

SEE 2020

Workshop Integrated Growth

28. - 29/11/2012

Regional Cooperation Council, Sarajevo

– Protocol –



Table of contents / Agenda items of the workshop

0. Background	4
1. Welcome and introduction	4
2. Check of structure of 1 st pillar: "Integrated Growth"	5
2.1. Old structure of 1 st pillar	5
2.2. New structure of 1 st pillar	6
2.2. New structure of 1 st pillar	6
3. Taking stock of activities in 1 st pillar	7
3.1. Overview	7
3.2. Conclusions	9
4. Programming of dimension Investment climate	9
4.1. Analysis	10
4.2. Activities in regional investment promotion	11
4.3. Links with other pillars	11
4.4. Sub-indicators for dimension Investment climate	12
4.5. General considerations on pillar Integrated growth	12
5. General structure of pillars	13
6. Roadmaps	15
6.1. Roadmap for dimension Investment climate	15
6.2. Roadmap for 1 st pillar	16
6.3. Other issues concerning the roadmap	16
7. Monitoring	17
8. Next steps	18
9. Annexes	18
9.1. Presentation CEFTA	Error! Bookmark not defined.
9.2. Presentation OECD	Error! Bookmark not defined.
9.3. Presentation RCC (handout)	Error! Bookmark not defined.

List of participants

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Facilitation

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0. Background

Following the adoption of the SEE 2020 Vision and the endorsement of high-level regional headline targets for growth by the SEE region's Ministers of Economy, the Regional Cooperation Council and its partners are initiating the development of a regional SEE 2020 Strategy, as the main regional framework for growth. The Strategy is based on five pillars:

- (i) integrated growth,
- (ii) smart growth,
- (iii) sustainable growth,
- (v) inclusive growth,
- (vi) governance for growth.

The intended process of associating various regional platforms with the pillars of the SEE 2020 strategy and the subsequent involvement of these platforms in strategy implementation requires a de-centralized approach in strategy development. Bringing together the relevant contributors within each of the pillars is the first step envisioned in the strategy development process. The day and a half workshop on integrated growth, organized by the RCC, in cooperation with the GIZ Open Regional Funds, is the first such contributors' meeting dedicated to raising awareness on the SEE 2020 strategy, prioritizing action, and agreeing on the process and governance structures within each of the strategy's pillars.

1. Welcome and introduction

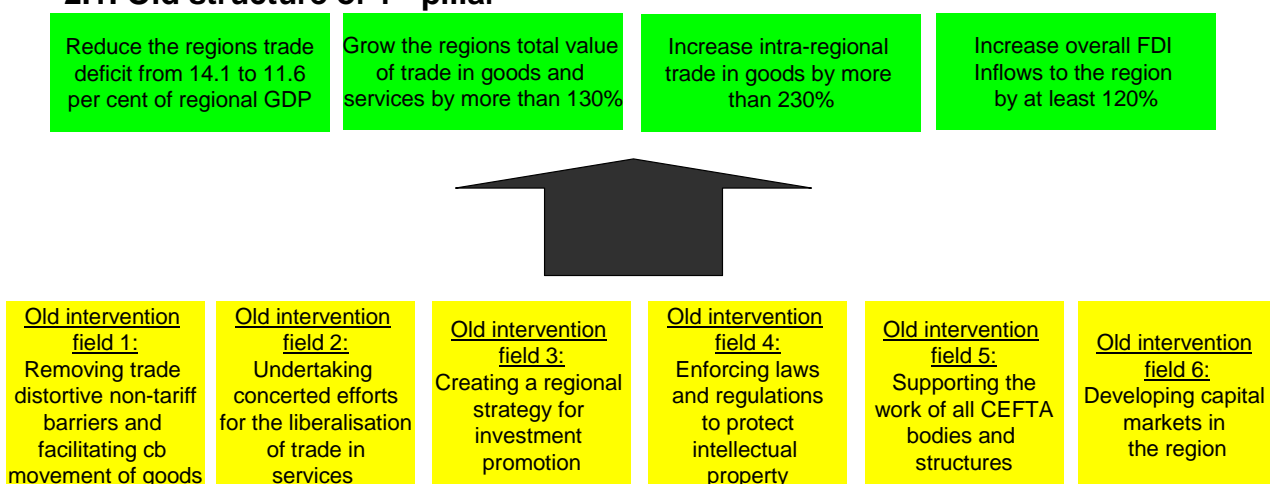
Jelica Minić (RCC) and Sanjin Arifagić (RCC) are welcoming the participants at RCC and explain the main objectives of the workshop:

- 1) To jointly start considerations on the strategy of the 1st pillar (Integrated Growth) of the SEE 2020 strategy, in particular to discuss the content as well as the roadmap till finalization of the strategy.
- 2) To use the methodology of this workshop later on as guideline for the development of the strategies of the other four pillars.

2. Check of structure of 1st pillar: “Integrated Growth”

Before beginning of programming, the existing structure and logic of the 1st pillar is being checked whether the fields of intervention proposed so far are coherent and complete or if some adjustments will be needed. Finally the group proposed to slightly rearrange the structure by concentrating on three areas, now called dimensions of the pillar. The intervention fields identified in the previous year’s Ministerial meeting on SEE 2020 can either be allocated to one of the three dimensions or will be treated as horizontal issues. This way no issues identified so far would be lost and they will be considered while defining measures under each of the dimensions.

2.1. Old structure of 1st pillar



2.2. New structure of 1st pillar



The new structure of the 1st pillar would be comprised of three dimensions, with two of them aiming at the trade related objectives and one at the objective in the field of investment.



3. Taking stock of activities in 1st pillar

For each of the three dimensions of the 1st pillar, past, current, and planned activities were discussed in order to gain an overview about the density of relevant activities. The identified activities will in a later phase of the strategy process be considered for the elaboration of the measures of each of the dimensions.

3.1. Overview

Trade facilitation	Liberalisation of trade	Investment climate
Past activities		
OECD: Investment Reform Index (2006 + 2010)	OECD: Investment Reform Index (2006 + 2010)	OECD: Sector Specific Sources of Competitiveness (SSSC) Project with an investment promotion component in the automotive sector. Completed in 2010
		Agreement on joint investment promotion in the automotive sector.
		OECD: Analyses of investment related provisions in CEFTA 2006 (2010)
		OECD: working group investment promotion (2010)
		OECD: Investment Reform Index (2006 + 2010)
		OECD: Trade integration, Industry concentration, and FDI inflows
Current activities		
OECD: Elimination of non-tariff barriers in CEFTA (ex-ante), the Multilateral Monitoring Framework (MMF)	OECD: Measuring restrictions on trade in services	SEEIC: working groups, also on investment promotion
SPS: Initiative for recognition of mutual agreements	World Bank: Elimination of barriers on trade in services	GIZ: Business friendly certificates for municipalities as label to attract investment

CEFTA/GIZ: Trade information (CEFTA Trade Portal)	World Bank: Definition of trade in services reforms	EC, bilateral donors, IFI's: Western Balkans Investment Framework - sectoral studies
GIZ: Markets awareness networks		IFC: Tax simplification project
Trade facilitation	Liberalisation of trade	Investment climate
GIZ: Connecting business associations, CEFTA: chambers forum, Networking of private sector associations		IFC: Corporate governance project
Transparency: Creating databases and platforms for SPS and technical barriers to trade (TBTs)		
IFC: WB Trade logistics project (border clearance procedures)		
CEFTA: Working group Customs Risk Management, Joint law risk profiles for the region		
CEFTA: State Aid Schemes, collection of information > inventory		
CEFTA/GIZ: upgrade database, ex-post, on non-tariff barriers, market access barriers. Part of transparency pack		
<u>Horizontal:</u> CEFTA: Trade statistics for the regions SITC, origin of import/export		
Planned activities		
CEFTA/GIZ: Measurement of diagonal cumulation of origin (EU, EFTA, Turkey)	CEFTA: Liberalisation of agricultural products	
	CEFTA: Agreement on liberalisation of services, e.g. transport	
	CEFTA: Bilateral agreements, mainly in transport	
	CEFTA: Mutual agreement on qualification	

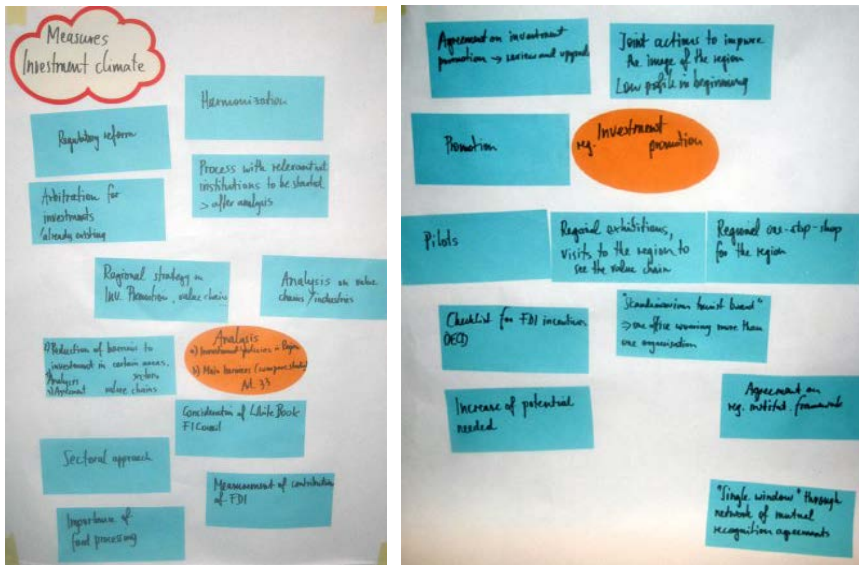
3.2. Conclusions

Based on the overview of past, current and planned activities in the three dimensions of the 1st pillar, the workshop participants made the following observations:

- ✓ Missing cross-fertilization between different areas of work.
- ✓ A lot of the analysis has been done already with an abundance of data and statistics identified representing a good basis for further action.
- ✓ Varied quality of results and outputs of activities with differing impact – analysis that was fed into existing structures has the biggest impact and is more sustainable, enabling cross-fertilization. Moving away from the project-based approach.
- ✓ Many activities in the trade domain depend on the existing structures established by the CEFTA 2006 Agreement
- ✓ Different structures with different working modes, in many cases structural capacities in the region low
- ✓ Lot of ongoing work
- ✓ Four aspects should be taken into consideration when taking stock of on-going action:
 - 1) How do they engage and/or support existing governance structures?
 - 2) Are the objectives, results, benchmarks clearly outlined?
 - 3) How do they involve players on different levels?
 - 4) How do they support the main rationale of growth and European Integration?

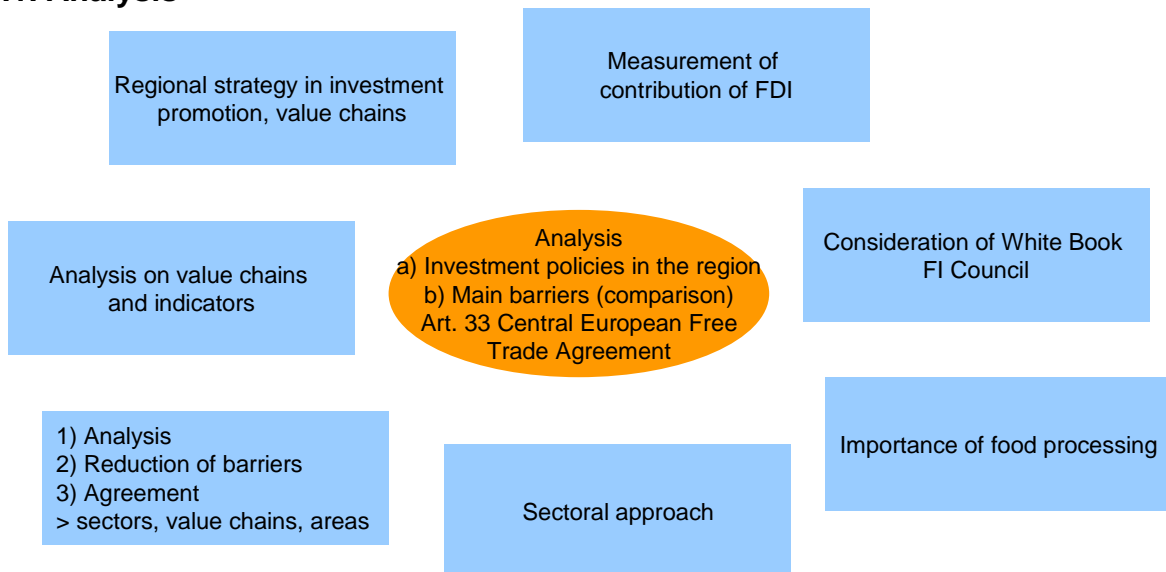
4. Programming of dimension Investment climate

Given the limitations on time, the Workshop participants agree to focus on just one out of three dimensions of the Integrated growth pillar to try to work out the details. Given that a lot of work has been done in identifying possible measures/action in the trade-related dimensions under the ongoing activities of the CEFTA Secretariat, the participants agree to focus on the investment climate. In order to define measures within this dimension, the workshop participants are discussing possible topics which are gathered on flipchart paper.

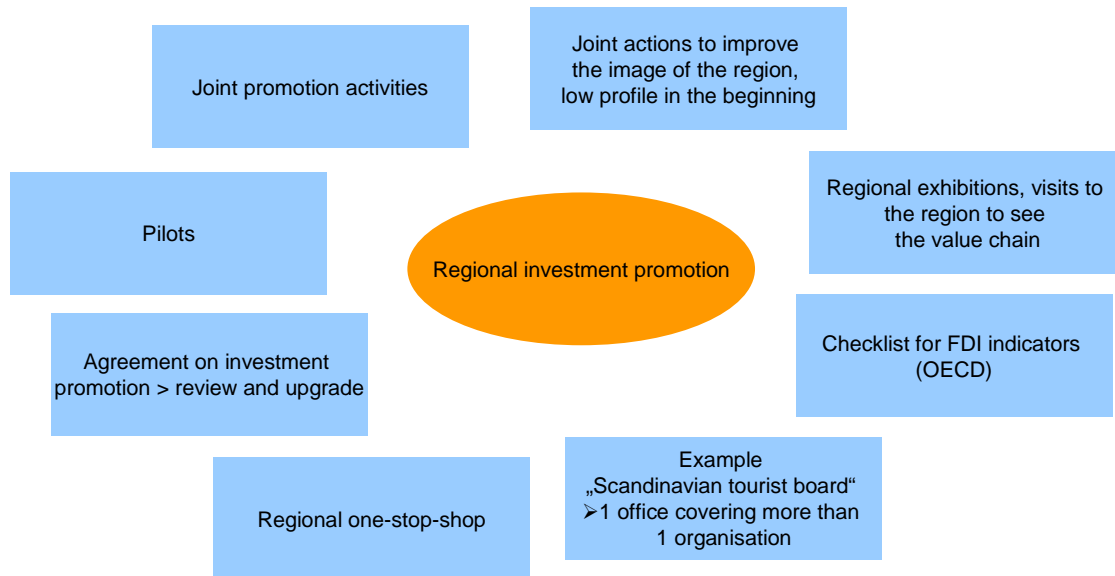


Regional measures within this dimension may lie in two fields: investment promotion and investment harmonization. Measures in the area "investment promotion" might be defined in an easier way. These measures are partly already illustrated in chapter 4.2 ("Activities in regional investment promotion"). However, in the field of investment harmonization, it is quite challenging to determine, which measures can realistically be implemented in the framework of the SEE 2020 strategy. Therefore, the identification of measures in this area should be preceded by an analysis of: (1) Investment policies currently in place or planned in the region with a view on potential regional consolidation, and (2) conditions possibly impeding FDI, that can be dealt with regionally in the Western Balkans.

4.1. Analysis



4.2. Activities in regional investment promotion



The following issues were identified during the discussion but realistically might not all be implemented within the dimension Investment climate (participants consider them as unfeasible in the regional context):

- ✓ Regulatory reform (mainly viewed in the national context)
- ✓ International arbitration for investment-related disputes (as a way to circumvent the issues relating to inefficient judiciary systems)
- ✓ Process with relevant national institutions to be started > after analysis
- ✓ Increase of FDI potential (increase of attractiveness of the region)
- ✓ Agreement on regional institutional framework (harmonization)
- ✓ "Single window" through network of mutual recognition agreements
- ✓ Regional export promotion (viewed as unfeasible in the regional context).

4.3. Links with other pillars and horizontal issues

The development of SEE 2020 will require a high level of coordination between the various pillars and integration of work done at the higher level. The Workshop participants identified several issues that span across the boundaries of pillars, or where the outputs of one pillar

would be used as inputs in another. This is particularly important in the case of Integrated growth as it deals with investment and trade, as the entry and exit points respectively in the production cycle. The following issues have to be considered during further strategy development:

- ✓ How to address horizontal issues such as transport and energy?
- ✓ The issue of capacity of the public administration will be shared by all pillars.
- ✓ Dealing with the issue of different membership of countries in SEE2020 and its instruments - Croatia (planned to accede mid-2013 and out of CEFTA), Moldova (outside of the target-setting exercise of SEE 2020 but inside CEFTA and SEEIC), Bulgaria and Romania (inside SEEIC, but outside of the target-setting exercise of SEE 2020)?

In addition to the above issues, the participants identify the following as the activities that could inform several pillars of SEE 2020:

- ✓ SME policy index third version 2012 > pillars smart and sustainable growth
- ✓ Industrial policy development (OECD project already started) > pillars smart and sustainable growth
- ✓ Regional Competitiveness Initiative(RCI), OECD pilot projects in each economy > pillars smart and sustainable growth
- ✓ Enterprise Development and Innovation Facility (EDIF): innovation and start-up businesses > pillars smart and sustainable growth
- ✓ WBIF (Western Balkan Investment Framework).

4.4. Indicators for dimension Investment climate

For a more precise monitoring of the "Investment climate" dimension the following ideas for sub-indicators shall additionally be taken into consideration:

- ✓ Investments (origin, types, sectors)
- ✓ Definition of milestones on the way to 2020
- ✓ Measurement of preconditions

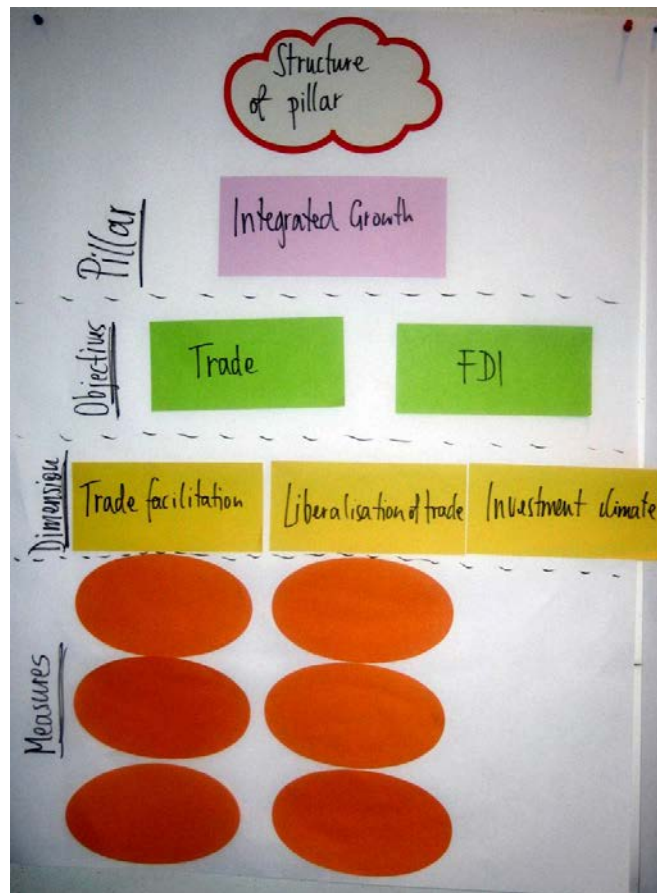
4.5. General considerations on pillar Integrated growth

- 1) Does integration mean freer flow of goods, services, investments and capital
 - a.) within Southeast Europe, or
 - b.) within Southeast Europe as well as between Southeast Europe and the EU or

- c.) within Southeast Europe, between Southeast Europe and the EU as well as between Southeast Europe and other neighbouring countries.
- 2) In the same way, the characteristics of and distinguishing features between the other pillars should be precisely determined.
 - 3) The participants noted that the headline targets are very ambitious. Their realization will need to be consistently monitored. If needed, they might be adjusted every two to three years.
 - 4) The participants emphasize that the SEE 2020 strategy is complementary to national development strategies. It should therefore limit itself to measures that can exclusively be realized on the regional level while complementary measures on the national level have to be planned and implemented by the different economies.
 - 5) The participants discussed questions regarding the responsibility of structures for pillars and dimensions. These questions can be dealt with in a easier way in pillar one than in other pillars because the number of potential structures is smaller. Based on the opinion of the participants, responsible structures might be denominated on the level of dimensions, instead of pillars.

5. General structure of pillars







The group agrees on a format for the 1st pillar which could serve as a model for the other four pillars. Accordingly, each pillar is defined by objectives which are directly addressed by several dimensions (in case of the 1st pillar: trade facilitation, liberalisation of trade and investment climate). The dimensions are then underpinned by measures which should be described along an agreed structure throughout the whole SEE strategy 2020. A consistent approach should be applied across all five pillars of the strategy, especially with regard to the definition of dimensions and measures.



- 1) Results and objectives
- 2) Description
- 3) Actions
- 4) Indicators
- 5) Interaction with other pillars
- 6) Responsible organisation body
- 7) Partners for implementation
- 8) Timetable and milestones
- 9) Budget and sources of finance

6. Roadmaps

6.1. Roadmap for dimension Investment climate

who	what	12/2012	01/2013	02/2013	03/2013	04/2013	05/2013	06/2013
OECD	Analysis							
	Draft analysis							
SEEIC	Development of Investment climate dimension							
	SEEIC Working Group with IPA's (2 nd half of Feb.)							
	Investment Committee parallel to CEFTA trade (Dep. Min.) > discussion of draft							
	IPA Workshop (possibly)							
	Draft of dimension Investment climate							
	Investment Committee parallel to CEFTA trade (Dep. Min.) > endorsement of draft							

6.2. Roadmap for 1st pillar

who	what	12/2012	01/2013	02/2013	03/2013	04/2013	05/2013	06/2013	07/2013	08/2013	09/2013	10/2013	11/2013	12/2013
RCC	Development of governance structure for SEE strategy													
	Decision about who is partner for monitoring (end of Feb.)													
	Draft for governance structure SEE 2020 + monitoring													
	Endorsement of SEE strategy at summit													
Endorsement of dimensions of 1st pillar														
SEEIC	Endorsement of dimension Investment climate													
CEFTA (Dep. Min.)	Endorsement of dimension Trade facilitation													
CEFTA (Dep. Min.)	Endorsement of dimension Liberalisation of trade													
CEFTA	Analyses for both trade dimensions (till March)													

6.3. Other issues concerning the roadmap

- ✓ Definition of responsible organisations not for pillars but for dimensions (in strategy development as well as in governance)
- ✓ The structure shall be kept open to new dimensions which might be defined later
- ✓ Who will take decisions on national policies?
- ✓ The priorities of CEFTA members have to be collected

7. Monitoring

The discussion of the SEE2020 monitoring framework began with a presentation by the OECD Investment Compact on the Investment Reform Index (IRI). The IRI was endorsed by the SEEIC in 2006 as a part of the 'regional framework on investment' to monitor investment policy reforms in South East Europe. Two assessments were produced thus far, one in 2006 and the last one in 2010. The following considerations were raised during discussion of the SEE2020 monitoring framework:

- ✓ How to measure tendency towards harmonization?
- ✓ Regional/annual quantitative indicators?
- ✓ Does monitoring allow interpretation of problematic areas? (Monitoring shall point out areas with need for action).
- ✓ The monitoring system would be an integral part of the SEE 2020 and should correspond to the needs of the strategy. The IRI's dimensions should be aligned with the dimensions/pillars of SEE 2020.
- ✓ Other types of indicators from national institutions and international organisations (World Bank, EBRD, etc.) could be used as part of the monitoring system.
- ✓ Regional benchmarks to be included into the monitoring.
- ✓ Indicators should also reflect regional reform measures and their impact.
- ✓ The indicators should measure more precisely the reforms included in the SEE 2020 strategy.
- ✓ Longer cycles of IRI (conducted in 2006 and then again in 2010) make it impractical as the only monitoring instrument for the implementation of the SEE 2020.

The participants discussed the IRI framework and how it could be adopted to monitor the SEE2020 strategy. One comment was made regarding the IRI's indicators and whether they were perception-based. The OECD responded that the indicators measure policy reforms on a scale of 1 to 5. With "one" being no policy reform and "five" being OECD best practice. The assignment of scores is not perception based, but rather relies on evidence gathered from three sources: government, private sector and independent experts. Frequency between IRI assessments (every three to four years) was also discussed in the context of regular monitoring of progress in the implementation of SEE 2020 and whether this could be accelerated for the SEE2020 strategy. The OECD responded that the rationale for the time between assessments is due to: 1) the process of reviewing the assessment frameworks and

gathering and reconciling evidence provided by government, private sector and independent experts; and, 2) the time-lag it takes for policy reforms to be designed, implemented, and their results seen on the ground. A suggestion was made that a modified IRI could have qualitative indicators that continue to measure policy reforms on a multi-year basis as well as some additional quantifiable measures that can track progress of the SEE2020 strategy on an annual basis. The qualitative policy reform indicators could provide a basis for a SEE2020 mid-term review. A third point was made regarding the scope of the SEE2020 monitoring instrument and that all five pillars would need to be covered. The OECD IC indicated that the IRI framework was flexible enough to include other policy dimensions not covered in the 2006 and 2010 iterations. .

The participants agreed that the SEE 2020 Monitoring instrument should provide for annual reviews in addition to more comprehensive mid-term reviews. The indicators used should be a mix of qualitative and quantifiable indicators that are evidence-based. The SEE 2020 monitoring system should source its indicators also from a range of sources from national statistics offices to other third parties, such as the World Bank's Doing Business report. Developing national capacities to collect, analyse and publish comparable and methodologically consistent indicators in the areas covered by the SEE 2020 should also become a part of the Strategy.

8. Next steps

- ✓ The approach (Roadmap, To do's, Responsibilities) for the other pillars of SEE 2020 will be developed in the next weeks.

9. Annexes

Presentations (CEFTA, OECD, RCC, IFC)