

REGIONAL CONFERENCE

“FROM TRIESTE TO LONDON: STOCKTAKING AND FUTURE SCENARIOS FOR THE BERLIN PROCESS”

Tirana, 9 - 10 November 2017

Venue: Rogner Hotel / Antigonea Room

PANEL DISCUSSION BACKGROUND

The year 2018 will be the last one of the current cycle of the Berlin Process. Started in 2014 as an initiative of Chancellor Merkel, the Berlin Process has provided a unique platform to enhance WB6 regional cooperation, to support regional connectivity projects, and to encourage the engaged reforms by WB6. All partners agree the process must continue beyond 2018, as it remains the most important initiative assisting WB6 countries to better prepare for EU membership.

The WB6 Summit in Trieste in July 2017 confirmed the unequivocal support for the EU perspective of the WB6 countries. The strengthening of the rule of law, of fundamental rights, and of economic development, as well as the WB6 commitment to good neighborly relations, and the support to engaged reforms, were all mentioned as meaningful achievements. Connectivity, regional economic integration, private sector development, youth, good governance / fight against corruption, prevention of migration and fight against extremism, were discussed and included in the Trieste Summit Final declaration.

One year before the last Western Balkans Summit, the 2017 Third Tirana Conference will provide a platform where Berlin process stakeholders will analyze and discuss about its current achievements, and the challenges ahead. The participants will come from government institutions involved in planning and implementing connectivity projects, from legislative bodies - them being WB6 national or from EU, from private sector, IFI, diplomatic representatives accredited in Albania, think tanks, academia, and other Berlin Process stakeholders.

The panelists and speakers will act in their personal capacity, not necessarily reflecting positions of countries or institutions, which they represent. In this way, not only different views will be presented, but also a better mutual understanding of diverging positions can be reached and proposals towards a shared understanding of the achievements of the Berlin Process and of a common vision for its future.

The conference will take place from Thursday 9 November 1400hs until Friday 10 November, 1400hs.

The views, terms and opinions are the exclusive responsibility of CDI. They do not reflect the official view of any of the partners or speakers, unless stated otherwise.

The 2017 edition of Tirana Conference on the Berlin Process is organized by Cooperation and Development Institute in partnership with Konrad Adenauer Stiftung, Hanns Seidel Stiftung and Friedrich Ebert Stiftung, and in cooperation with Albanian Ministry for Europe and Foreign Affairs

1st PANEL. ACHIEVEMENTS OF THE BERLIN PROCESS - 2014-2017

The 1st panel will outlay the complementarity and synergies of the Berlin Process (BP) with the EU integration of Western Balkan 6 (WB6). Achievements such as the increased multi-actor regional consultation and cooperation, advancement of regional perspective in policy-making, and the WB6 commitment to the engaged reforms, will be covered.

In particular, the Berlin process dynamics has:

- maintained the intensity level of EU attention towards WB6 regarding the enlargement, and re-assured WB6 about their EU perspective;
- provided a comprehensive and suitable framework for EU-WB6 political cooperation in the form of WB Summits, Ministerials, and other regional cooperation formats, beyond the technical and administrative procedures;
- brought to the limelight the work of technical sectoral structures such as SEETO and / or PECEI for the preparation and implementation of regional initiatives;
- promoted the "Connectivity Agenda (CA)" as an instrument aimed at attracting new investment, generating growth, and promoting employment in WB6;
- increased the amount of, and streamlined the available funds to support the CA investments through IPA funding, IFI loans, PPP, and mixed ones;
- allowed for meaningful participation of WB6 civil society organizations (CSO) and youth in the political regional cooperation fora;
- provided impetus to the on-going discussion on enlargement process, bringing into focus challenges shared amongst the EU and WB6 such as increasing inequalities, rise of populism, impact of migratory flows, increasing regional divergences, etc.;
- contributed to diagnose WB6 structural constraints, to prioritize reforms through inter-ministerial and stakeholder consultation, and to establish annual Economic Reform Program (ERP) reporting;
- been instrumental in the creation of RYCO;
- been instrumental in the establishment of Young Civil Servant Exchange scheme;
- offered modest progress in the subject of bilateral disputes.

2017 Trieste Summit main achievements consist in:

- signature of Transport Community;
- progress regarding the: (i) creation of a regional electricity market; (ii) review of targets for energy efficiency, renewables, and cross-border cooperation;
- adoption of a multi-year action plan for Regional Economic Area;
- creation of Western Balkans Research Foundation;
- establishment of Western Balkans Chamber of Commerce Secretariat.

Challenges

- How to improve the impact on the ground and increase visibility of the Berlin process to the WB6 citizen?
- How to increase interaction and synergies with other regional cooperation initiatives involving WB6?
- How to assure the sustainability of the achievements and pace of reforms?
- How to boost connectivity and ensure long-lasting economic growth also through the implementation of rule of law and justice reforms?

2ND PANEL. CONNECTING WB6 MARKET(S): STATE-OF-AFFAIRS OF CONNECTIVITY INFRASTRUCTURE PROJECTS

The 2nd panel will provide a comprehensive assessment of the advancement stage of projects (by sector, budget, financing mechanisms, stage of advancement, challenges, etc.), implemented in the framework of the Berlin process and of national strategic prioritization process. The debate is expected to place the connectivity infrastructure in the Balkans socio-economic context, bring out its impact and interaction with the dynamics of local production, and with employment generation.

Connectivity Agenda (from 2015 until now) consists in:

- two rounds of investment call for proposals managed by Western Balkans Investment Fund;
- 11 investment grants approved, for a total of EUR 246.5 MiO, out of which two that have started;
- 11 Connectivity co-financing grants approved for a total of EUR 188.9 MiO;

Challenges faced by infrastructure connectivity projects are the:

- long delays: three years minimum from pre-feasibility to works tenders;
- financing and fiscal gap: a total budget of EUR 3.7 Bn is needed for 22 mature projects in Transport (Road and Rail), Energy, and Internal Water Ways (EU has committed EUR 1 Bn up to 2020);
- complexity of technical preparation;
- land expropriation issues;
- cases of low-coordination amongst neighboring country authorities / bilateral disputes;
- low visibility to WB6 citizen / impact on the ground;
- low relevance for countries outside core-networks (i.e. Albania and Montenegro);
- no in-depth assessment on impact of connectivity investments on local production.

WB6 National Single Project Pipelines (NSPP) offer the following view:

- the list of NSPP are not easily accessible to public, neither are they updated (with the exception of Montenegro). There is no accessible data on the country(ies) fiscal gap;
- there is no procedure for the sharing of information amongst National Investment Committees on NSPP. This situation complicates the situation vis-a-vis donors (apart for the Connectivity Agenda projects);
- according to our data*, the six NSPP contain 531 strategic projects with a total needed investment budget of EUR 41,3 Bn;
- per sector, WB6SPP has: (i) 135 projects in energy; 125 in Transport; (iii) 67 in Social; 178 in Environment; (iv) 44 in Business / Competitiveness; and four projects in Tourism;
- per country: (i) Albania NSP has 121 projects; (ii) BiH's has 25; (iii) Kosovo's has 55; (iv) Macedonia's has 113; (v) Montenegro's has 41; and, (vi) Serbia's has 176 projects;

Challenges

- Can and/or should the 6 National SPPs be better coordinated?
- What is the current CA impact on local production and employment?
- Can WB6 citizens increase their role in project prioritization?

* out of six NSPP that were consulted by CDI, five date from 2016 and one from July 2017

3rd PANEL. BOOSTING WB6 GROWTH TO ACCELERATE CONVERGENCE WITH EU

The 3rd panel will focus on the contribution of Connectivity Platform on the WB6 growth rate and on the reduction of economic disparities between WB6 and EU. The focus will be on the **sources of growth** in the region; on the importance of increasing the investments and matching the gap in the local **human capital**; and on **specific EU measures and territorial cooperation programmes** that can practically and meaningfully contribute to reduce development disparities amongst European regions.

WB6 growth model

Transitioning from central economy and after five military conflicts, WB6 reached the new millennium with devastated industrial capacities, flourishing of shadow economies, weak states, and unsatisfactory education & health systems. From 2000 the launch of the EU Stabilization and Association process and rapid market opening were followed by trade re-orientation and increased economic integration with EU. The 5% average growth during 2001-2008 was based on inflow of foreign capital (donors, FDI in mostly in non-tradable sectors, loans, remittances) without deep economic restructuring and/modernization. The result was continuation of de-industrialization, abandonment of agriculture, unsatisfactory job creation rhythm, and widening of trade deficits. Out of 100 South East Europe biggest companies, only 11 are from WB6, 9 of which are Serbian. The 2008 financial crisis caused a sharp fall of foreign capital inflows to WB6 and reduced demand for exports, leading to recession, increased public deficits (put somehow under control after 2015 through tough austerity policies) and rising external debts.

Today, from an economic perspective WB6 are part of the European club, but with many disadvantages and no voting rights. WB6 have 76% of their total trade of goods with the EU but are not integrated into EU industrial value chain (except Serbia and Macedonia at a modest scale); up to 90% of WB6 banking system is owned by European banks and almost all countries have a fixed exchange-rate regimes with the Euro.

Public investment and convergence

Connectivity infrastructure is substantial for growth, but WB6 lack both coverage and quality. Private investment (i.e. TAP - Trans Adriatic Pipeline) should be complemented with public funds. According to WIIW, the 'Berlin Process' has envisaged an investment volume of EUR 7.7 billion to support a WB6 GNP growth up to 1%/y. The World Bank has calculated that 6%/y growth is needed to reach EU average GDP/per capita by end of 2030s. On the other hand, the EIB has proposed an investment of EUR 28bn/year to support a "central scenario" of 4.8%/y growth so as to generate a 3%/y of employment growth. But this requires the current investment level to double and increases WB6 public debt by EUR 7bn/year. For comparison, EU Cohesion Policy funding as share of public investment 2015-2017, was 50% in Bulgaria and 45% in Romania.

Challenges

- How to accelerate WB6 growth rate and convergence pace with EU?
- What should the investment priorities be?
- How better local governance; smarter investment (in education / science / health); better donor and regional coordination impact with the efficiency of public and private infrastructure investment?
- Where are potential sources of WB6 financing needs for sustainable socio-economic development (FDI / IPA and EU MFF 2020-2026/opening of new EU policies to WB6/etc.)?

4th PANEL. BERLIN PROCESS: REINFORCING THE MOMENTUM

The last panel will look beyond the London Summit, providing the elements of a common vision on the future of Western Balkans regional cooperation, on the interaction of Berlin Process dynamics with their EU membership path, on the need for coherent governance architecture, and on the role of the European citizen in these processes.

Berlin Process and EU Enlargement

After bringing into the spotlight the economic growth and convergence challenges that WB6 have in their road to EU membership, BP is instrumental in discussing the most adapted model of socio-economic development for the region, and of the main tools, policies and resources needed to implement it. The advances in personal relations between the WB6 political leaders should be translated in practical and tangible regional cooperation outcomes. Civil society and other non-state actors role in the process, should be consolidated and endowed with appropriate resources.

Toward generating visible improvements for WB6 citizen

In Trieste, and in other high-level meetings, the Berlin Process partners have shared their vision on the need to: (i) mobilize additional sources for higher investment in WB6; (ii) better support to the start-up businesses and SMEs; (iii) encourage VET and dual-system education; (iii) promote WB6 scientific research; and (iv) modernize WB6 IT infrastructure. How can this vision translate in concrete measures and tangible outcomes ?

Endowing the Berlin process with a coherent governing architecture

The Connectivity Agenda uses the existing EU-WB6 cooperation tools to select, prepare and implement its projects; and a mix of financing sources to finance them. There is no proper structured mechanism that regularly provides support and coordination services in between two summits or ministerials. A minimum of specific milestones, a monitoring mechanism and democratic scrutiny will increase its efficiency. Should the Berlin Process be endowed with a coherent governing architecture and respective mechanisms?

Consolidation of citizen's role and of democratic scrutiny over the process

The "scrutiny" role of legislative bodies (EU and national) and of civil society on the Berlin process is of key importance for the legitimacy of the process. The citizens' oversight and the empowerment of WB6 civil society segment is very important also in the context of the emerging populist movements all over Europe, especially after Brexit, the rise of populism and the need to tackle the phenomena of detachment of the elites. National and European Parliament(s) also have a specific contribution to offer in the refreshing democratic dynamics induced by the Berlin process.

The challenge of the WB6 Regional Economic Area (REA)

The continuous reduction of non-tariff barriers, smart specialization, inclusion in global value chains, promotion of innovation and technology transfer, are the main components of the Multi Annual Action Plan for the REA. How will the national markets interact with each other? Will REA be sufficient for the "four freedoms" to flourish in WB6 from now on? Will Balkan politics, EU developments or global events impact the success of WB6 regional cooperation?