



Federal Ministry
for Economic Cooperation
and Development

Strategy for development cooperation with transformation partners in South-Eastern and Eastern Europe and the Southern Caucasus

The BMZ has a partnership model made up of three categories of country: bilateral partners, nexus and peace partners, and global partners.

With our bilateral partners we pursue shared development goals over the long term. We want to enable our partners to achieve the goals of the 2030 Agenda for Sustainable Development and the Paris Agreement, working with them on the basis of our core areas and initiative areas. We are guided here by the national development goals of our partners; we support sustainable reform processes and we want to jointly achieve structural change and impacts.

The transformation partners are one sub-category within this group of bilateral partners. They are countries where we are supporting selected processes for political and economic transformation and for moving closer to the EU with the aim of strengthening democracy, human rights, the rule of law and the free market system and protecting the climate. The group of “transformation partners” is made up of several countries in the Western Balkans and the Eastern Partnership of the European Union. On the BMZ’s list of partner countries, it currently includes: Albania, Armenia, Bosnia and Herzegovina, Georgia, Kosovo, Moldova, Serbia and Ukraine. Beyond this, the BMZ may in special cases also work through regional projects with countries in the Western Balkans and the Eastern Partnership that are not on its list of partners.

Since the beginning of Russia’s illegal war of aggression against Ukraine, adjustments have been made to the partnership with Ukraine to reflect the new situation and respond to emerging needs. As well as promoting transformation and the process of moving closer to the EU, we want to help shape a recovery in Ukraine that is sustainable, inclusive, conflict-sensitive and in line with the principles of the Lugano recovery conference (partnership; reform focus; transparency, accountability and rule of law; democratic

participation; multi-stakeholder engagement; gender equality and inclusion; sustainability).

We are promoting political stability, economic prosperity and a shared set of European values in the countries of the Eastern Partnership and the Western Balkans.

Germany and the EU have a particular interest in seeing friendly relations; political and economic stability; democratic, rule-of-law and market-economy reforms; and sustainable, climate-friendly and environmentally-friendly development in the countries that are our immediate neighbours. Germany focuses special attention and support on the EU’s south-eastern and eastern neighbours. The countries of the Western Balkans and the reform-minded countries of the Eastern Partnership have ambitions to join the EU. The firm prospect of EU membership or, in other cases, the aim of moving closer towards the EU is motivating those countries to drive forward reforms.

After the dissolution of the Soviet Union and Yugoslavia, the Western Balkans and Eastern Partnership countries went through far-reaching political and economic transformation processes (e.g. building new nation states, democratisation of their political systems, transition from a planned economy to a market economy, the building up and integration of their economies into global markets). These processes are still ongoing and pose special challenges in the region. The countries still need to work on securing the foundations of a democratic, pluralistic political system based on the rule of law; that is a vital condition for their either moving closer to the EU or indeed gaining membership. Furthermore, relationships between the countries of the Western Balkans and the Southern Caucasus are still in some cases strained, which is also standing in the way of regional cooperation and the economic development of the region.

Russia's war of aggression against Ukraine has had a massive impact on society and the economy. The country is having to cope both with the many thousands of people who have been wounded in combat or forced to leave their homes by the war and also with the destruction of infrastructure across the country and the massive economic challenges in the region and beyond. In June 2022, the EU accorded Ukraine the status of EU accession candidate. This will require an ambitious raft of reforms to align the country's legal system with EU norms. We are supporting this process in selected areas using the instruments available under development cooperation. We also monitor how earnestly reforms are being pursued and to what extent the aims are being achieved. Despite the ongoing war, Ukraine looks to have a good chance of positive development that sets it on a path towards the EU. This is thanks to broad-ranging donor engagement in the country, a private sector with a keen interest in trade and investment, and the will of the Ukraine government to facilitate rapid recovery and move the country closer to the EU. Supporting Ukraine's recovery will remain one of the BMZ's foremost tasks in the Eastern Partnership for years to come.

Indeed the war and its long-term impacts will have a defining impact on the region as a whole for the foreseeable future. This is evidenced, for example, by the rise in prices (not least for energy) and the increase in social and regional tensions, bolstered by Russia's disinformation campaigns. The region is dependent on Russia in both security policy and economic terms, particularly with regard to energy supply and labour migration. As a result, it is searching for the right balance in its relations with East and West. This situation is compounded by the competing models of cooperation on offer and the economic and political influence exerted by countries like China in particular. Continued displacement and migration can be a destabilising factor.

Germany and the EU have an interest in strengthening political stability, economic prosperity and common, pro-European values in the countries of the Western Balkans and the Eastern Partnership, thus fostering convergence with the EU.

The aim of our cooperation with Ukraine is to support people, the economy and the delivery of basic public services so as to maintain the basic necessities of life there. What specific form cooperation takes is very much dependent on the course of the war and is constantly adapted to the changing situation.

We support closer links with the EU and selected reform processes.

The move towards the EU has gained new momentum, with EU accession candidate status already having been awarded to Ukraine, Moldova and Bosnia and Herzegovina and plans to extend it to Georgia at some time in the future. Also, accession negotiations began with Albania and North Macedonia in mid-2022. These accession processes are an important factor in driving reforms towards good governance and sustainable economic development. These reforms then manifest themselves in the adoption of European law and European standards. We will use these accession processes to offer specific support in the political, economic and social transformation leading up to EU membership. The EU has a number of important aims that cannot be achieved without the countries of the Western Balkans and the Eastern Partnership. These are in areas like climate and energy (EU Green Deal), security (cyber security, combating organised crime/illicit financial flows) and migration. Those areas therefore provide a frame of reference for German development cooperation. We want to support the countries in moving closer to the EU and/or in their accession process and we want to solidify their ties with the EU.

The aim of our development cooperation is to support the economically, ecologically and socially sustainable design of the processes for transformation and for moving closer to the EU with the aim of strengthening democracy, human rights, the rule of law, the free market economy and mitigating climate change. With this support, we are also making an important contribution towards political and economic stability in our partner countries, to better living conditions for their citizens and to protecting vital natural resources.

Our development cooperation activities with the Western Balkans are embedded in particular in the German government's "Berlin Process", which involves bringing the Western Balkan countries closer to the EU and preparing their accession as well as supporting efforts to deepen regional cooperation among the individual countries. For our Eastern European neighbours, the "Eastern Partnership" – through which the EU strengthens its political, economic, cultural and social relations with its eastern neighbours – is the framework for our development cooperation. It also aims to contribute to stabilisation in the southern Caucasus and to reduce conflicts.

By aligning our work systematically with EU policies and processes, we are able to increase the relevance and impact of our development cooperation in the region and, also, we are more able to work with and join multi-donor initiatives, including co-financing. Especially for the EU, German official development cooperation, with its implementing organisations, is a key implementation partner in the region, which means that German funds have significant leveraging effects. The whole range of development cooperation instruments is deployed in the region, in particular reduced-interest loans or structured funds to stimulate the private sector. Targeted use is also made of the instrument of integrated experts.

Good governance, economic development and climate protection – a clear development policy profile

With our transformation partners, cooperation is focused on one or two action areas in one or two of the core areas listed below (with the exception of Ukraine in its recovery phase, where a broader range of areas can and should be addressed). There is also flexibility to cooperate outside the agreed core areas where an acute political need arises. In all action areas, feminist development policy and the aim of strengthening gender equality are taken into account. Given the challenges outlined above and the development policy goals being pursued, bilateral cooperation focuses on the following core areas:

CORE AREA "CLIMATE AND ENERGY, JUST TRANSITION"

Russia's war of aggression on Ukraine has highlighted the need to provide reliable support to our transformation partners in diversifying energy supply and making the transition to renewables. As the EU's largest member state, Germany has a special responsibility in this regard. The region plays a key role in Europe's climate efforts. All the countries of the region are highly dependent on fossil fuels and are responsible for a massive amount of emissions. That makes it very challenging for them to maintain the EU's course on climate and the environment. At the same time, it is in Germany's and Europe's interest for the region to reduce its dependency on energy from Russia. There is considerable potential to expand renewable energies (hydro-power, solar, wind) and improve energy efficiency. The partners themselves want the Eastern Partnership and the Western Balkans to be included in the EU Green Deal. Indeed, it is also vital for Germany and the EU as a whole, because of those partners' close connections with the European single market and power market. The aim of our development cooperation is to support energy security and a diversity of energy supply in order to facilitate a just transition. In the entire region, key climate policy and energy reforms are to be initiated and supported

through policy-based reform financing. In addition to this, investments in a green energy infrastructure are to speed up the transformation of the energy sector in pursuit of climate goals and increase energy security.

CORE AREA "SUSTAINABLE ECONOMIC DEVELOPMENT, TRAINING AND EMPLOYMENT"

Small and medium-sized enterprises and start-ups are the mainstay of the economy in the region and provide most formal jobs. Often, however, no access is available to the kind of financing needed to generate earning opportunities over the long term and to give small businesses and their families an incentive to remain and the potential to invest in making businesses competitive. At the same time, there is a lack of sufficient or sufficiently qualified workers. The problem is aggravated by the high numbers of workers migrating abroad. Systems of technical and vocational education and training are insufficiently geared to the needs of the labour market; they tend to be outdated and inadequately equipped.

The aim of German development cooperation is to support the countries of the region in preparing their economies for integration into the European market and creating environmentally friendly income and employment opportunities. The model guiding these efforts is that of a social-ecological transformation of the economy, in other words the shift to a socially equitable, ecologically sustainable, competitive and resilient economic system. In pursuit of this systemic transformation, we are focusing increasingly on structure-building activities in the field of economic policy. Women and girls in particular and also marginalised population groups should also benefit from these changes, in line with the concept of feminist development policy.

COOPERATION OUTSIDE THE CORE AREAS "PEACEFUL AND INCLUSIVE SOCIETIES"

The screening process for assessing whether candidates have qualified for accession in 35 chapters of EU community law and the actual negotiations on the individual clusters of the EU acquis present accession candidates with great challenges. There is also a need for partner countries to improve political management of their implementation of the relevant strategic reforms. Strong institutions, transparent government and clear procedures and decision-making processes are needed for planning and coordinating integration.

The aim of German development cooperation is for the public institutions (executive, legislature and judiciary) in the transformation partner countries to operate effectively, transparently and in line with the rule of law and for EU-compatible reforms to be implemented in a participatory way. This applies to various aspects of governance, from the planning, implementation and auditing of the budget to the judicial system.

We are promoting cross-border and regional cooperation within our European neighbourhood.

Political, economic and social stability in the region depends to a considerable degree on the relations between countries that were in the past or are currently engaged in conflicts with one another. Against this backdrop, regional cooperation takes on an enormous significance in this region and is a fundamental element of our development cooperation. First, it makes a contribution towards building or deepening cross-border cooperation – a basic principle of the EU. Secondly, cross-border challenges likewise require regional cooperation. Finally, regional cooperation can have peacebuilding impacts in countries with past or continuing conflicts.

In keeping with the subsidiarity principle regional projects come into play when

- they are a way to address cross-border challenges,
- and/or they have confidence-building and peacebuilding impacts,
- and/or they serve to promote intra-regional cooperation or regional integration processes, and
- they provide a useful compliment to bilateral development cooperation.

The Regional Western Balkans climate partnership, for example, is an instrument that, on the one hand, creates incentives for achieving ambitious climate goals in the individual countries of the Western Balkans.

On the other hand, it also promotes regional integration through implementation of the Green Agenda, which is modelled on the EU Green Deal, and specific joint initiatives addressing energy policy and climate policy. Last but not least, it is an instrument for dialogue, allowing parties to come together whose relations may be somewhat strained.

In that way German development cooperation is, through regional cooperation, making a targeted and impact-oriented contribution towards implementing and accompanying through development cooperation the EU's European Neighbourhood Policy within the framework of the Berlin Process and the Eastern Partnership.

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