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## INVESTMENT SUPPORT OF THE EUROPEAN UNION TO WESTERN BALKAN COUNTRIES

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**Abstract:** Abstract: As a consequence of wartime events and years of political turmoil, the Western Balkans is riddled with complex and often undefined international relations, in which it is almost impossible to isolate the economic and political context. Although the European Union has long supported its partners in the Western Balkans by fostering economic growth and improving the quality of life of the region, many and most of the same issues which are present continue to burden the region, due to the unequal progress of the countries. Therefore, despite the influence of external factors, the economic development of the region, and in this context the Republic of Kosovo, is progressing very slowly.

EU is planning more investment in the region, with a view to better citizens' perspectives, but also to curb the Chinese presence that has taken on the role of investor in the region, excluding Kosovo, which it does not recognize. Due to this, it appears that regional cooperation is in the interest not only of the Western Balkan countries but also of the Union.

Given that the European Union is the largest trading partner of the Western Balkan countries, the paper analyzes the Union's investment in this region, with an emphasis on the Republic of Kosovo. Our aim is to support the reforms and support the preparations for the accession of the Western Balkan countries to the European Union. The EBRD's ambitious plans to help achieve the sustainable development goals set by the international community as a strategic plan by 2030 were also highlighted.

The following section analyzes the Union's investment in the economic, and thus cultural and political resurgence of Kosovo, stemming from the country's tendencies and motives for joining the European Union. Although Kosovo does not yet have membership status (besides B&H), it tends to point out the potential for investment in this country by supporting its regional and European integration.

Facing the unfavorable economic and social situation, the Western Balkan countries have identified the achievement of full EU membership as the most important strategic goal. With full EU membership, this group of countries would be given the opportunity to do business in the Union's internal market and to use EU financial instruments, which is the basis for improving their economic performance and enhancing international competitiveness.

However, whether the future of the Western Balkan countries is in the European Union or not, they could become a center of growth and investment if they accepted the importance of structural reform as well as regional cooperation, which significantly results in the inflow of foreign direct investment. Kosovo, as part of the wider region of the Western Balkans, should undertake a comprehensive reform of its foreign investment policy and implement measures that would further stimulate the flow of foreign investment.

**Keywords:** EU, Western Balkans, Kosovo, Subsidies, Economic integration.

### 1. INTRODUCTION

Intensive application of the term Western Balkans began in 1997 when the EU adopted the *Regional Accession Policy* for the Western Balkans, and continued in 1999 under the *Stability and Association Pact*, when it referred to a "common strategy". In 2003, in Thessaloniki, the EU reaffirmed the European perspective for the countries of the Western Balkans included in the *Stability and Association Pact*. The affirmation of the term Western Balkans is also confirmed by the EU joint report entitled "The Role of the Union in the World", the seventh part of which is entitled "Relations with the countries of the Western Balkans" (Milardović, 2000: 27). This document defines the Western Balkans as the territory of the Republic of Croatia, Macedonia, Bosnia and Herzegovina, Albania and the SRY. With the declaration of independence in 2006 and 2008, respectively, Montenegro and Kosovo joined the group of countries of the Western Balkans.

EU is now the most important donor and investor in the region, and the most important political partner of the Western Balkans. At the same time, the EU is the largest trading partner of the Western Balkans with a total annual trade volume of 43 billion euros (2016). On February 6, 2018, the European Commission will present six flagship initiatives that will improve cooperation in a number of areas, and will support the process of transformation in the Western Balkans. These flagship initiatives address specific areas of common interest: *rule of law, security and migration, socio-economic development, transport and energy connectivity, the digital agenda, reconciliation and good neighborly relations*. Concrete measures in these areas are planned for the period from 2018 to 2020.

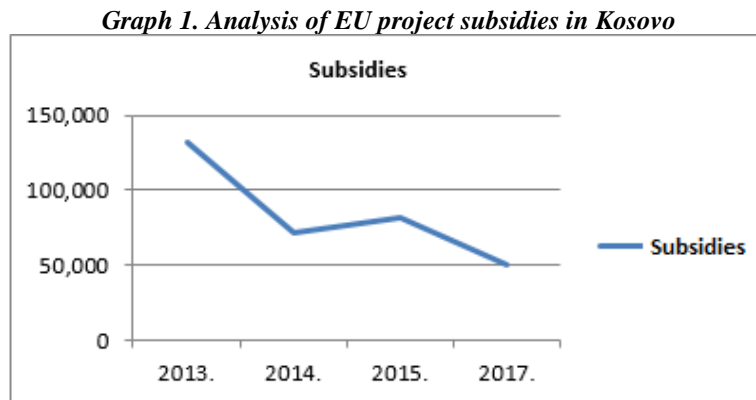
Adequate funding is needed to achieve the strategy for the Western Balkans and to support a smooth transition to membership. In this discourse, the European Commission has proposed a gradual increase in funding under the *Instrument for Pre-Accession Assistance* until 2020. In 2018 alone, € 1.07 billion in pre-accession assistance is envisaged for the Western Balkans, up from almost € 9 billion in 2007-2017.

## 2. ANALYSIS OF EU PROJECT SUBSIDY IN KOSOVO

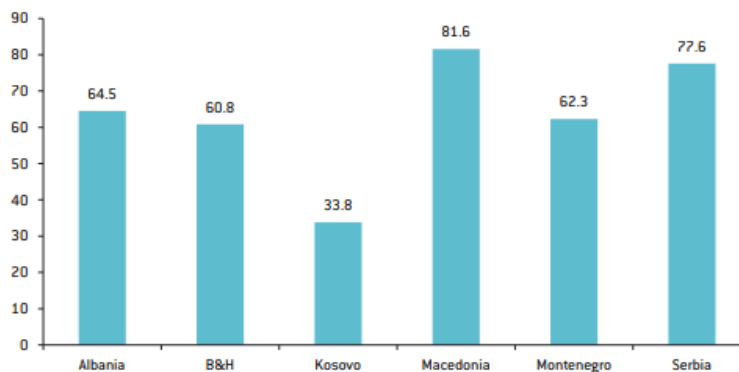
The legacy of past conflicts continues to overshadow regional politics and the economy, creating obstacles to the countries of the Western Balkans towards EU integration. So far, Kosovo has failed to build peaceful relations between the Albanian majority and the Serb minority, and its domestic stability still relies on international peacekeeping forces (M. Dabrowski and Y. Myachenkova, 2018: 3). Kosovo and Bosnia and Herzegovina are generally not well prepared for EU membership, especially in terms of economic criteria in which both countries are "at an early stage" in the existence of a functioning market economy and their ability to cope with competitive pressures and market forces within the European Union. (Sanfey, P., Milatovic, J and Kresic, A., 2016: 11).

The deep economic integration of the Western Balkans with the EU is seen not only in terms of trade and migration, but also in terms of investment. Most foreign direct investment in the Western Balkans, with the exception of Kosovo, comes from the EU (Figure 1). Progress in EU accession could bring even more European foreign direct investment (Stehrer and Holzner, 2018). Other major sources of foreign direct investment in the Western Balkans are Switzerland (whole region), Canada (Albania), Serbia (Bosnia and Herzegovina, Montenegro), Russia (Montenegro, Bosnia and Herzegovina, Serbia), Turkey (Albania, Kosovo, Macedonia) and Norway (Serbia) (Hunya and Schwarzhappel, 2016).

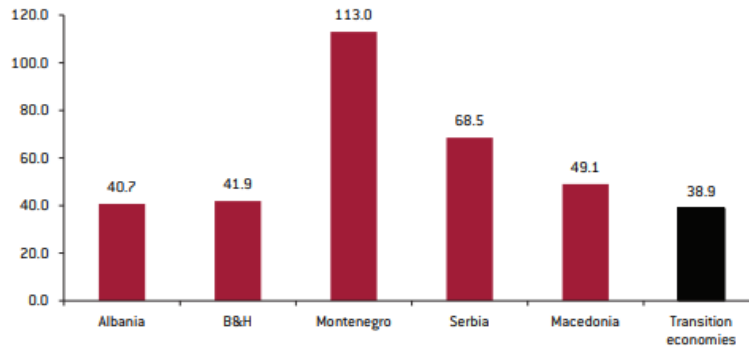
The presented *Graph 1* shows the pace of investment, i.e. subsidizing projects by the EU in Kosovo. Namely, in 2013, subsidies amounted to € 132,316, and this is clearly the largest amount so far (according to the data available on the website of the Ministry of European Affairs of the Republic of Kosovo). In 2014, subsidies were reduced and amounted to € 72,000, while in 2015 this amount was slightly increased and amounted to € 82,041. According to the financial statements for 2017, the amount was the lowest of all presented years, at € 49,987.



**Figure 1. Share of the EU in the total amount of foreign direct investment in the Western Balkans, %, 2014**  
(Source: Hunya and Schwarzhappel, 2016)



*Figure 2. Balance of input FDI, % of GDP, 2016*



(Source: UNCTAD, <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>.)

Regardless of the war years of the 1990s, foreign direct investment inflows into the Western Balkans accelerated in 2000 and 2010, including the period following the 2008-2009 global financial crisis (Table 1). As a result, the cumulative amount of input FDI relative to GDP exceeds the average in transition economies (Figure 2). Montenegro is the absolute leader with the state of FDI in 2016, which amounted to 113.0 % of GDP. Foreign direct investment was mainly focused on the financial sector, telecommunications, energy, wholesale and retail sector, construction, real estate and manufacturing (Estrin and Uvalic, 2016; Hunya and Schwarzhappel, 2016). For example, the region's banking sector is majority owned by foreign investors, mostly from the EU, while many banks in the Western Balkans are part of pan-European banking groups.

*Table 1: Internal FDI, annual flows, % of GDP, 2000-16.*

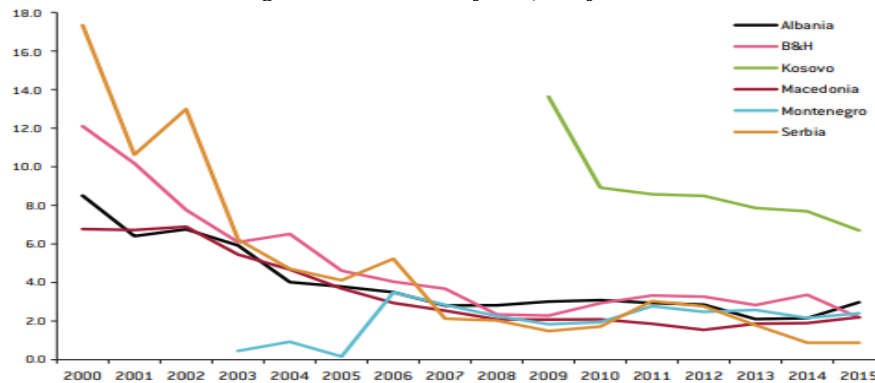
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Albania	5.3	3.1	3.2	4.8	3.3	3.6	6.2	7.6	8.3	8.8	6.8	6.9	9.9	8.4	8.2	9.2
Bosnia & Herzegovina	2.0	3.8	4.4	4.9	5.5	6.0	11.5	5.2	1.4	2.4	2.7	2.3	1.5	2.9	1.7	1.7
Montenegro								21.1	36.6	18.4	12.3	15.2	10.0	10.8	17.4	5.5
Serbia								7.2	6.0	3.7	9.3	2.7	3.9	3.9	5.4	5.2
Serbia & Montenegro	1.1	2.8	5.8	3.4	6.5	13.1	11.0									
Macedonia	12.1		2.3	5.7	1.5	6.3	8.3	5.9	2.1	2.3	4.6	1.5	3.1	2.4	2.4	3.9
Transition economies	1.9	2.0	2.9	3.5	2.9	4.3	4.9	5.1	3.5	3.0	2.9	2.2	2.8	2.0	1.9	3.6

(Source: UNCTAD, <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>.)

### 3. OFFICIAL DEVELOPMENTAL ASSISTANCE (ODA)

In the early 2000s, the Western Balkan countries received large amounts of official developmental assistance (Figure 3), reflecting the international community's desire to support their recovery, reconstruction, transition, democracy and market economy, as well as their integration into the EU. However, with progress in economic convergence, the size of flows of official developmental assistance gradually decreased to 0.9-3.0 % of GNI in 2016, except in Kosovo, where it still stood at 6.7 % of GNI (from 13.9 % of GNI in 2009).

Figure 3. Net ODA inflows, % of GNI



(Source: World Bank World Development Indicators)

At the end of 2017, the European Commission adopted a very significant program - under the Instrument for Contribution to Stability and Peace (IcSP) - worth 2 million euros to support the protection of cultural heritage in Kosovo. The program includes continuous rehabilitation of important cultural and religious facilities, development of cultural and rural tourism, as well as the involvement of communities in joint work on the protection of cultural heritage. Thus, this program contributes to better understanding and reconciliation between ethnic communities.

This program is based on the results of an earlier EU-funded project aimed at restoring cultural heritage sites. The program, which particularly emphasizes the involvement of young people and women, expands existing activities, its geographical scope and the involvement of local civil society. The development of cultural and rural tourism is also envisaged, in order to make the protection of cultural heritage economically sustainable and attractive for communities. This program will not only focus on tangible cultural heritage sites, but will also lead communities to work on intangible cultural heritage, such as tradition, performing arts, cuisine, crafts (*European Union bringing communities in Kosovo together in support of cultural heritage protection, 2017*).

Since 2003, the European Commission and the Council of Europe have carried out a joint action in southern Eastern Europe: the "Integrated Rehabilitation Plan Project" (IRPP / SAAH), better known as the "Ljubljana Process I." The project has developed a methodology for site rehabilitation and contribution to economic development. Participating countries were Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, the former Yugoslav Republic of Macedonia, Montenegro, Romania and Serbia (*Mapping of Cultural Heritage actions in European Union policies, programs and activities, 2017: 9*).

Creative Europe continues to offer opportunities for cultural heritage projects in an effort to protect and promote cultural and linguistic diversity, and strengthen the competitiveness of the cultural and creative sectors. It allows for greater funding for artists and cultural professionals to develop their skills and work across borders; more funding for transnational cultural activities inside and outside the EU; support schemes tailored to the specific needs of the audiovisual network and cultural sectors in the EU; easier access to private financing through a financial guarantee facility; increasing banking expertise in the cultural and creative sector; and helps to develop Europe's competitiveness in culture and film, while preserving cultural and linguistic diversity (*Mapping of Cultural Heritage actions in European Union policies, programs and activities, 2017: 9*).

In order to coordinate general activities related to cultural heritage, the Ministry of Culture of Kosovo, together with the European Commission Office in Prishtina (ECLO) and the Office of the European Union Special Representative (EUSR), has established a "Kosovo Cultural Heritage Information Exchange Forum", which is another in a series of moves by the EU and its institutions to strengthen Kosovo's cultural heritage.

Table 2. Average annual growth rate of exports of cultural goods, 2011–2016 (%)

State	Croatia	Slovenia	Albania	Turkey	Montenegr	Serbi	Macedonia
Annual rate	10 %	2 %	38 %	18 %	17 %	4 %	3 %

(Source: [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Figure\\_1\\_Annual\\_average\\_growth\\_rate\\_of\\_exports\\_of\\_cultural\\_goods,\\_2011%E2%80%932016\\_\(%25\).png&oldid=370412](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Figure_1_Annual_average_growth_rate_of_exports_of_cultural_goods,_2011%E2%80%932016_(%25).png&oldid=370412))

Analysing the data from Table 2, which shows the average annual growth rates of exports of cultural goods in the region, it can be seen that Albania leads with 38 % and, of course, it is in the lead looking at most European countries considered. In contrast, Macedonia (3 %) and Slovenia (2 %) have the lowest rates in the region.

Thus, in the context of enlargement, bilateral and regional cultural cooperation activities are recognized as a fundamental contribution to the promotion of European values and intercultural dialogue. This is particularly important for the Western Balkans where, in addition to fostering democratization, reconciliation and respect for human rights, culture also contributes to the development of the local economy (Mapping of Cultural Heritage actions in European Union policies, programs and activities, 2017: 33).

#### 4. CONCLUDING DISCOURSE

It is indisputable that the EU is present in the Western Balkans, especially in the financial sector. Every year, the Union allocates significant funds from its sources and assists the countries of the Western Balkans with various projects, as well as through pre-accession assistance projects. The importance of expressing the support of EU institutions and member states to the countries of the region was pointed out, as well as their interest in the final democratization of the Western Balkan countries. Therefore, as a way to help continue the process of negotiations between the Western Balkans and the EU, as well as to implement the new methodology, candidate and potential candidate countries should intensify reforms, including the most difficult political, institutional and governance issues, but the Union should also revise .

Looking at Figure 1, which shows the share of the EU in the total amount of foreign direct investment in the Western Balkans, it is clear that the least investment until 2014 was in Kosovo, and the most in Macedonia and Serbia. Investments in Bosnia and Herzegovina by the EU are in the penultimate place, right after Kosovo. Comparing investments (in relation to GDP) after two years, ie 2016, the leadership of Montenegro can be confirmed, while Albania is at the back. Figure 3 shows the reduction in ODA, except for Kosovo.

An interesting fact is that in 2018, the European Bank for Reconstruction and Development (EBRD) invested a total of 67 projects in the Western Balkans in the amount of 1.1 billion euros. This coincides with the 57 projects it supported in 2017 for just under € 700 million. For 2019, the EBRD has set ambitious goals to support the global development agenda. At the annual meeting in Jordan in May 2018, EBRD shareholders asked the bank to do even more with its capital to increase investment in existing countries and help achieve the sustainable development goals that the international community has promised to achieve by 2030.

Although the use of available EU funds cannot be the solution to all current problems in Kosovo, it is still necessary, given that this country has a clear perspective of the European Union as part of the wider Western Balkans region, while the Union has a prominent role in its reconstruction and development. The EU has played a leading role in international efforts to build Kosovo's new future since 1999, by far the largest single donor to Kosovo and the Western Balkans, and at the forefront of reconstruction efforts. In this context, it is expected that Kosovo's accession to the EU will, above all, accelerate its economic growth and reforms, but also resolve conflicts with its neighbors.

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