



Address by the Secretary General of the Regional Cooperation Council (RCC), Goran Svilanovic, at the EBRD High-Level Meeting: “Investing in the Western Balkans”

London, 24 February 2014

Excellencies,

Ladies and Gentlemen,

- It's a great pleasure to be here at the EBRD today and to be able to discuss the vital topic of investment in the Western Balkans. After listening to my colleagues in this panel, I am truly encouraged by the energy and enthusiasm of our business leaders and I am confident that our Governments will take inspiration from the drive and perseverance of our private sectors.
- Allow me first to note that, up until recently, the title of this session - commercial integration in the region – would be followed by a question mark. Not any more. Regional economic integration is well advanced and my colleagues in the panel know this well, coming from the private sector which has seen considerable regional consolidation in the years preceding the crisis. Even now, we are increasingly relying on each other. Just during 2012, we sold each other in the Western Balkans around EUR14 billion worth of goods, which is almost 16% of our overall trade. Even if we look at the FDI this is quite apparent – in 2010, the regional FDI stock (meaning the FDI originating from the region, being invested in the region) stood at around EUR 2.5 billion.
- We've also seen an emergence of a number of truly regional companies during the past decade, firms that are ubiquitous throughout our countries, with brands that are well known to millions of our consumers. Some of these firms are represented right here, in this panel.
- So, economic integration is here to stay, but how do we maximize the synergies of this regional market? How do we turn this closer integration to our full advantage? Finally, and probably most importantly, how can we help our companies internationalize and move from national to regional, and then from regional to European or global players?

These are some of the questions that we in the Regional Cooperation Council want to address through a better structured and more focused cooperation framework. And this is where a new regional growth Strategy – South East Europe 2020 – comes in.

- This Strategy, adopted by the Western Balkans governments in November last year, represents the most recent example of moving the focus of regional cooperation in the Balkans from stability and peace building to economic growth. The idea of the SEE 2020 is to use the various regional agreements and cooperation frameworks – such as CEFTA, the Energy Community, SEE Investment Committee and others – to promote economic growth and increased competitiveness.
- The logic for this is rather simple and it boils down to the economies of scale. We are a collection of small, middle-income countries in a very rich neighborhood. In a rapidly changing world where companies are constantly rethinking their production and supply networks, we want to make sure that we're positioning the region on the radar of European and other investors.
- There are several ways through which we propose doing this. The first area of intervention – or pillar as we call it – is **integrated growth** and it builds on the need for closer trade and investment integration. Free flow of goods, services, capital and people is at the centre of SEE2020 Strategy and the measures put forward are already being implemented. I'll give you an example: we are one of the few regions in the world where the trade in goods, including agricultural products, is fully liberalized, with no tariffs. This is a no small feat, but we are pushing forward – SEE 2020 envisions an ambitious agenda of further trade facilitation (such as elimination of non-tariff barriers or facilitation of trade through economic corridors), further liberalization (including liberalization of services in some sectors) and investment integration (such as access to third markets through the integration of the region in global supply chains).
- While integration is important, we see it only as one of the ingredients necessary for increased competitiveness. Shifting the economic structure towards higher value-added products and services, and increasing our productivity is another important avenue, this one being addressed in the **smart growth** pillar of the SEE 2020 Strategy. Measures here target better and more cost-effective financing of research & development and innovation, strengthening education qualification frameworks, and alleviating skills gaps and skills mismatches in the labor markets. A good example of a regional intervention in this area is the Enterprise Development and Innovation Facility - a EUR145 million fund currently being structured by the countries, the EU and the IFIs, EBRD included. This fund is intended to provide equity and credit guarantees to high-growth SMEs with technological content.

- Access to adequate infrastructure and efficient use of resources underpins the **sustainable growth** pillar of the SEE 2020 Strategy. This is an area requiring the greatest prioritization, as the infrastructure development needs are immense, but the fiscal space allows only so much to be done in the near term. While constraining the governments, this might prove a good opportunity to involve the private sector more closely into the process through innovative financing models such as PPPs. However, this will not happen without solid regulatory frameworks, transparent public procurement and strong institutions capable of carrying out projects of such complexity. This is currently also one of the topics being discussed within the Western Balkans Investment Framework, a joint initiative that is bringing together the EU, IFIs, bilateral donors and the governments in the region to help with financing of projects in energy, transport, environment, social sector and private sector development.
- Finally, spreading the benefits of growth remains a priority as does building strong institutions and predictable business environments. In both of these areas – inclusive growth and good governance – we have put forward some 27 measures spanning from labor mobility, labor market governance to the introduction of alternative dispute resolution to cut back on lengthy court proceedings and address judicial backlog.

Ladies and Gentlemen,

- Even the best of strategies and plans mean little without clear structures, resources and processes to execute them. Therefore, we are working on putting in place the entire governance architecture to enable the implementation and monitoring of SEE 2020 Strategy. Both regional and national action plans are being developed, and we are identifying and putting in place a number of indicators, in addition to the 11 headline targets, to measure how we're faring in this process.
- The Strategy contains 86 measures, policy actions and instruments in 16 policy areas. In other words, a handful. The RCC believes that the way to prioritize this further in the implementation is to take a sectoral approach. This is not something unique for our thinking or for this region. Virtually any type of regional economic integration effort has used sectors as a way of making cooperation concrete and tangible. With this in mind, our governments have reached a consensus on two first sectors for prioritization: (i) food and beverage processing and (ii) tourism. These sectors will be seen through the lens of the five pillars of the Strategy – integrated, smart, sustainable and inclusive growth, underpinned by good governance - through prioritizing removal of trade barriers and promoting investment in the given sector, upgrading skills and promoting labor mobility, prioritizing infrastructure investment to support supply chains related to the sector, and ensuring an enabling governance framework. In other words, we want to make sure that most of the things we do in the implementation of SEE 2020 in the next few years addresses these sectors first. The integration of

businesses in this approach will be crucial and we are already making links with the chambers, business associations, but also with some of the biggest and most important companies in these areas.

- It is very fortunate that we have with us today some of the biggest regional players in these sectors and I will look forward to their input in regards to the main obstacles they face when operating in the regional markets and we will continue engaging them in the months and years to come.
- Thank you