



# CASE STUDY

## Western Balkans Trade and Transport Facilitation Project

ALBANIA, NORTH MACEDONIA, SERBIA, BOSNIA AND HERZEGOVINA, KOSOVO, MONTENEGRO



## 1. PROJECT HIGHLIGHTS

Key Cross-Country Benefit	Key National Benefit
 <p><i>Better opportunities for free, safe, and affordable trading for all countries that trade through this important transit countries</i></p>	 <p><i>Increased economic integration into international markets through the reduction of trade costs</i></p>

## 2. QUICK FACTS

Categories	Project Details
<b>Project Name</b>	Western Balkans Trade and Transport Facilitation Project
<b>Project Description</b>	To facilitate the trade between and through the Western Balkan countries, the trade and transaction costs should be decreased. This is done through enhanced transport efficiency, digital components, and smart digital systems.
<b>Global Public Good (GPG) Theme</b>	Fair international trade
<b>Sub-Theme</b>	Free, open, and fair trade
<b>Sector</b>	Trade Policies & Regulations

**Disclaimer:** We based the case study on the information cited and publicly available as of May 2023. The findings – especially concerning the GPG perspective – have been concluded to our best knowledge. The views expressed are the authors’ assessments and do not necessarily reflect the project stakeholders’ views. Any errors that remain are our responsibility.

<b>Countries of Implementation</b>	Albania, North Macedonia, Serbia, Bosnia and Herzegovina, Kosovo, Montenegro
<b>Region</b>	Europe and Central Asia
<b>Income Category</b>	Upper-middle-income economies
<b>Implementation Period</b>	2019-2025
<b>Project Volume (planned)</b>	US\$ 90 million (first phase: 2019-2023) US\$ 50 million (second phase: 2021-2025)
<b>Financial source (planned)</b>	<b>Umbrella Facility for Trade Trust Fund:</b> US\$ 140 million
<b>Instruments</b>	Investment Project Financing
<b>MDB Involved</b>	World Bank
<b>Implementing Partner<sup>1</sup></b>	Serbia: Ministry of Construction, Transport, and Infrastructure North Macedonia: Ministry of Transport and Communication Albania: Ministry of Finance and Economy
<b>Link to detailed project information<sup>2</sup></b>	<a href="https://documents1.worldbank.org/curated/en/919401555624976466/pdf/Western-Balkans-Trade-and-Transport-Facilitation-Project.pdf">https://documents1.worldbank.org/curated/en/919401555624976466/pdf/Western-Balkans-Trade-and-Transport-Facilitation-Project.pdf</a>

### 3. WHY THIS IS A BEST PRACTICE

- Ambition:** The expected savings due to reduced trade costs are significant and amount to a multiple of the initial investment, indicating the high ambition level of the project. Additional to direct benefits for the participating countries, trade facilitation is likely to benefit neighbouring countries and those that trade through the WB6. Increasing the countries attractiveness as a trade route thus also has a positive effect on the whole region. Furthermore, the project is ambitious, as it overall covers six countries and aims to achieve a comprehensive harmonised trade and transport network across the Western Balkans.

<sup>1</sup> The implementing partners are so far limited to Serbia, North Macedonia, and Albania as the project is implemented in these countries during the first phase. For the second phase, implementing partners will include the other participating countries as well.

<sup>2</sup> Unless not states otherwise, the information that are used in this case study can be found in this source.

- **Sustainability:** The Trade and Transport Facilitation aims at developing technologies and implementing infrastructure that improve the trade and transport efficiency. Once these technologies and infrastructures are available on site, their positive effect remains even after the end of the project. Hence, the economic benefits as well as the social and ecologic co-benefits are sustainable and can persist even after the project itself ends.

## 4. PROJECT INFORMATION

### 4.1 CHALLENGES OF GPG PROVISION IN THE COUNTRY CONTEXT

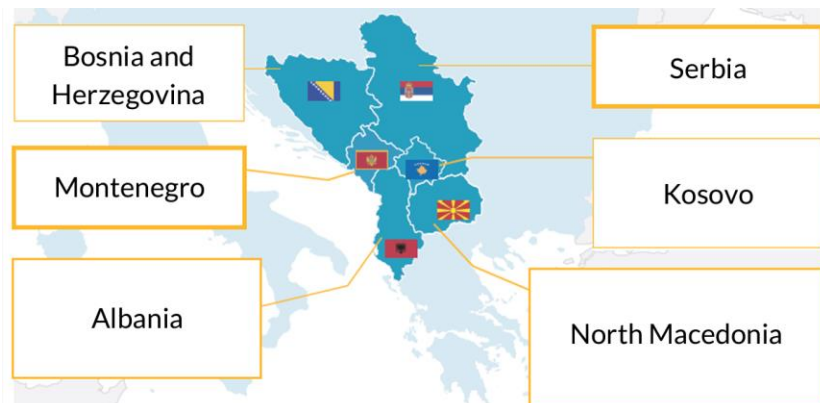
In the six Western Balkan countries (Albania, North Macedonia, Serbia, Bosnia and Herzegovina, Kosovo, Montenegro, following: WB6), the share of exports of goods and services corresponds to 40 percent of the GDP on average, with the European Union being the most important export market.<sup>3</sup> It is not only the most important export market, but the main political and economic reference point of the Western Balkan countries overall. Trade integration and the facilitation of economic engagement is a crucial part of the integration process towards the European Union.

The export ratio of 40 percent is rather low in comparison to other countries in the region. The low level of exports is not mainly due to tariffs: As a result of the Central European Free Trade Agreement (CEFTA), most regulatory and legal barriers have been removed. However, other **costs associated with international trade are high**. For example, traders wishing to cross the borders need to spend a significant time at the Border Crossing Points (BCP) due to complicated and non-uniform procedures and

documents. Hence, although the countries theoretically have access to the European markets, they cannot exploit the whole potential due to high transaction and operational costs.

These high transaction costs limit economic prosperity in the affected countries, as exports are not as profitable as they could be. At the same time, they impose negative externalities to other countries: The WB6 serve as both **transit countries through which goods are traded to other countries and neighbouring countries for other countries in the Balkan** that are themselves restricted in their trading activities if trading through

**FIGURE 1: MAP OF PARTICIPATING COUNTRIES**



Source: [World Bank \(n.d.\)](#)

<sup>3</sup> World Bank (2019): <https://documents1.worldbank.org/curated/en/919401555624976466/pdf/Western-Balkans-Trade-and-Transport-Facilitation-Project.pdf>

the WB6 is difficult. The **strong interlinkage between economic opportunities and political stability further increases the relevance of free, fair, and open trade**. It is an important stabilising factor in the region and crucial for further development, growth, and prosperity.

## 4.2 INTERVENTION

### 4.2.1 Project Design and Agents of Change

The **Western Balkan Trade and Transport Facilitation Project** aims at reducing the trade costs and increasing the transport efficiency in the six Western Balkan countries, with a particular focus on the economic access to the European Union. This can complement the endeavour to integrate the Western Balkan region in the Trans-European Transport Network (TEN-T), which opens more possibilities for economic and thus also political rapprochement.

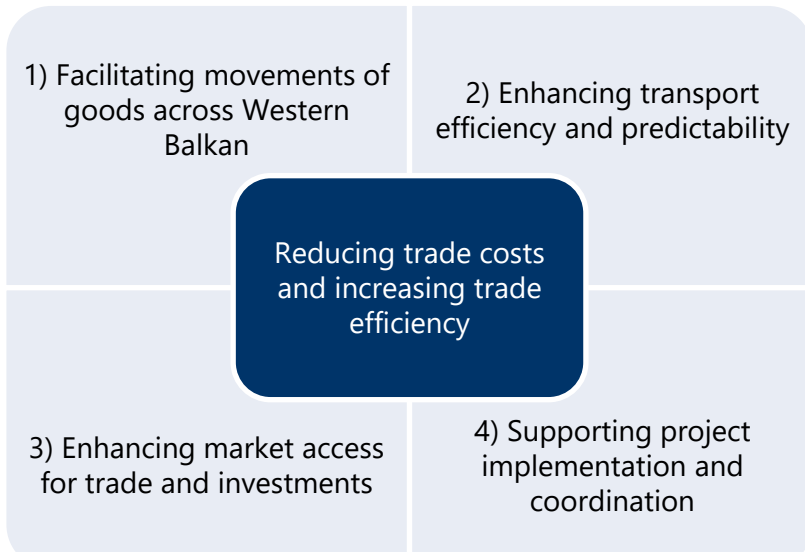
The project follows a **Multiphase Programmatic Approach (MPA)** and consists of **two phases**<sup>4</sup>: In the first phase with a duration from 2019 to 2023, Albania, North Macedonia, and Serbia are targeted. In the second phase, running from 2021 to 2025, Bosnia and Herzegovina, Kosovo, and Montenegro follow. It includes four components that are shown in Figure 2. **Facilitating movements of goods across the Western Balkan** focuses on the implementation on a National Single Window (one-stop-shop) in each country and the improvement of the efficiency at Border Crossing Points to reduce time losses that can become financial losses. **Enhancing transport efficiency and predictability** mainly includes the adaption of smart solutions, such as an Intelligent Transport System (ITS) and other digital solutions to improve the capabilities for monitoring and evaluation. **Enhancing market access for trade and investments** is targeted at regulatory and institutional reforms to enable market participants the access to trade in line with the legal frameworks. **Supporting project implementation and coordination** includes additional technical assistance for the project implementation itself. This includes data collection and impact evaluation.

One main responsibility of the World Bank is the provision of technical assistance, stakeholder management, and capacity building. Broadly, the **project can be divided into two parts**. The first part consists of knowledge accumulation, during which the current status quo as well as strengths and weaknesses – and, consequently, specific needs – of the individual countries are identified. This is done for example through specific initiatives such as a National Single Window (NSW) Visioning workshop or Single Window Gap Analysis assessments.

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<sup>4</sup> The MPA is a specific framework by the World Bank that divides an extensive initiative in smaller phases that are associated with separate financing instruments for each. This can better adjust the financial measures to the particular goals in each phase and increases the traceability and evaluation possibilities.

**FIGURE 2: PROJECT COMPONENTS**



Source: Oxford Economics based on [World Bank \(2019\)](#)

The latter assesses the countries' institutional capacities to implement a National Single Window and is used to make an informed decision-making regarding specific measures to implement the NSW. For the countries in the first phase (Albania, North Macedonia, Serbia), this has already taken place. The second part includes the implementation of specific solutions, which concretely contribute to the trade and transport facilitation. Those solutions incorporate both hardware and software. In the countries of the first phase, this roll-out of technology is planned for the year 2023.

The financial support of the project takes place through the **Umbrella Facility for Trade**. This multi-donor trust fund is administered by the World Bank. Its goal is to strengthen the World Bank's involvement in trade-related projects. The trust fund is supposed to be used to support projects that develop new solutions and ideas to facilitate and improve trade and align those projects to the already existing **World Bank Trade Strategy**.<sup>5</sup> Currently, 264 activities in 122 countries are being supported by the Umbrella Facility for Trade trust fund. National agencies in the United Kingdom, Switzerland, Norway, the Netherlands, Sweden, and Australia are development partners. The large scope and organisational framework of the trust fund illustrates the relevance that the World Bank attaches to the subject of trade.

#### 4.2.2 Expected Results

The main goal of the Western Balkan Trade and Transport Facilitation is increased trade efficiency. There are various indicators to measure and quantify this efficiency: total trade costs (sum of cumulative import and export costs), costs to import, cost to export, average freight transport time on targeted corridors. For the first phase, the **expected savings correspond to about US\$**



<sup>5</sup> World Bank (2011): <https://www.worldbank.org/content/dam/Worldbank/document/Trade/WBGTradeStrategyJune10.pdf>

**250 million per year.**<sup>6</sup> This is a large financial benefit for the participating countries and significantly larger than the planned US\$ 90 million investment. Another cost-benefit analysis calculates a net private value over the course of ten years using a discount rate of 6 percent of overall US\$ 136 million for Albania (compared to US\$ 20 million project financing), US\$ 240 million for North Macedonia (compared to US\$ 30 million project financing), and even US\$ 659 million for Serbia (compared to US\$ 40 million project financing).<sup>7</sup> However, as the actual implementation of the new solutions and systems to facilitate transport and trade is just starting in 2023, no evaluations on the actual magnitude of the financial benefits can be made at this point in time.

## 5. PROJECT IMPACT

### 5.1 NATIONAL BENEFITS

The Western Balkan Trade and Transport Facilitation yields direct national benefit for the participating countries, as it **fosters economic openness and increases trade opportunities**, including free and safe movements of people, goods, and services. This corresponds to national priorities that include an increased economic integration, particularly towards the European Union. The improvements are equally beneficial for all client countries, as a smooth export contributes to an active and thriving economic development. Furthermore, they contribute to a political rapprochement towards the European Union that is in the interest of the participating countries. In general, international trade and economic linkages can have a positive impact on regional cooperation, which in turn improves political stability on site. The Balkan region has faced various conflicts during the last decades. Strengthening economic integration **reduces the risk of violent conflicts on site**.

Reducing trade and transport costs in this setting further yields **gender co-benefits**. Most of the enterprises that are owned by women are small and medium-sized enterprises (SMEs). The difficulties that occur during international trade are particularly relevant for SMEs, as they often export smaller quantities that yield smaller marginal profits compared to large enterprises. Similar trade costs in absolute terms have a larger negative effect, relatively. Accordingly, on average women face high difficulties in trading. Trade facilitation increases their access to international trade and strengthens their role as economic actors.

### 5.2 CROSS-COUNTRY BENEFITS

Facilitating trade and reducing transport costs is of increasing relevance in a globalised and interconnected world. The elimination of various tariffs and regulations as well as the international harmonisation of standards, policies, and even currencies progress further. However, there are still significant barriers to frictionless trade. Those do not only impact companies in the exporting countries (in this case, WB 6), but also companies and consumers that import products. Accordingly, reducing trade costs also yields **positive economic effects for the importing countries**, as costs also reduce on their side. This is particularly important as the WB6 have an important strategic role for trade due to their geographic position. They connect both the Black

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<sup>6</sup> World Bank (n.d.): <https://www.transport-community.org/wp-content/uploads/2019/12/Transport-and-Trade-facilitation-project.pdf>

<sup>7</sup> World Bank (2019): <https://documents1.worldbank.org/curated/en/919401555624976466/pdf/Western-Balkans-Trade-and-Transport-Facilitation-Project.pdf>

Sea and the Aegean Sea with the Adriatic Sea and further serve as important trade route between Europe and Asia.

Furthermore, the project can have positive externalities on **emission reduction**. Trade emission make up for a large share in the overall GHG emissions in many countries, the Western Balkan ones included. If transport is made more efficient and takes place quicker, climate-damaging emissions can be reduced. This is for example due to significantly less congestion at the Border Crossing Points. There does exist the risk of a rebound effect following an increase trade volume due to improved transport infrastructure. However, the emission reduction relative to the traded volume is likely to predominate this counteracting effect and can lead to a net decrease in emissions.

## 6. LESSONS FOR FUTURE GPG PROVISION

### 6.1 SUCCESS FACTORS

As the project is currently still in the middle of implementation, the success factors are evaluated based on past experiences and expected future results. One key success factor is the **alignment with national interests** together with the desire of all participating countries to join the EU. The project is based on a joint initiative of both, participating countries, and the World Bank. As is stated in a World Bank's document, "[t]he Western Balkans' path-way to prosperity hinges on furthering regional and international economic integration."

It might sometimes be difficult to convince countries to participate in a joint consortium where coordination and harmonisation of interests is necessary. In this case, however, this project was received very positively and the countries that were eligible were interested in participating from the beginning on. Related to this is a high level of **country ownership**. During the whole project, all countries are constantly involved through their national implementing agencies and steering committees, and they can contribute their knowledge at all parts of the process. This is important because there is no one-size-fits-all solution and each of the involved countries faces slightly different challenges and demands that need to be accounted for. The project is of high importance due to the crucial phase of development which the Western Balkan countries are in. After ongoing conflicts and political instabilities, there is a **momentum to stabilise the region through increased economic integration**. The national political structures allow for a comprehensive and concerted action that strengthen the integration in the European markets.

### 6.2 HOW TO REPLICATE THE BEST PRACTICE

In addition to that, the following lessons can be learnt from the project and can be used to replicate the best practice project:

- A mixture of joint, coordinated initiatives and country-specific analyses and solutions help to increase the efficiency and accuracy of the project.
- **Investments in trade-related infrastructure** can have strong positive cost-benefit-effects – including social and environmental co-benefits – but are difficult to implement in the private market and in national contexts due to coordination issues.

”The Western Balkans' path-way to prosperity hinges on furthering regional and international economic integration.” - *(World Bank (2019))*

- **Once the infrastructure is provided, private actors have high incentives to adapt to the new standards**, supporting the roll-out of new technologies on the private market.
- A crucial success factor is that neighbouring countries have a strong common goal (in this case the perspective to join the EU).
- In the case of improvements in transport infrastructure, there exists a risk of a rebound effect: Improved trading conditions could increase the traffic volume which in turn counteracts the original effect in terms of emission reduction. This needs to be accounted for in the political and regulatory environment.
- The National Single Window as well as the digitalisation of transport infrastructure and the implementation of intelligent systems are technologies that can be used in many countries to improve the trade and transport efficiency. Hence, the project is not restricted to the Western Balkan, but its components can be implemented in other countries to enhance their trade.