principle for successful operation of the sector-wide approach.

According to the report, in 2019 all SWGs held a total of 14 plenary sessions with the participation of civil society organisations, while the other levels within the SWGs held more than 200 meetings throughout the year. Thus, it finds that there is *‘a lack of presence of [civil society organisations] at technical meetings intended for document preparation and programming, in order to make crucial proposals, while their participation is secured at plenary sessions which include presentation of documents in their final stage, which are rarely subject to changes afterwards.’*

It goes on to say that *‘many rules of procedure for SWGs recommend relevant documents to be submitted 14 days in advance, but in reality, working documents and agendas for number of sessions were distributed immediately before the sector group meeting, whereby CSOs were unable to thoroughly prepare and make constructive contribution at these meetings.’*

Therefore, the report recommends that each SWG establish an annual plan for its activities, including making efforts to advance access to and improve the quality of relevant information and documents for ensuring transparent and open work.

In response to our Freedom of Information (FoI) requests, only the Ministry of Transport and Communications confirmed that for programming projects in the SSPPs they use the existing SWG under the national IPA programme established within the ministry. It has not established a separate SWG within the WBIF priority areas. Regarding the members of the SWG for transport related projects, the Ministry of Transport and Communications claimed that in addition to the members who are employees of the Ministry, there are also members from other relevant institutions, including the Delegation of the European Union to the Republic of North Macedonia, as well as people from IFIs such as the EBRD, EIB and World Bank. Depending on the topic of the meetings, representatives from relevant civil society organisations are also invited.

The Ministry of Environment and Spatial Planning answered that there is not a dedicated SWG for WBIF SSPP preparation, but also did not provide a clear answer to whether they use the SWG for IPA programming as a substitute. Based on their answer it is impossible to conclude whether civil society organisations are included in meetings related to the preparation of SSPPs.

An SWG in the area of energy was not anticipated within the 12 IPA SWGs, which means that unlike other line ministries, the Ministry of Economy should have established a specific SWG for the SSPP procedure. The Ministry of Economy confirmed in their response to our FoI request that such a group has not been established. In addition, they stated that the ministry employees in the energy sector communicate directly with the people responsible in state-owned utility companies, such as AD ESM, AD MEPSO and AD NOMAGAS, and do not consult the SSPP with anyone else, such as the chamber of commerce, civil society organisations, academia and other relevant stakeholders. This shows a clear lack of transparency regarding the energy

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<sup>24</sup> Foundation Open Society Macedonia, Eurothink: Center for European Strategies, Reactor – Research in action, and Center for Civil Communication, [SHADOW report from monitoring work and effects of sector working groups in the period January 2019-February 2020](#).



projects chosen to be part of the SSPP, which prevents all other stakeholders in the sector from being involved in the process and offering their expertise.

In addition, the inter-sectoral component in all SWGs is missing from this project selection process, which can cause conflicts between different priority areas.

### Different ministries, different methodologies

In July 2015, the government adopted a methodology proposed by the European Union for the identification, preparation and selection of sectoral infrastructure investment projects in the countries of the Western Balkans.<sup>25</sup> However, the state audit report points out that the conclusion taken to adopt the methodology is not part of the national legislation, and as such it does not have a legally binding status, even though the beneficiaries are obliged to use it in order to fulfil the conditions for obtaining funds through WBIF.

Furthermore, the state audit report also claims that in 2015, for the management of funds from IPA II, a decree<sup>26</sup> was adopted by the government for the aid that is under indirect management by the beneficiary, i.e. the national IPA, but there is no regulation for horizontal and regional aid from IPA, i.e. the regional IPA, managed directly by the European Commission and indirectly by IFIs. The existence of a decree that regulates only the indirect management of the beneficiary in the national IPA contributes to an incomplete legal framework for the aid received by the EU through the WBIF instrument.

The Ministry of Environment and Physical Planning uses the same methodology for the selection and prioritisation of infrastructure projects approved by IFICO. However, the methodologies for the transport and energy sectors are different, and date from 2010 and 2015 respectively (see Annex I for a detailed explanation of the methodologies).

Looking into North Macedonia's 2024 SPP, it is evident that the use of different methodologies within the different sectors results in strategic relevance (SR) scores for the projects in the SPP which are not comparable. This makes it difficult to understand the projects' relative strategic importance and priority for implementation across sectors.

Although on the sectoral lists, projects are grouped by stage ('in implementation', 'mature' and 'non-mature'), the classification of projects by maturity level is not done according to the WBIF's methodology (in the form of 1a, 1b, 2a, 2b) and it is unclear what criteria is used to sort projects into these stages.

The SPP is therefore a compilation of individual sector lists where the projects are ranked and scored, but there is no prioritisation of the projects in terms of priority sector, limited fiscal space, energy crisis, etc. Thus, the 181 projects in the SPP lack clear prioritisation, categorisation or ranking, which may cause North Macedonia to apply to the WBIF for projects that are neither strategically important, nor 'mature'. This affects the efficiency of obtaining funds through the WBIF, and it can also lead to the eventual loss of grant

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<sup>25</sup> Government of North Macedonia, Decision no. 11-78/93, 16 July 2015.

<sup>26</sup> Government of North Macedonia, [Decree on determining the mutual relations of bodies and structures within the system for indirect management of the Instrument for Pre-Accession Assistance \(IPA II\)](#), *Official Gazette of the Republic of North Macedonia*, 54, 21 March 2015; Government of North Macedonia, [Decree on amending and supplementing the Decree on determining the mutual relations of the bodies and structures within the system for indirect management of the Instrument for Pre-Accession Assistance \(IPA II\)](#), *Official Gazette of the Republic of North Macedonia*, 90, 23 April 2021.

funds as project implementation periods become excessively long. If the projects are not completed or have not begun implementation within the stipulated period, there is a risk that project promoters could lose grant funds or pay penalties through the state budget for non-compliance with project agreements.

At present, all SSPPs are simply merged into one PDF document to create the national SPP. Thus, a selection methodology adopted at the national level which prioritises projects in the SPP based on their strategic relevance and maturity level, while also taking into consideration the socio-economic impacts, fiscal space and alignment with national strategic objectives, could clarify which projects should be implemented. This assessment should also lead to the exclusion of projects that are not economically and environmentally feasible, thus projecting fewer projects in the SPP worth being funded and realistically implemented within seven to ten years. Proposing a limit on the number of projects in the SPP within a sector would also help responsible bodies focus on proposing and prioritising projects that contribute the most to the socio-economic development of the country.

Currently, 12 investment projects worth a total of approximately EUR 1 billion are under implementation.<sup>27</sup> The State Audit Report's analysis of IFICO's monthly monitoring reports for North Macedonia (which are not publicly available) shows that for most of the projects, the investment has not even begun, the grant contracts have not been concluded and there is a standstill in relation to the planned dynamics of realisation.

### Assessment of North Macedonia's Single Project Pipeline

The first SPP was prepared and adopted in 2015. There were four revisions of the list until now – in 2018, 2020, 2022 and 2022. The last revision of North Macedonia's SPP list<sup>28</sup> was adopted during the technical mandate of the outgoing government in May 2024 and subsequently published on the website of the Secretariat of European Affairs. There have not been any public consultations regarding the original SPP or any of the revisions.

The following sectors are included in the SPP:

- Transport
- Energy
- Environment
- Human capital
- Employment and social policy
- Digitalisation

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<sup>27</sup> WBIF, [Investments](#), *WBIF*, accessed 12 June 2024.

<sup>28</sup> Secretariat of European Affairs, [North Macedonia's SPP revised in 2024](#).

The 181 projects in the 2024 SPP are divided among the sectors as follows:

- 73 transport related projects worth around EUR 6.3 billion;
- 43 energy projects worth around EUR 3.7 billion;
- 31 environmental protection projects worth around EUR 960 million;
- 11 human capital projects worth around EUR 660 million;<sup>29</sup>
- 19 employment and social policy projects worth around EUR 330 million; and
- 4 digital connectivity projects worth around EUR 143 million.

Below is a more detailed analysis of the energy, transport and environment projects.

The analysis is focused on these three sectors because even though some of the projects that fall under the human capital, social policy and digital connectivity sectors are cross-cutting and also relevant, only projects that are closely related to the implementation of the Green Agenda for the Western Balkans were analysed, as this is a process that we are closely following.

### Transport sector (73 projects)

A total of 73 transport sector projects can be found in North Macedonia's 2024 SPP. Out of those, 25 are in the implementation phase, 32 are considered mature and 16 are classified as non-mature (indicating a lack of general project documentation).

Out of the 25 transport projects in the implementation phase, 20 are related to the construction or rehabilitation of motorways or other roads, and only four are for rail. The remaining project relates to project documentation for a multimodal node near the capital.

Out of 32 projects considered mature, 23 are related to construction or rehabilitation of motorways or other roads, seven to railways, and the remainder to safety equipment and information technology (IT) solutions. It is also important to note that six out of seven railway projects are in the second half of the list of mature projects, with significantly lower strategic relevance scores than most road projects.

How the ranking and prioritisation of the projects works is also unclear since, for example, financing has been secured for the mature transport project *Construction of new motorway section A2 Bukojcani – Kicevo* even though it is near the end of the list with a fairly low strategic relevance score of 67.6 and 2 maturity level.

In addition, a problematic project not present in previous SPPs appears on the list of mature projects: *Construction of state road R1209, Section Tetovo – Border crossing with Kosovo (Prizren)*. This project is supposed to go through the heart of the Shar Planina National Park and is strongly opposed by the national park authorities. This project, similar to other projects on the list, has the lowest maturity level of 1 (no project documentation was prepared at the time of the SPP's approval) and a low strategic relevance score

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<sup>29</sup> The nine projects listed on the Health sector list are repeated from the Human capital sector list, which includes the same nine plus two other projects. Therefore, the Health sector list is not taken into account in the calculation of total and sectoral projects.

of 52.4, and yet it is found on the list of mature projects. This indicates it has been prioritised for political reasons rather than strategic ones.

The list of non-mature transport projects in the SPP only offers a basic description and information about what can be assumed represents the determined grant and loan source, without including any other information.

It seems odd to have a determined grant and loan source without any information about the project duration, maturity level, investment cost, strategic relevance score, etc. The projects are numbered from 1 to 16; however, it is unclear how they are prioritised since there is no information about their maturity level or strategic relevance.

For example, the first project on the non-mature list of transport projects is *Introducing Bus Rapid Transit system in the City of Skopje*, for which it is stated that a loan agreement is being finalised (in reality the loan agreement has already been signed)<sup>30</sup> and that the project is in the phase of preparation of preliminary design. This makes the project more mature than some projects in the 'mature' projects list, which makes its categorisation even more unclear. However, as all other non-mature projects, the same doesn't offer other information about the project, besides the project title, basic description, and grant source.

What stands out on the transport list, in addition to the lack of clear prioritisation, is the very large number of projects compared to other sectors, and the obvious prioritisation of road over rail projects.

This will clearly not help increase the amount of goods and passengers transported by rail or reduce the number of private vehicles on the roads, both of which are needed in order to reduce pollution, congestion and decrease carbon emissions from the transport sector.

Both the WBIF and North Macedonia's government share responsibility for ensuring that transport investments are future-proof and environmentally sustainable. Most of the 16 non-mature projects are related to sustainable urban mobility and rail transport, including the high speed rail Corridor X, which is of high EU importance, indicating that such investments are being considered but are not appropriately prioritised, and because of that they are progressing slowly.

### Energy sector (43 projects)

Energy sector projects cover various sub-sectors: nine gas-related, two related to fossil fuel based district heating (Bitola and Skopje), ten for grids, ten for hydropower, nine for solar and wind, two for energy efficiency, and one for battery storage. But the expected financing volume is highly imbalanced and in favour of fossil fuels, with estimated costs of between EUR 1.4 and 1.8 billion, compared to much-needed grid improvements worth EUR 215 million, and energy efficiency projects, which are limited to EUR 50 million. In the previous SPP from 2022, investments in fossil fuels were estimated at between EUR 1.2 to 1.6 billion, which means that they are increasing instead of decreasing or being redirected to other much-needed investments.

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<sup>30</sup> Frontline, ['Agreement signed for the construction of Bus Rapid Transit system in Skopje'](#), Frontline, 21 April 2021.

There is also an obvious imbalance in the investments in renewables, where at least EUR 1.3 billion are intended for investments in climate-vulnerable, biodiversity-damaging hydropower, whereas only EUR 400 million are planned for investments in solar and wind power combined.

A total of 43 energy sector projects can be found on the most recent SPP, out of which 16 are ongoing (in the implementation phase), 6 are considered mature, and 21 are non-mature projects (e.g. missing project documentation, strategic documents).

On the mature list, the projects are ranked from 1 to 6 according to their SR score (the final project listed, *Renovation Plan for Government Buildings*, is missing an SR score). Interestingly, some projects on the ‘mature’ list have been given the lowest maturity level – 2 – while almost all the projects on the non-mature list are ranked with a higher maturity level of 3. None of these projects have secured any funds other than some technical assistance grants. This raises confusion about how the ranking of mature and non-mature projects is done, which suggests that either the methodology is improperly applied or projects are being prioritised for political or other reasons, irrespective of their scores.

Also, the ‘mature’ project *Gas Interconnection Republic of North Macedonia – Republic of Kosovo* is ranked second on the list according to its SR score and given the highest maturity level (4), despite the fact that Kosovo has since decided not to go ahead with the project. It is thus unclear how this project came to be so high on the list.

### EUR 88 million stranded assets in fossil gas infrastructure supported by WBIF

The second most highly ranked project on the ongoing list of energy projects, according to its SR score, is the gas interconnector pipeline between North Macedonia and Greece.<sup>31</sup> A WBIF grant was awarded for the project in 2019, an EIB loan signed in 2021, and an EBRD loan approved in April 2024. The SPP estimates its total value at EUR 88 million, which puts a significant fiscal burden on the country.

However, the preparation and approval of the environmental impact assessment (EIA) for this project, as well as the adoption of the state guarantee for the loans, has been plagued by procedural wrongdoings. The process has been subject to four complaints already – two to the Energy Community Secretariat, one to the European Anti-Fraud Office (OLAF), and one to the EBRD’s complaints mechanism. Furthermore, the project will add 1.5 to 2.8 billion cubic metres of gas per year and can seriously damage the country’s decarbonisation efforts.

A recent study by the Regional Centre for Energy Policy Research (REKK)<sup>32</sup> clearly shows that the cost of the infrastructure needed to use this gas could lead to a fossil fuel lock-in for North Macedonia beyond 2050, or the investment will turn into stranded assets. It also shows that the finances planned for investments in fossil gas infrastructure can be used to significantly boost the country’s decarbonisation efforts through investments in energy efficiency and small-scale renewable energy sources.

<sup>31</sup> WBIF, [Project of Mutual Interest: North Macedonia – Greece Gas](#), WBIF, accessed on 10 May 2024.

<sup>32</sup> Center for Environmental Research and Information Eko-svest Skopje, [Gasification plans and building heating options in North Macedonia](#), Center for Environmental Research and Information Eko-svest Skopje, November 2023.

Increasing the gas network in North Macedonia makes no sense at a time when EU countries are already implementing bans on new gas boilers and trying to phase gas out of their heating systems. Yet somehow, this project is considered one of the most important energy projects in the country. This could have been avoided if the Ministry of Economy prepared the SSPP with an SWG as required, including representatives from other relevant ministries and civil society organisations, as well as if public consultations were held on the final SPP before government approval.

In addition, conducting a cross-analysis between the projects on North Macedonia's 2022 SPP and the EU's Economic and Investment Plan for the Western Balkans, the state audit report determined that the photovoltaic power plant Oslomej III project was not proposed in the first SPP, but was added to the SPP revision from 2020. When the list was updated in 2022, the project was deleted from the SPP. However, no evidence was provided to the auditors that such a decision was discussed at the level of the NIC. Thus, in their recommendations, the auditors also state that the NIC must explain the reasons for exempting projects from the SPP without providing adequate justification for why the decision was made.

### **Environment sector (31 projects)**

There are three lists totalling 31 environmental projects within the SPP. However, the first list is unnamed, and the other two are categorised as non-mature and industrial hotspot projects.<sup>33</sup> The first unnamed list contains 11 projects, and there are 16 non-mature and 4 industrial hotspot projects.

The projects in the first unnamed list are scored with a maturity level of either 2 or 3, with the final project on the list classified as '1 non-mature'. Even though it seems like the first unnamed list represents the 'mature' environment projects, it is unclear why it includes one scored as non-mature as well. Also, some projects in the first unnamed list are ranked as mature but have a lower SR score than some projects in the non-mature list, bringing additional confusion about how the ranking actually works.

Furthermore, the SR scores for the 'mature' projects range from 135 (highest) to 116 (lowest), for the 'non-mature' ones, from 121 (highest) to 109 (lowest), and for the industrial hotspots from 102 (highest) to 97 (lowest). Thus, some projects in the 'non-mature' list have a higher SR score than others in the 'mature' list of projects.

All projects in the non-mature list have a non-mature score, as do all the industrial hotspot projects.

Compared to the SPP list from 2022, the most notable thing is that there are 12 new projects added in the non-mature list, all related to wastewater treatment, but also the only two projects related to biodiversity have now been removed from that same list.

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<sup>33</sup> Elimination of industrial hotspots in the country through remediation.

## Five years of unexplained delays for the Skopje wastewater treatment plant

The biggest project in the environment sector is the wastewater treatment plant (WWTP) for Skopje.<sup>34</sup> It is indeed an extremely important project that can significantly reduce the pollution of the biggest river in North Macedonia, Vardar, and positively impact water and food quality in one-third of the country. The public utility Water Supply and Sewerage – Skopje in cooperation with the City of Skopje, the Ministry of Environment and Physical Planning and the Ministry of Finance are responsible for implementing the project.

This project was awarded a technical assistance grant from the WBIF in 2018 and an investment grant of EUR 72 million in 2022. It has approved loans of EUR 58 million from the EBRD and EUR 68 million from the EIB, both from 2019.

The EIA for the project was done in 2018, and the tendering for construction was completed in 2020. However, in 2023 the City of Skopje made allegations<sup>35</sup> that the tender was rigged, and the then director of Water Supply and Sewerage – Skopje was dismissed. Although a new person was appointed to fill the position, the process has remained at a standstill since representatives from the City of Skopje and the public utility were not participating in the regular weekly and monthly meetings. As a result, two activities required for construction of the treatment plant to begin, i.e. land expropriation and urban planning, both of which should be done by the City of Skopje, remain unfinished. These two activities are a condition for the Ministry of Environment and Physical Planning to get permission from the banks to pay an advance amount to the public utility and the process of construction to begin.

Although the initial estimate was to have the WWTP operational in 2025, more than five years have passed since the loans were secured for the project without any progress on the ground. This casts serious doubt on whether public authorities and utility companies have the necessary institutional capacity to plan, coordinate and implement projects of such scale. The SPP process should have identified the city's lack of capacity to implement the project and possibly suggested some preparatory capacity building before dedicating so much of the country's fiscal space for a project it has struggled to implement. Such considerations should also be taken into account for other projects in the SPP, which could help to ensure similar capacity challenges can be properly addressed in time.

A final issue with North Macedonia's most recently revised SPP from 2024 is that it appears to lack professionalism and attention to detail. Projects are inconsistently numbered (e.g. the list of ongoing energy projects starts at 21 instead of 1); some lists lack headings, requiring the reader to assume what type of lists they are; and unexplained columns have been added, such as the IL (indicative list) column, which does not exist in previous versions of the SPP and has not been defined anywhere. The document also contains inconsistent numerical formatting, creating confusion about the actual investment needs for some projects. For example, in the total investment cost column of the first and fourth ranked project on the employment and social policy list, one sum is written as EUR 30.000.00 (the final '0' appears to be

<sup>34</sup> WBIF, [Skopje Wastewater Treatment Plant](#), WBIF, accessed 14 June 2024.

<sup>35</sup> Sakam da kazam, '[European banks are freezing the project for building a WasteWater plant in Skopje because the city's representatives are not attending the meetings](#)', Sakam da kazam, 15 May 2023.

missing). Throughout the SPP, multiple number formats are used, such as ‘23.5 million’, ‘51,198 million’, or simply ‘18+ M’. Some ongoing projects within a sector have a strategic relevance score, while others do not, as is the case for the ongoing transport projects. There is also an additional sector list entitled ‘Health sector’ which contains the same nine projects as the first nine in the Human capital sector list (which has 11 in total).

Such an improperly assembled SPP casts serious doubt on the capabilities of the line ministries involved in the process of creating the SSPPs and of the NIC TA to assemble them in a proper unified form. The current version of the SPP leaves significant room for misunderstandings. It is also unclear how the government can adopt such a disorderly and confusing document, but also how the WBIF Secretariat and the European Commission can accept it as a baseline for multi billion euro investments.

### Assessment of project compliance with national strategies and action plans

Looking into the national strategies and action plans in North Macedonia, we have determined that most of the projects in the SPP are to some extent grounded in existing national strategies or plans. However, national strategies are highly political documents, not subject to effective quality control. Public comments arising from public consultations on strategic documents are rarely taken into account and reflected in the final text. Additionally, national strategies rarely include a list of specific projects, or details such as location and cost-benefit analyses. This often results in the selection of projects that are not the most strategic, economically feasible or environmentally acceptable, but that are favoured by particular interest groups. Strategies also go out of date quite quickly and need to be regularly revised if they are to be relevant.

Consequently, many projects are challenged at a later stage, leading to a standstill in the process of implementation which affects the economic and efficient use of national and WBIF funds.

In general, it also makes little sense to have a list of 181 projects that are all supposed to be priorities to some extent.

Since these projects are costly investments and represent major commitments for the beneficiary countries, they must be better justified, regularly updated and re-screened, and subjected to separate public consultation (conducted for the entire SPP). Public consultation on the SPP, in particular, will ensure the projects are discussed with the public during the selection and prioritisation process and allow for their concerns to be voiced and addressed.

### Recommendations of the state audit report ‘Process of obtaining and using funds from the Western Balkans Investment Framework Instrument (WBIF)’<sup>36</sup>

The overall conclusion of the state audit report is that the system for obtaining funds through the WBIF in North Macedonia does not have a clearly defined legal and institutional framework with competent institutions and bodies, or an appropriate national legal framework for using WBIF funds. No methodology has been adopted for prioritising the most strategically important and ‘mature’ projects in conditions of limited fiscal space for borrowing, resulting in a long list of projects without clear prioritisation based on

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<sup>36</sup> State Audit Office of North Macedonia, [State Audit Report ‘Process of obtaining and using funds from the WBIF](#), State Audit Office of North Macedonia, December 2022.



their strategic relevance, maturity level and socio-economic impacts. The sectoral strategic planning of projects is operationally carried out by the SWGs; thus, their efficient functioning is crucial for increasing the possibility for greater absorption of WBIF funds through proposing projects that are consulted with all relevant stakeholders in the sector. Based on these findings, the auditor provided the following recommendations:

- Make a clear distinction between projects that are programmed with the national IPA and the regional IPA through WBIF in the SPP. This distinction is important because the percentage of co-financing is different, i.e. in IPA II for the national IPA it is 85 per cent whereas for the regional IPA through the WBIF it ranges from 20 to 70 per cent.
- Clarify the legal framework defining the role and responsibilities of the following authorities and bodies: the NIC (with clear regulation of the role of the national IPA coordinator), the Ministry of Finance, the SWGs, the line ministries and end users.
- The government of North Macedonia must adopt the IFICO methodology for programming and prioritising projects within the WBIF in the form of a procedure or bylaw, and if different methodologies are used within some sectors, the same must be formally adopted as well.
- Rules of procedure must be adopted to define the work of the SWGs, i.e. their composition, scope of work and competences, rights and responsibilities of the chairman as well as of the other members of the SWGs, participation of stakeholders, and other issues relevant to its functioning.
- Improve the visibility and transparency of the WBIF process for applying for technical assistance projects and investment grants. The SEA should publish the following documents and information on their website:
  - EU regulations on the WBIF instrument and national regulation;
  - EU action documents, annual and/or multi-annual;
  - information on the conditions of each call for technical assistance and investment grant;
  - the co-financing percentages;
  - the guidelines for applying and approving the application at the national level;
  - the projects for which applications will be submitted, grants received and contracts concluded;
  - the methodology used for the selection and prioritisation of projects in the individual sectors;
  - the forms for identification and strategic importance of the projects that are identified in the SSPPs as part of the SPP; and
  - other documentation related to the process of obtaining funds through the WBIF.

According to the state audit report, no comments on these findings were received from the responsible individuals in the government of North Macedonia, the SEA or the Ministry of Finance.

On 17 January 2024, representatives from CEE Bankwatch Network held a meeting with a representative from the SEA of North Macedonia regarding the process of developing the SPP. During the meeting, the representative from the SEA confirmed that they had several meetings with the state auditors while working on the audit report and that they are aware of its findings and recommendations; however, they expressed disagreement with these.

According to the representative from the SEA, the conditions for obtaining funds from the WBIF have been fulfilled by North Macedonia by establishing an NIC framework and creating the SPP, and thus far the government has managed to participate in all calls for technical assistance and investment grants. In their view, the line ministries are responsible for creating the SSPPs by including all relevant stakeholders, which when finalised are submitted by the SEA to the government for endorsement. The representative pointed out that the SEA does not have the authority to influence the process of selection and prioritisation of projects, but only to facilitate it.

## Conclusions and recommendations

The process of obtaining funds from the WBIF is not done in a transparent way at the national level, and to the best of our knowledge, there is no public participation in deciding on the SPP in any of the Western Balkan countries.

Moreover, a closer look at North Macedonia shows an absence of legal regulation of the SWGs; the non-existence of an SWG for energy, which would include all relevant national stakeholders involved in the sector, including civil society organisations; and lack of a selection methodology for the creation of an SPP with a clear categorisation and prioritisation of projects. This results in programming a long list of projects in the SPP that are not the most relevant for the country's sustainable development needs, and are neither 'mature' nor of the highest priority. This ultimately affects the economic and efficient use of funds through the WBIF.

In the case of North Macedonia, this also results in strong sectoral imbalances, with many more transport projects in the SPP than those from other sectors. Of those, most are road projects, thus failing to promote modal shift. In the energy sector, too, the cost of planned fossil fuel projects massively outweighs the planned grid and energy efficiency investments. Programming projects supporting fossil fuel infrastructure hinder a socially and environmentally sustainable transformation, given the country's commitment to be fully decarbonised by 2050 at the very latest.

It is also unclear why the WBIF accepts an SPP that contains so many unclarities. Although there are no clear transparency requirements for the preparation of the SPP, the WBIF should be aware that the inclusion of stakeholders from other sectors could significantly improve the quality of the list.

This lack of clear guidelines and requirements from the WBIF related to categorisation, prioritisation and transparency can create issues for the process in all beneficiary countries. The report does not analyse the SSPPs from other Western Balkan countries, but until the process is properly institutionalised and supervised there is always a risk that some of the projects included are not the most beneficial for the sustainable transformation. After they go through this first filter and can apply for financing, the overall non-transparency of the work of WBIF further hinders the decision making process. This is why, for the currently

accepted SPPs, it is of utmost importance that the WBIF include the public in the financing decision making process and publish proposed projects before they are approved.

The following recommendations are oriented toward designing a more efficient and effective system of prioritising and selecting infrastructure projects of national importance, which could ultimately lead to a greater absorption of funds through WBIF, an important instrument that will contribute to the realisation of the EU EIP for the Western Balkans.

### Recommendations to the European Commission

- **Introduce a more transparent process of selection and prioritisation of projects with public consultations on the SPP.** Public consultations should be organised for the SPP to gather input from the public and ensure that the affected communities and relevant interest groups accept the proposed projects. This should be added as a mandatory step/activity within the methodology defining the procedures/criteria for the administrative and technical process of the SPP preparation. Public consultations on the SSP should come into play before adoption by the government and endorsement by the NIC (step 7).
- **Adopt an appropriate methodology for consolidating the SSPPs into an SPP.** The prioritisation of projects belonging to all infrastructure sectors should be done following an agreed and adopted selection methodology for strategic relevance. The methodology must define the process of merging the SSPPs into an SPP resulting in clear categorisation and prioritisation of all projects.
- **Publish project profiles for projects put forward for WBIF financing** at least 30 days before discussion by the relevant WBIF bodies.
- **Introduce a mandatory limit to the number of projects projected in the SPP per sector.** This will drive responsible bodies and institutions to prioritise projects that are economically and environmentally feasible to implement within seven to ten years, in line with national strategic objectives and commitments.
- **Strengthen the SPP's cohesion with commitments made as part of the Green Agenda for the Western Balkans in all sectors and ensure support for a modal shift in transport and circular economy in waste. Exclude financing for gas and other fossil fuel projects while prioritising clean energy transition based on renewable energy sources and electrification.** Diversifying energy sources, tapping into solar and wind potential, and aligning with the Energy Community's environment acquis are essential for combating air pollution and fulfilling the Western Balkan countries' national energy goals and international commitments. Ambitious targets for deep renovation of buildings, prioritising the integration of heat pumps, heat storage systems, and other sustainable renewable-energy-based technologies for production and storage of electricity and heating should be supported to increase the share of sustainable renewables and implement energy savings in different sub sectors.

## Recommendations to the government of North Macedonia

- **Properly regulate SWGs in the national legal regulation for the use of EU funds:** adopt and apply a national legal regulation where the SWGs are clearly defined in the system of receiving financial assistance from the EU.
- **Update the *Methodology for identification and selection of eligible projects in the energy sector*** to take into account the fact that Regulation EU/2022/869 no longer allows the selection of fossil fuel projects as Projects of Energy Community Interest (PECI).
- **Establish an SWG for energy, as well as regular involvement of independent stakeholders, including civil society organisations, in all other SWGs.** An SWG for energy must be established within the new Ministry of Energy, Mining and Mineral Resources and relevant representatives from public institutions and local governmental bodies, private companies and publicly owned enterprises, civil society organisations, and any other relevant stakeholders within the sector should be regularly involved in the prioritisation process as important stakeholders in all SWGs.
- **Revise and re-evaluate project categorisation in the SPP to clearly define their strategic importance and maturity level.** The criteria should be revised to ensure that climate and environmental sustainability, as well as socio-economic impacts, are comprehensively evaluated. Projects should be prioritised based on overall impact and alignment with strategic objectives rather than readiness for tendering. The European Union's 'do no significant harm principle'<sup>37</sup> must also be integrated into the project selection and performed assessment. Infrastructure projects significantly affecting protected areas or other areas recognised for their natural, ecological or cultural value should not be listed in the SPP or financed.

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<sup>37</sup> EUR-Lex, [Do No Significant Harm](#), European Commission, last updated 30 August 2021.

## Annex I - Sectoral methodologies for project prioritisation in SWGs

### Methodology for identification and selection of eligible projects in the transport sector<sup>38</sup>

The Central Financing and Contracting Department (CFCD) of the Ministry of Finance of North Macedonia engaged a consulting company in 2010 to develop a methodology for identification and selection of eligible projects for the IPA Regional Development Component in the transport sector.<sup>39</sup> It consists of the following:

1. Compliance indicators:
  - Compliance with EU policies, legislation and directives;
  - Compliance with international conventions;
  - Compliance with national strategies and legislation; and
  - Compliance with regional and geographical balance.
2. Impact indicators:
  - Estimated social impact and
  - Estimated environmental impact.
3. Maturity indicators:
  - Technical constraints;
  - Overall maturity of the project;
  - Estimated time needed for maturity;
  - Estimated cost for each project; and
  - Estimated duration of each project.

### Methodology for identification and selection of eligible projects in the energy sector<sup>40</sup>

The Ministry of Economy uses its own methodology,<sup>41</sup> prepared under the EU IPA project on Strengthening the administrative capacity of the Energy department in the Ministry of Economy (MoE) and the Energy

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<sup>38</sup> Received through FoI request to the Ministry of Transport and Communication of North Macedonia on 22 March 2024.

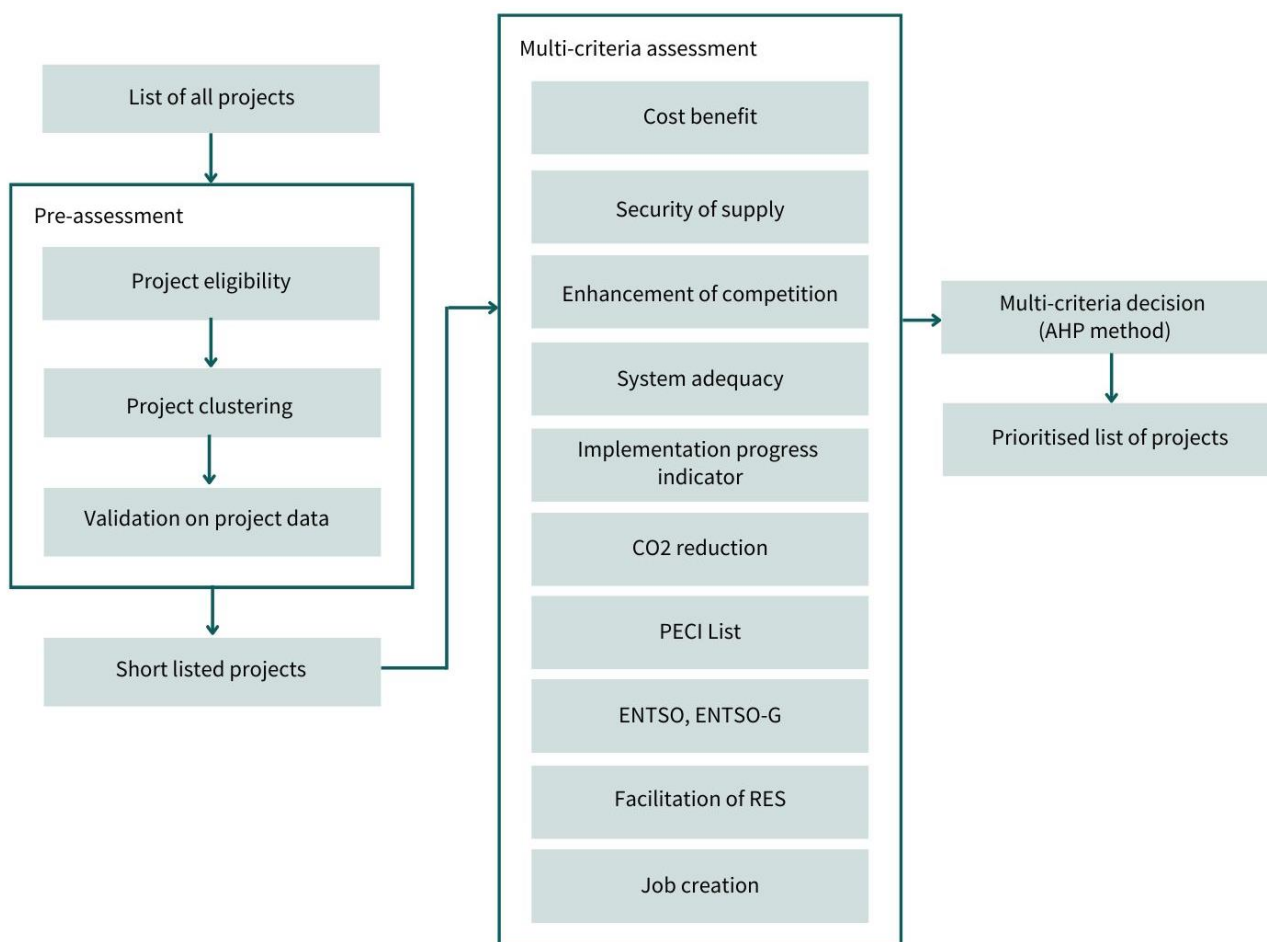
<sup>39</sup> Ministry of Transport and Communication of North Macedonia, [Methodology for identification and selection of eligible projects for IPA Regional Development Component in the transport sector](#), Ministry of Transport and Communication of North Macedonia, received through FoI request on 22 March 2024.

<sup>40</sup> Received through FoI request to the Ministry of Economy of North Macedonia on 28 February 2024.

<sup>41</sup> Ministry of Economy of North Macedonia, [Methodology and criteria for prioritising energy projects](#), Ministry of Economy of North Macedonia, June 2015.

Agency in June 2015. The project was developed to support the capacities of the ministry’s energy department for developing a sustainable pipeline of projects.

According to their methodology, projects are prioritised in two phases: the pre-assessment and assessment phase. The pre-assessment phase includes project eligibility, project clustering and validation on project data. Projects that fulfil the pre-assessment phase continue on to the assessment phase, where projects are evaluated according to eight criteria.



**Figure 1.** The process of project assessment methodology

The pre-assessment phase includes:

- project eligibility;
- project clustering; and
- validation of project data.

1. Eligibility Criteria

For project eligibility, the following criteria have been selected:

- whether the project is consistent with valid EU policies and strategies;

- whether the project is covered by relevant sector strategy paper (sector action plan or sector master plan); and
- whether the project contributes to a valid national development objective.

If, at least one of the eligibility criteria is not met, then the project is not eligible and it is not considered for further processing.

## 2. Project clustering

The projects are categorised in four groups:

- electricity generation projects;
- electricity infrastructure projects;
- gas infrastructure projects; and
- oil infrastructure projects.

The document states that these categories are in line with the Energy Community Strategy and the categories in the Methodology to Identify Projects of Energy Community Interest. In accordance with the group in which the project belongs to, appropriate multi-criteria assessment is applied. However, both the Strategy and Methodology are out of date. The Energy Strategy of the Energy Community was completed in 2013 and is not even on the Energy Community's website anymore, and Projects of Energy Community Interest are now governed by Regulation EU/2022/869 – the so-called TEN-E Regulation, which no longer allows the selection of oil and gas projects.

## 3. Validation of project data

The aim of this step is to initially check the correctness of the provided data and to identify possible data errors and inconsistencies. Additionally, information for the missing or inconsistent data may be requested from the project promoters in order for the project to fulfil this step and continue with the multi-criteria assessment process.

### Multi-criteria assessment

All the projects that have fulfilled the pre-assessment criteria are then evaluated according to the multi-criteria assessment methodology. Using this methodology, each of the projects is scored and ranked.

During the assessment phase projects are evaluated according to the following ten criteria: cost-benefit analyses, security of supply, enhancement of competition, system adequacy, implementation progress indicator, greenhouse gas reduction, the Projects of Energy Community Interest (PECI) list, the European Network of Transmission System Operators for electricity (ENTSO-E) and European Network of Transmission System Operators for gas (ENTSO-G), facilitation of renewable energy sources, and job creation.

#### 4. Cost-benefit analysis

The economic benefits of the infrastructure projects considered for the SPP by the Ministry of Economy are determined with the net present value (NPV) method using the MARKAL model.

The total annual cost that is used in the MARKAL model is the sum over all technologies, all demand segments, all pollutants, and all input fuels, of the various costs incurred, namely: annualised investments, annual operating costs (including fixed and variable technology costs, fuel delivery costs, costs of extracting and importing energy carriers), minus revenue from exported energy carriers, plus taxes on emissions, plus cost of demand losses.

#### 5. Security of supply

The second indicator used is energy security. It is calculated separately for primary sources of energy and transformed energy (electricity).

Primary sources of energy are evaluated through energy import dependence, i.e. the extent to which a country depends on imports of primary sources such as oil, gas, and solid fuels to meet its energy needs, and concentration of different primary energy sources in the energy mix.

Transformed energy is evaluated through electricity import dependency and the degree of diversification of energy sources in electricity generation.

#### 6. Enhancement of competition

The projects are also evaluated on how they impact the enhancement of market competition. Their impact is calculated with and without including the analysed project in the system. The impact of the project on the competition enhancement is given with a score of 1 to 5, with 5 indicating the highest enhancement of market competition.

#### 7. System adequacy

System adequacy is a measure which compares the available production and connection capacity and the maximum demand. If the project is related to generation capacity the system adequacy criterion refers to increasing production reserves for cases when there is peak demand or some of the other manufacturing facilities are unavailable. If the project is related to improving the existing electricity network it leads to increasing the reliability of the system by reducing the load on the network and leads to reducing the outage probability.

#### 8. Implementation progress indicator

The implementation progress indicator is a criterion which measures the degree of maturity of the project, which is the degree of preliminary potential of implementation. This indicator is based on the information provided by questionnaires for each project. According to this, the project may be in the following stages:

- no pre-feasibility study carried out or no information provided;
- pre-feasibility study;



- feasibility/FEED study;
- final investment decision;
- permitting; and
- construction.

The projects that are in the advanced implementation stage (e.g. at or above the permitting stage) get the highest scores (5) and the projects that have no progress in realisation receive the minimum score (1).

#### 9. Greenhouse gas reduction

Calculation of greenhouse gas emission reduction is done for each project, considered as ‘saving’ in response to a fossil fuel referent emission factor which usually is calculated using only fossil fuel mix. Thus, the highest greenhouse gas savings receives the maximum score (5), and the project with the lowest savings gets the minimum score (1). **But, this means that the savings are calculated based on how much the reduction will be in a 100 per cent fossil fuel powered system, which does not give a realistic reduction for the actual existing system, so the rating given through this indicator is likely to overestimate the project's benefit in terms of greenhouse gas reductions.**

#### 10. Projects of Energy Community Interest (PECI) List

One of the criteria upon which the project prioritisation is done is an indicator whether the project is included in the latest PECI list. If the project is included in the latest PECI list it gets the highest score (5) and if it is not included in the list it gets the lowest score (1). **This does not make sense, as only infrastructure projects with cross-border relevance can be PECI projects – not electricity generation, distribution or heating projects. It is not clear why non-cross-border projects should be disadvantaged in the selection process.**

#### 11. ENTSO-E, ENTSO-G

One of the criteria that gives a regional approach of the projects is their participation in Ten-year network development plan of ENTSO-E and ENTSO-G. If the project is included in the latest Ten-Year Network Development Plan of ENTSO-E and ENTSO-G it gets the highest score (5) and if it is not included in the list it gets the lowest score (1). **Similar to the PECI list criterion, this needlessly disadvantages projects which may be very important for the energy transition but are not transmission projects.**

#### 12. Facilitation of renewable energy sources

The evaluation of the projects is done in such a way that a project that will produce the most energy from renewable sources gets a score of 5 and a project that will produce the least energy (from renewable sources or fossil fuels) gets a score of 1. Linear interpolation between the minimum and maximum index change is used for scoring the rest of the renewable projects. The development of the transmission and/or distribution network are not taken into account.

### 13. Job creation

Taking into account the unemployment rate in the country, a job creation indicator is proposed. A project that can create the most jobs gets a score of 5; on the other hand, a project that creates the least jobs gets a score of 1.

#### Analytic hierarchy process method

Using a matrix that determines the importance of different indicators used in a multi-criteria assessment, the final rating of the project is calculated using the weight of the criteria as given in the following table:

Criterion	Weight
Cost-benefit analyses	14%
Security of supply	19%
Enhancement of competition	8%
System adequacy	8%
Implementation progress indicator	3%
CO <sub>2</sub> reduction	6%
PECI list	13%
ENTSO-E, ENTSO-G	13%
Facilitation of renewable energy sources	9%
Job creation	8%

**Figure 2.** The process of project assessment methodology

For the purposes of the Ministry of Environment and Physical Planning, under the IPA project, two methodologies for support in identification, assessment, and selection of eligible projects for the IPA Regional Development Component were developed, one for the water collection and treatment sector and one for the waste management sector.<sup>42</sup> Both methodologies have different criteria for prioritisation of the projects. In the waste management sector, the criteria that are proposed are:

- basic eligibility;
- strategic score;
- sustainability;
- relevance; and

<sup>42</sup> Ministry of Economy of North Macedonia, [Methodology and criteria for prioritising energy projects](#).

- operation.

On the other hand, in the water collection and treatment sector, nine criteria were initially proposed, but at the end only four were accepted for evaluation. These criteria are:

- immediate environmental benefit;
- coverage of existing sewage system;
- level of maturity; and
- specific environmental criteria.