

## **Minutes and Conclusions of the 10<sup>th</sup> Meeting of the South East Europe Investment Committee**

**Sarajevo, 24-25 April 2012**

South East Europe Investment Committee (SEEIC) held its 10<sup>th</sup> meeting on 24-25 April 2012, at the Regional Cooperation Council Secretariat (RCC), in Sarajevo.

Mr. Genci Mucaj, Director General at the Ministry of Foreign Affairs of Albania/National Coordinator for RCC, Mr. Hido Biscevic, Secretary General of RCC, and Mr. Yngve Engstroem, Head of Regional Cooperation and Programmes Unit, DG Enlargement, opened the meeting. The meeting was co-chaired by Mr. Genci Mucaj and Ms. Jelica Minic, Deputy Secretary General and Head of the Expert Pool of the RCC Secretariat.

Participants at the meeting included: representatives of the Country Economic Teams for the SEEIC and offices of National IPA Coordinators, Organization for Economic Co-operation and Development (OECD) Investment Compact for South East Europe, international organizations, and donor and business community. Interactive thematic sessions contributed to better alignment of SEEIC to the Europe 2020 Strategy and to consolidate the efforts for regional cooperation in investment and competitiveness-related reforms.

The main task of the meeting was discussing and adopting the SEEIC Rules of Procedure and two-year Work Programme for 2012-2013, with planned activities in developing the SEE 2020 Strategy, supporting regional value chains and executing regional investment promotion efforts.

The meeting of the Instrument for Pre-Accession Assistance (IPA) Private Sector Programming Working Group, co-organized with the EC/DG Enlargement, was held in conjunction with the SEE IC, where programming of the regional component of funding for private sector development was presented, along with a broader view of the on-going and planned regional activities in this area.

### ***Review and Adoption of the SEEIC Work Programme and the Rules of procedure***

Co-chair of the SEEIC, Mr. Genci Mucaj extended full support to the future work of SEEIC under the RCC umbrella, and to its 2-year Work Programme, adding that the transfer of the SEEIC from the OECD to the RCC is a major regional achievement, which shows trust and reliability of the RCC.

Mr. Sanjin Arifagic, RCC Senior Expert on Economic and Social Development and Head of Unit, presented a draft of the SEEIC Rules of Procedure. Several amendments were made regarding decision-making and new membership application procedures (references on the principle of consensus and role of European Commission as an observer and supporter to the SEEIC).

The Work Programme of SEEIC for 2012-2013 provided clear framework for conducting its activities aiming to: (i) lay down and act upon a common vision for economic and social development in South East Europe (SEE) by 2020, (ii) increase competitiveness of the region through supporting cross-border linkages between businesses, financial institutions and capital markets, and (iii) promote the region as an attractive investment destination.

Proposed amendments referred to identification of priority sectors and technologies, suggesting exclusion of the word “technologies”, due to complexities involved in identifying regionally relevant

technologies. It was suggested to closer align this activity with the Strategy for Research and Development for Innovation for the Western Balkans (currently being prepared) and existing guidelines related to smart specialization. It was stressed that environmental issues need to be seriously taken into consideration along projected activities and investment related reforms.

Aforementioned documents and amendments were agreed upon and endorsed.

During this session, the representatives of Kosovo\*, with current status of an Observer within SEEIC, verbally introduced its aspiration for the full membership within SEEIC. Mr. Sanjin Arifagic, on behalf of the RCC Secretariat, explained that, in accordance with the adopted Rules of Procedure, Kosovo\* should submit a written official application to the SEEIC that shall be circulated among all of the members for their prospective decision.

### ***SEE 2020: Priority Areas for Setting Policy Targets***

An initial overview of proposed SEE 2020 Vision headline targets has been presented. These initial headline targets are meant to represent a common set of goals, which are to be achieved along the five pillars agreed upon in the SEE 2020 Vision at the Ministerial Conference in November 2011, and represent the first step in the implementation of this Vision under the leadership of the SEEIC.

Mr. Alan Paic, head of OECD Investment Compact for SEE presented the initial set of elements proposed for target setting for 5 main pillars of the Strategy (Integrated Growth, Smart Growth, Sustainable Growth, Inclusive Growth and Governance for Growth), alongside with the numerical values for these dimensions for both South East Europe and the EU-27, and their evolution in the past decade. Several participants noted a need for more complete quantification of targets, potentially by using national statistical sources. The OECD noted that mostly international sources were used to avoid issues with differences in methodology; however an effort can be made to include national sources if they can guarantee compatibility. General opinion stated that challenges of finding numerical targets do exist (larger number of countries needed, wider sources of information etc) in order to achieve as coherent and up-to-date as possible information datasets and provide a sound regional overview matrix.

Ms. Renata Vitez, Director of CEFTA Secretariat, suggested considering other trade indicators, than those relative to the GDP, given the possible misleading character, especially in the light of apparent slipping of GDP in recent months.

Ms. Ute Dannenmann from GIZ asserted the importance of associating targets and indicators with necessary policy measures, as a prerequisite for successful target attainment. Ms. Jelica Minic, stressed that the mandate of SEEIC is relatively limited, making it difficult to coordinate all SEE 2020 targets, but she underlined that other RCC's activities, as well as contributions of different regional initiatives could be helpful in better targeting specific areas.

### ***Private Sector Programming Working Group and links to SEEIC***

Implementation of the IPA Multi-beneficiary Private Sector Development Sector Plan for 2011-2013 has been reflected on, as well as plan ahead for the next EU financial perspective 2014-2020.

Ms. Inga Stefanowicz and Mr. Bo Caperman from DG Enlargement presented a 3-year Multi-beneficiary IPA Private Sector Development Sector Plan (2011-2013) and updated participants on its implementation within the three thematic areas: financing, competitiveness and competence, and marketing and access to markets. Three projects remain for funding under IPA 2013: Western

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\* This designation is without prejudice to positions on status, and is in line with UNSC 1244 and the ICJ Opinion on the Kosovo declaration of independence

Balkans Enterprise Development and Innovation Facility - EDIF (launching expected towards end 2012), south East European Centre for Entrepreneurial Learning (SEECCEL), and Next Generation competitiveness. The activities in the area of Intellectual Property Rights have been excluded from the Sector Plan, in response to the request of beneficiaries. In his closing remark, Mr. Caperman invited participants to communicate and discuss the outcome of the meeting with relevant partners within their Ministries, as well as with other national contact points.

New sector approach and outlook for the next IPA perspective were also presented. In this context, the meeting noted the link between the SEE 2020 Vision and the SEEIC work on related targets and monitoring indicators on one hand, and with the programming of accession assistance, on the other hand. The SEE 2020 Vision development can thus also be used to provide information for the assistance programming and assessment of progress towards accession.

A number of new projects were also presented and it was decided that two of them should be integrated with EDIF, in view of further development of the sectoral approach. To this end, Mr. Henri Fortin, Head of World Bank CFRR presented the EU-REPARIS proposal, to be included under the EDIF TA component. REPARIS is to focus on: adapting country systems to provide tailored solutions to SMEs, building countrywide capacity for accounting & tax professional services to SMEs, equipping SME with skills to translate business ideas into bankable, sustainable proposals, and improving the SME financial reporting in the context of loan applications. Mr. Alan Paic, from OECD Investment Compact, also presented the Small Business Act process, which tracks implementation in the region of the Small Business Act for Europe. It was decided that this process can be integrated with EDIF to simultaneously track implementation of the policy reform priorities supported by the TA component of EDIF. This approach will allow for continuation of the monitoring of the overall business environment changes while focusing on specific tangible priority interventions.

Mr. Ioannis Tsakiris from the European Investment Fund provided details on the EDIF three financing pillars: 1) Innovation fund, a venture capital investing directly in equity of innovative SMEs in early stage of development, 2) Growth fund managed by EBRD - venture capital investing in high growth SMEs in the region, and 3) Guarantee facility – a horizontal approach through local banks as a guarantee for loans provided by commercial banks to SMEs. He also explained that the 4<sup>th</sup> pillar is to support the beneficiary governments in reforms of the regulatory environment for business, and in particular SME financing, especially equity financing and guarantees, to stimulate flow of capital towards SMEs, either through new venture capital funds or foreign direct investments.

The IFI Coordination Office also noted that SEEIC has a potential role as a regional sectoral organization for the private sector development under the WBIF, in addition to its role of discussion forum for IPA Multi-beneficiary programming of the private sector development. The WBIF is a key financial cooperation mechanism for the EC/IFIs and bilateral donors to the Western Balkans.

### ***Joint actions on boosting competitiveness in South East Europe***

In her presentation on trade and investment integration in the CEFTA region, Ms. Renata Vitez related achievements of the CEFTA Agreement so far, such as liberalized trade in goods, negotiated further liberalization of trade in agricultural products, and commencement of diagonal cummulation of origin. She also emphasized setting up of a joint CEFTA trade portal, with comprehensive information on trade in the region, and praised CEFTA cooperation with OECD, GIZ, IBRD and different regional IPA projects.

She also informed about new developments in CEFTA related to further work: liberalization of trade in services, elimination of non-tariff barriers, and greater transparency of trade. In her opinion, agendas of CEFTA and SEEIC should be coupled relying heavily on analytical work provided by third parties.

Regarding industry concentration and supply chains within CEFTA region, Mr. Rainer Lanz, Policy Analyst to OECD, noted that there is a high degree of agglomeration of manufacturing in specific regions, mostly in Serbia and Croatia (these two countries hold 73% of manufacturing turnover and

55% of manufacturing employment in the region, and out of top 10 manufacturing sub-regions of CEFTA, 8 are in Serbia and Croatia). Hence, SEEIC is expected to view industrial cooperation in a broader context, taking into consideration regional competitiveness disparities existing in the SEE and work on diminishing them in order to enhance the supply/value chains. In some industries such as textile, countries have a similar positioning on the value chain, suggesting that they are mostly competing when exporting to third markets. In other industries, such as food, metals, and wood, the countries are distributed along the value chain with some of them comparatively strong in the initial stage, others in the intermediate one and others still in the final stage. The region needs to cooperate on value chains where such complementarity exists and where benefits exist for all parties in regional cooperation. It is exactly this co-operation which will be at the heart of the Next Generation Competitiveness Initiative which will be launched next year, and which will create regional working groups to address issues of regional co-operation in sectors where it can improve the competitiveness of the region on third markets.

The general assessment was expressed that there is a need for refined instrument for measurement of progress made in the area of competitiveness. Mr. Alan Paic explained that the OECD Investment Compact proposed to use a monitoring tool similar to OECD Investment Reform Index, with advice to broaden it and encompass all dimensions of SEE 2020 strategy that SEEIC will cover in its work. He furthermore presented the idea of continuation of sector and innovation strategy, through working groups for the key sectors of strategic importance to the whole region, and implement pilot projects with achievable results. Ms. Ljiljana Kundakovic from the Serbian Innovation Fund added that it would be valuable to establish monitoring processes using global competitiveness index, but modified in a way to be more appropriate to the region.

Ms. Renata Vitez complimented on, but also discussed OECD monitoring tools and suggested consideration of a mechanism which is not only of monitoring character, but rather a tool that could provide concrete and pragmatic inputs for regional policy improvements (i.e. in preventing future or potential barriers to trade).

### ***Regional Investment Promotion Mechanisms and Update on Private Sector Development Actions***

During the review of past activities in the area of regional investment promotion, and providing grounds for current and future regional investment promotion and facilitation schemes and possible applications in the SEE, Ms. Dragana Djurica, Project Leader for the SEEIC, stressed the importance of a political support for such activities, as well as reviving the formerly signed MoU between the Investment Promotion Agencies of the countries from the region. The cooperation is expected to be more comprehensive and task-oriented, as well as with a focused approach on identified and agreed upon sectors of the regional economy that act as growth pillars for all members. She suggested that these should be placed in a jointly agreed and rolled out programme for regional investment promotion strategy and policies, implying identified priority sectors for joint promotion.

Besides the fact that countries of the region are individually competing for FDIs what puts up potential obstacles to close cooperation in this area, there are also challenges of mobilizing financial resources, since investment promotion is an expensive exercise, and securing consensus of the SEEIC members on determining the priority policies and industrial sectors at the regional level. These topics, as well as other activities (regional investment promotion materials, website, etc.) involved in joint regional investment promotion, shall be discussed during upcoming working groups on investment promotion, in order to re-brand the image of SEE so to leverage the region globally and build a perception of an attractive business location.

Ms. Slavica Korica from the Foreign Investment Promotion Agency in Bosnia and Herzegovina and Mr. Alan Paic both reflected on previous work which has been done in this area during the Sector Specific Sources of Competitiveness Project, where a network of IPA's was created alongside with a Web map for automotive suppliers in the region, and which can constitute a basis for this work in the future.

Bearing in mind financial, human and competition related obstacles, good will for cooperation among Investment Promotion Agencies of the countries from the region for joint activities still holds on and could become effective provided that political support is ensured and management of these activities continuously maintained.

At the end of the session, Milan Konopek, Project Manager for Regional Competitiveness Initiative and Jakob Fexer, Policy Analyst at OECD, briefed on the on-going regional interventions relevant to this line of work. Mr. Konopek gave an update on the project per each beneficiary country, highlighting the achievements of the pilot project conducted so far. Mr. Fexer presented progress on the SME Policy Index 2012, the third regional assessment of SME policy since 2007. This year's assessment includes several novelties, such as the inclusion of Turkey in the process, the transfer to the European Small Business Act as the benchmark, and the execution of a company survey. Preliminary results indicate incremental progress in strong areas identified during the last assessment (2009) and a regression in other areas, such as access to finance, due to the economic crisis.

### **Conclusions**

The 10<sup>th</sup> meeting of the SEEIC was concluded with a review of forthcoming activities until the next meeting planned for September/October 2012. Summarizing the debate, Ms. Jelica Minic praised support to the SEEIC extended by the EC, OECD, EIB, EBRD, IBRD, ETF, GIZ, CEFTA, SEECEL, BAC, CEI, IFI Coordination Office and others and underlined their valuable inputs to the work of the Committee.

The following conclusions were agreed:

- Activities of SEEIC shall be closely related to the EU 2020 strategy, but also to the new IPA 2014-2016 programming and execution, as well as the next RCC Strategy and Work Programme for the period 2014-2016.
- Regional initiatives and international organizations relevant for the SEEIC work shall be contacted for compiling and updating database on specific targets and policies and/or commitments taken at the regional level.
- Prospective headline targets and indicators shall be associated with appropriate policy measures.
- Close cooperation shall be continued with PSD working group and its links with SEEIC further strengthened (organization of back-to-back meetings shall be continued).
- Sectoral planning at the regional level should be commenced as soon as possible through an interactive process using inputs from all stakeholders involved in the SEEIC activities.
- Issues of governance regarding several initiatives, such as EDIF and NGCI project is expected to be clarified, in order to provide the most suitable governance structures and methodologies and achieve more effective decision making process.
- Methods and techniques should be found for better linking private sector support projects to the monitoring and coordinating role of SEEIC
- RCC shall organize a Working group meeting on investment policy and promotion to discuss in further detail and decide on possible areas for joint regional investment promotion.
- Firm political commitment and support should be provided to the work of SEEIC, through RCC operational link with its political umbrella – the South Eastern Europe Cooperation Process - and through strengthening coordination with relevant branches of national administrations, including improved internal coordination between different national stakeholders.