

Regional cooperation in the Western Balkans

By Oleg Levitin and Peter Sanfey

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Executive summary

The Western Balkans Investment Summit, to be held at the EBRD's Headquarters in London on 26 February 2018, is designed to promote the region as an attractive investment destination. It aims to bridge the gap between the high level of political commitment among the regional leaders and concrete, truly regional, projects on the ground.

The historic first Western Balkans Summit at the EBRD in February 2014 brought together, for the first time in such a format, prime ministers of all Western Balkans countries, effectively launching the new process of regional cooperation: "Western Balkans Six at the level of Prime Ministers". Besides promoting the Western Balkans as an investment destination, the Summit contributed to the strengthening of regional stability and improving regional cooperation. In particular, it strongly promoted the need for better prioritisation and coordination of major regional connectivity projects among the beneficiaries, as well as between the European Commission (EC), international financial institutions (IFIs) and bilateral donors, and the importance of inclusive partnership and the need to bring the EBRD and other IFIs on board at the earliest stage in the consideration and design of major regional projects.

The forthcoming 2018 Summit will continue work on promoting concrete regional projects in transport and energy that address key regional bottlenecks. But there is more to regional integration than physical infrastructure alone. The plan is to discuss ways to further the "soft connectivity" agenda. A key element of the latter is creating a single investment space, which includes harmonising legislation, removing non-tariff barriers, improving both the depth and horizontal links of capital markets, strengthening the business environment in the region, and facilitating foreign investment.

Regional cooperation has been one of the greatest achievements of the Western Balkans and it has brought with it two key benefits. First, it reduces tension and strengthens regional stability. And second, it brings various practical benefits that stem from higher levels of intra-regional flows of goods and services, enhanced competitiveness of relatively small economies, and increased attractiveness of the region as an investment destination.

The European Union remains the main external anchor for the region's stability and comprehensive reforms. Strengthening regional cooperation is an explicit requirement for the Western Balkans aspirant countries in their EU membership bids. At the same time, regional cooperation today is a well-informed choice on the part of the regional leaders. Compared with the remaining obstacles to regional integration, such as infrastructure and the uneven business environment, the purely political obstacles are much less significant. Indeed, politically, the region is ready more than ever to assume greater ownership of regional cooperation, which is key for stability and sustainable development.

The intensity and diversity of regional cooperation, the dimensions of which boast dozens of institutions and initiatives, is a contribution to regional stability in its own right. However, economic conditions remain difficult despite the pick-up in growth in recent years, unemployment and poverty are widespread, and short-term growth prospects, while favourable, are not sufficient to narrow significantly the gap in living standards with the EU. Within the framework of the new Regional Economic Area, the focus should be on additional efforts in a few areas crucial for the success of this agenda and for sustainable long-term economic development of the region – such as: removing trade barriers, highlighting investment opportunities and synergies, enhancing regional mobility and developing digital integration.

1 We thank Jakov Milatović for his significant contribution to the section on economic aspects of regional cooperation.

Political aspects of regional cooperation

Regional cooperation has been one of the greatest achievements of the Western Balkans. The combination of the shared objectives for the integration into Euro-Atlantic institutions and the relatively high level of regional integration is what makes the Western Balkans different today – in a positive way – from other transition regions where the EBRD operates, such as the Caucasus and Central Asia. Due to the objective needs of the Western Balkans, and since stronger regional cooperation and good neighbourly relations are explicit requirements for the Western Balkans aspirant countries in their EU membership bids, the process of regional cooperation will likely gain increasing momentum in the future.

The importance of regional cooperation is underlined by two key benefits. First, it reduces tension and strengthens regional stability, which in turn is a key precondition for sustainable development. And second, it brings various practical benefits. The latter stem from increased intra-regional flows of goods and services, as well as scientific and cultural exchanges, enhanced competitiveness of relatively small national economies and the increased attractiveness of the region as a whole as an investment destination.

The main economic and social challenges facing the region – improving infrastructure, diversifying stable energy supplies, strengthening competitiveness, increasing exports, reducing the high levels of unemployment, developing administrative capacity, addressing environmental problems, fighting corruption and organised crime, and improving the business environment – are not only common for individual Western Balkans countries but, importantly, can be most efficiently addressed by joint and coordinated effort at the regional level.

The two main pillars of stability in the Western Balkans are, on the one hand, Euro-Atlantic institutions and, on the other, regional cooperation. It would not be an exaggeration to say that, thanks to these key factors the Western Balkans are currently more stable politically and in terms of security than at any point in the last 20 years. During the past 10 years in particular the region has experienced two major challenges and on

both occasions has demonstrated remarkable resilience. First came the events in and around Kosovo in 2008 when, for once, a unilateral secession did not lead to military responses and all regional neighbours adopted differing but mature approaches. The best demonstration of the region's new level of stability was the fact that an all-inclusive regional institution, the Regional Cooperation Council (RCC), which replaced the Stability Pact for South Eastern Europe, convened for its constitutive meeting just days after the proclamation of independence by Kosovo.

And then came the economic crisis, which, even when it hit the region the hardest, did not cause political destabilisation in any of the Western Balkans countries, nor did it adversely affect relations between them. There has been no evidence of the economic crisis having a negative effect on inter-ethnic relations, which have always been among the key destabilising factors in the Western Balkans. To an extent, this region defies today some worrying trends in wider Europe, including an increase in nationalist sentiment and the growing popularity of far-right political parties.

The latest refugee crisis, which since 2015 has affected a number of countries along the so-called Western Balkans Route, has become a serious burden for them. And yet, despite occasional tensions in bilateral relations, these countries have by and large responded to the new challenge responsibly. The situation could have been very different if the existing regional cooperation were not in place.

The region is involved in various forms of cooperation with NATO (in particular, Albania and Montenegro are fully fledged members, as well as Croatia, which is closely integrated with the region). The Alliance remains an important source of the region's stability. More important still is the system of commitments and scrutiny stemming from the European Union's Stabilisation and Association Process (SAP) that today effectively plays the key stabilising role. All countries of the region have Stabilisation and Association Agreements (SAAs) with the European Union; four of them have acquired formal status of an EU candidate country, and two are in the process of EU accession negotiations. Croatia's accession to the European Union in July 2013 was rightly hailed by its Western Balkans neighbours as not only a confirmation of the European prospects for the Western

Balkans, but also as a direct contribution to strengthening the region's stability and enhancing its attractiveness as an investment destination.

Certainly the European Union continues to expend effort today, as it did at the beginning of the SAP process and the adoption of the Thessaloniki agenda, to find the right balance between the need to honour strict conditionality and the desire to support stability in the Western Balkans by maintaining momentum in the EU approximation process. What is important is that – regardless of all the anxieties related to the situation in the eurozone or to Brexit – there is a clear realisation that it is in the European Union's own strategic interest to continue with the integration of the Western Balkans into the European Union; a realisation that underpins all relevant EU documents of recent years, including the latest EU Enlargement Strategy ("Strategy 2025") released by the EC on 6 February 2018. Maintaining the momentum of integration into the European Union is not a panacea for all the problems of the Western Balkans, but it is the most efficient tool Brussels has to keep these countries on track and to support regional stability.

The approach of regional leaders has evolved in a positive way, too. In the past they sometimes viewed regional cooperation as something imposed on them by Brussels. The conditionality, the explicit requirement for the candidate countries to contribute to regional cooperation in order to fulfil their membership aspirations, remains an important tool in the hands of the European Union. But today the regional leaders are genuinely committed to regional cooperation, because they also see its practical benefits and realise that this is a direct contribution to stability in the region.

Good neighbourly relations

Good neighbourly relations support cooperation and contribute to regional stability in their own right. Recent achievements in the development of these good relations among Western Balkans countries can be divided into two categories. The first includes reconciliatory steps related to the legacy of the armed conflicts of the previous decades. The measures undertaken in this direction have been very important, because until a process of accepting responsibility for what happened in the 1990s is complete, the newly achieved stability will remain incomplete as well. Recent highlights include continued EU-facilitated

dialogue between Belgrade and Pristina aimed at normalising relations between them, a rapprochement between Serbia and Bosnia and Herzegovina, a rapprochement between Albania and Serbia, as well as the efforts by the new Macedonian authorities, which replaced the old regime in summer 2017, to improve relations with its neighbours to the east and south.

The second category is represented by intensified bilateral and trilateral exchanges on various practical issues. Besides numerous agreements signed in recent years concerning economic cooperation, a new phenomenon in the Western Balkans is the increasing popularity of the joint sessions involving the governments of neighbouring countries. Another important achievement is a number of bilateral border demarcation agreements signed in the last few years.

Bilateral relations are still complicated by the legacy of the wars of the previous decades, and sensitivities regarding inter-ethnic relations. While the potential for conflict has diminished, certain irritants in relations persist, including unresolved border issues. In the past, Croatia and Slovenia provided a positive example of how to separate bilateral issues from the issues related to the EU accession process, but they also highlighted problems when these two tracks are linked. Unfortunately the more recent reincarnation of the border dispute between these two countries has demonstrated all the complexities of the problem.

Croatia's accession to the European Union in July 2013 was accompanied by its reaffirmation of its previous clear commitment to provide unconditional support to its Western Balkans neighbours in their EU approximation efforts. How things will develop in practice remains to be seen. The latest EU Enlargement Strategy released by the EC on 6 February 2018 raised an important issue: the need to put special arrangements in place to ensure that new member states are not in a position to block the accession of other Western Balkans candidates. Such a mechanism (to prevent a member from blocking accession of an aspiring non-member over a bilateral issue or from using its position in the club to resolve a bilateral issue on its terms) currently does not exist in the EU, but would indeed be crucial as long as Western Balkans countries are not admitted all in one package, which is currently not the plan.

Format of regional cooperation¹

The new format of regional cooperation – the “Western Balkans Six”² at the level of prime ministers – was effectively launched at the Western Balkans Summit at the EBRD Headquarters in London on 24 February 2014. Besides the six prime ministers it was also attended by the Croatian prime minister. It currently co-exists with the wider South-East Europe Cooperation Process (SEECP).

The format of the SEECP, which emerged at the early phases of regional cooperation of the 1980s, has remained almost unchanged since then, except that one of the participants – Yugoslavia – has been replaced by its former republics. SEECP includes a heterogeneous group of countries beyond the geographical boundaries of the Western Balkans. The wider format has its clear rationales, including better opportunities for sharing experience.

At the same time, the experience of other regions, where regional cooperation was similarly intertwined with the process of EU integration (the Visegrad Group and the Baltic countries), demonstrated the advantages of a more streamlined sub-regional format. The informal “Western Balkans Six” grouping brings together those countries that are all more or less at the same phase in their EU approximation and that, crucially, share the same aim of integrating into the European Union, face similar challenges in their economic development, could benefit from better mutual coordination, and have many common cultural features. It is much easier for the leaders of this narrower group to meet informally and more frequently than the SEECP does; there are fewer languages spoken between them and most of them have long-established personal relations.

The downsides of the new format, apart from the threat of “recreating Yugoslavia” (which is clearly unjustified), are related mostly to the fears of “ghettoisation” of the Western Balkans countries, which can be perceived as being isolated in their waiting room for coveted EU accession. Such fears can be alleviated by continuing engagement with existing EU members, Croatia and Slovenia, provided, of course, the latter want to be associated with the “Western Balkans Six”. Croatia, as the newest EU member from the region, could

become a real bridge between the European Union and the Western Balkans. Slovenia, even if slightly different from a geographical perspective, has the same historical and current links to the region, and could also act as a bridge.

Bearing in mind the abovementioned arguments and building on the experience of the so-called Brdo Process meetings of presidents, the EBRD organised at its Headquarters in London in February 2014 the first Western Balkans Summit. It brought together, for the first time in the “Western Balkans Six plus” format, prime ministers of all Western Balkans countries, launching the “Western Balkans Six” process at the prime ministerial level.

It was agreed that the first forum at the EBRD would not be a one-off event and that the EBRD would organise follow-up conferences every two years. The EBRD remains committed to three overarching objectives of its first WB Summit: promoting the region as an investment destination, contributing to regional stability through strengthening regional cooperation, and furthering the connectivity agenda.

The WB-6 process received a strong political boost at the August 2014 summit in Berlin, after which it became known as the Berlin Process. The Berlin process is a series of annual meetings of the six Western Balkans prime ministers and six EU member states with particular interest in that region hosted by different European countries. The 2014 summit in Berlin was followed by Vienna in 2015, Paris in 2016 and Trieste in July 2017. The next, in July 2018, will be held in London.

The biennial Western Balkans Investment Summits at the EBRD are complementary to the annual Berlin Process summits. In terms of format, WB Summits at the EBRD are different from the Berlin Process Summits not only because it is WB-6 and not WB-6 + EU6. They are different in that they merge the political and business forum parts together. This means that when the prime ministers come to EBRD HQ in February 2018, they will not be talking to each other, as they did in Berlin, Vienna, Paris and Trieste (although there will be of course an opportunity for such discussions, both at the bilateral and multilateral basis), but – together – to foreign investors. The initial strong focus

¹ See more regarding the “Western Balkans Six” format in “Regional cooperation in the Western Balkans” by Oleg Levitin in *A European Union with 36 members. Perspectives and risks*, Center for EU Enlargement Studies, 2014, pp.199-212.

² Countries of the former Yugoslavia plus Albania, minus Slovenia and Croatia.

on investment promotion of the EBRD Summits is another distinction. The second summit at the EBRD, in February 2016, which put a strong emphasis on investment promotion, received a new name – the Western Balkans Investment Summit. It widened the geography of investors (it saw for the first time, for example, several Chinese companies). We tried to engage the regional leaders and businesses in serious discussions on the ways in which to bridge the gap between the existing high level of political commitment to regional integration and how it translates into concrete regional projects on the ground and in the ways to bridge the existing funding gap. These discussions were closely linked with the Bank's effort to intensify policy dialogue with the countries where it invests.

The forthcoming 2018 Western Balkans Investment Summit at the EBRD will continue the work on promoting concrete regional projects in transport and energy as key regional bottlenecks. But there is more to regional integration than physical infrastructure alone. The plan is also to discuss ways to further the "soft connectivity" agenda. A key element of the latter, from the EBRD's perspective, is creating a single investment space, which includes harmonisation of legislation, removal of non-tariff barriers, improving both the depth and horizontal links of capital markets, strengthening the business environment in the region, and facilitating foreign investment. This is in a way the EBRD's contribution to the concept of the Regional Economic Area (REA) approved by the regional leaders and the EC at the Summit in Trieste in summer 2017 (see more on the REA in the economic section below).

Besides sending the rest of the world a strong political message of the new levels of maturity and stability of the region, and besides promoting the Western Balkans as an investment destination, the first Western Balkans Summit held at the EBRD in 2014 helped to strengthen regional cooperation. In particular, it strongly encouraged better prioritisation and coordination of the major regional connectivity projects among the Western Balkans countries, as well as with and between the EC, IFIs and bilateral donors. It also promoted inclusive partnership, highlighting the need to bring the EBRD and other IFIs on board at the earliest phase of considering and designing major regional projects.

The efforts, under the strong leadership of the European Commission, to prioritise connectivity projects in the areas of transport and energy culminated in agreement reached at the high-level meeting between the EC and Western Balkans prime ministers in Brussels in April 2015. These projects have been supported by approximately €1 billion from the IPA (Instrument of Pre-Accession Assistance) programme for the period 2015-20. All Western Balkans countries have established National Investment Committees to ensure coordination within the country and to enable preparation of the single project pipeline. The result is a visible strengthening of the way the EC, IFIs and donors pool resources in support of regional projects, first of all under the Western Balkans Investment Framework (WBIF). The WBIF was established in 2009 and is now the main tool for regional cooperation on major projects. By pooling grant resources from the EC with loans and other support from IFIs and bilateral donors, the WBIF has helped to get around some of the severe fiscal constraints facing all countries in the region. As a coordination mechanism, the WBIF has also had success in ensuring that a more strategic approach is taken to investing in regional infrastructure.

One of the remaining challenges, however, is greater regional ownership, including ways to ensure that the countries of the Western Balkans play a greater role in the coordination mechanisms among the EC, IFIs and key donors. For this to happen, a more flexible and innovative approach may be required on the part of the EC and IFIs, including with respect to the existing mechanisms, such as the WBIF.

A greater challenge of a different sort is the financing gap. It stems from the fact that all available resources under the WBIF and the abovementioned EC's commitments under the IPA are simply not enough for the financing needs of major infrastructure projects. One of the ways forward is to engage – in the best interests of the Western Balkans – with the growing number of Chinese and other non-European investors in the region and, critically, with sources of private investment.

Economic aspects of regional cooperation

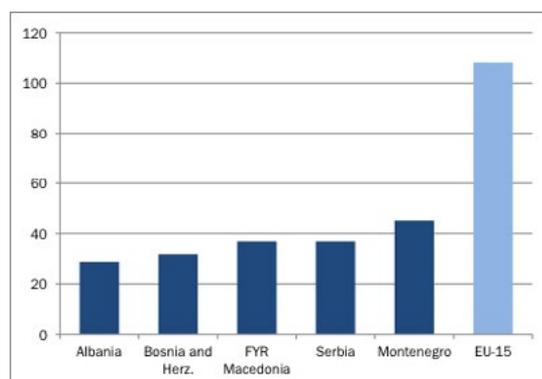
One of the most pressing issues facing all Western Balkans countries is how to develop a sustainable growth model that will deliver jobs and prosperity over the long term. The economies of the Western Balkans have enjoyed mixed fortunes in recent years. GDP growth in 2016 picked up to 3 per cent on average, and while preliminary estimates for 2017 are somewhat lower (2.4 per cent on average), a rebound to 3 per cent is projected for growth in 2018 (see Table 1). While any growth is welcome, these levels are well below those seen before the global crisis of 2008-09 and are insufficient to put a significant dent in the gap in living standards between the region and the EU. Over the medium term, however, the region has significant catch-up potential, as indicated by the relatively low levels of GDP per capita compared with the EU average (adjusted for purchasing power standards – see Chart 1). The speed of catch up will depend on the pace of addressing the challenges that hold back the region from developing its full potential². Greater economic cooperation among the Western Balkans countries could be one of the main sources of economic growth in the coming years.

Table 1: GDP growth rate (% change)

Country	2016	2017 (estimate)	2018 (forecast)
Albania	3.4	3.7	3.7
Bosnia and Herzegovina	3.2	2.5	3.0
FYR Macedonia	2.4	1.5	2.5
Kosovo	3.4	3.7	3.5
Montenegro	2.9	3.7	3.3
Serbia	2.8	1.8	2.9
Weighted average	3.0	2.4	3.0

Source: EBRD's Regional Economic Prospects, November 2017.

Chart 1: GDP per capita as a share of the EU-28 average



Source: Eurostat. (Note: No data are available for Kosovo.)

As noted above, one of the outcomes of the Western Balkans Summit in July 2017 in Trieste was the adoption of a consolidated multi-annual action plan for a regional economic area in the WB-6. The intention is to move the six Western Balkans countries beyond the existing free trade agreement and towards a more comprehensive economic cooperation, within the context of the Berlin process. All countries are committing to deepening further their collaboration within the current regional free-trade agreement (CEFTA) to the point where goods, services, investments and skilled people can move freely within the region without tariffs, quotas or other unnecessary non-tariff, and other, barriers. The private sector and international organisations are expected to play important roles in the development of the Regional Economic Area (REA). The former should provide feedback and buy-in for the reforms, and the latter are expected to align their assistance programmes with the needs identified in the plan.

There are four components of the Regional Economic Area to be addressed by the action plan: (i) trade, (ii) investment, (iii) mobility, and (iv) digital integration.

² This issue is analysed further in: "How the Western Balkans can catch up" by Peter Sanfey, Jakov Milatovic and Ana Kresic, (EBRD Working Paper No. 185).

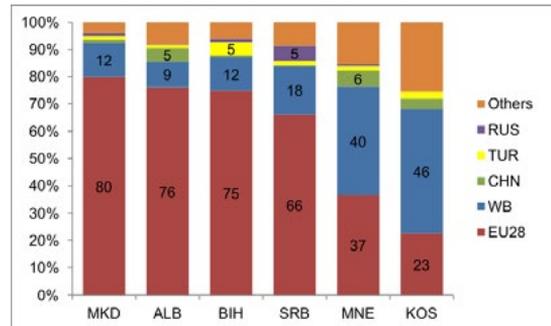
Trade

Under the REA, Western Balkans countries have committed to deepening further their collaboration on areas such as trade liberalisation, electronic commerce, and trade dispute settlements. The CEFTA Secretariat will continue to monitor non-tariff measures in the region and prepare an annual report on the main impediments to trade.

This focus on trade is welcome, as the region is still performing below potential. Average trade openness, defined as the sum of exports and imports as a percentage of GDP, of the WB-6 stands at just 70 per cent of the EU-11 (that is, the 11 countries from central and eastern Europe that joined the EU in 2004 or later). The main reasons why trade in the Western Balkans is still low compared with its EU-11 peers include: (i) a legacy of the break-up of Yugoslavia, including the destruction of production value chains not fully replaced by inclusion in EU value chains; (ii) obsolete transport infrastructure; and (iii) an inadequate business environment, including onerous customs and trade regulations as well as a high level of non-tariff barriers to trade.

Intra-regional trade is far less important at present. The EU is by far the region's most important trading partner. Two-thirds of the region's exports are with the EU (see Chart 2). The share ranges from 80 per cent in FYR Macedonia to just 23 per cent in Kosovo. All countries have a Stabilisation and Association Agreement with the EU, which gives the countries preferential access to EU markets for most goods. On average 20 per cent of Western Balkan exports go to neighbouring countries. This figure covers a range from a 46 per cent share in Kosovo to a mere 9 per cent in Albania. Exports from the WB-6 countries grew by about 60 per cent on average over the past 10 years, and most of this growth was driven by the rise of exports to EU countries, rather than from higher intra-regional trade. One reason for this might be in the similarity of the Western Balkans countries' main export products, although there are important differences among the six countries in terms of revealed comparative advantage.³

Chart 2: Exports, by destination as per cent of total exports



Source: UNCTAD and the Central Bank of Kosovo, authors' calculations.

Significant trade barriers still exist in the region. Customs and trade regulations are a major problem for many exporters. The bureaucracy associated with exporting or importing is often onerous. The time and costs to trade are much higher compared with the EU-11 average. For instance, World Bank estimates place the average cost to export in the EU-11 at US\$ 34 per unit compared with US\$ 65 in Albania or US\$ 232 in Kosovo. At the same time, average time to export in EU-11 is 5 hours per unit, compared with 6 hours in Serbia or up to 66 hours in Kosovo (see Charts 3 and 4). But it should also be noted that trading across borders is less problematic than other areas included by the World Bank in its annual Doing Business report. In other words, the region's "distance to frontier" (that is, remaining gap to best practice) in the area of cross-border trade is typically the lowest among a range of business obstacles, including resolving insolvency, getting electricity or enforcing contracts.

In addition, evidence from the EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS), last carried out in 2013, shows that customs and trade regulations were often perceived as a problem. Almost 5 per cent of firms in this region saw it as the biggest business environment obstacle (out of 15 options), and on average, every 10th firm in the region saw customs and trade regulations as a major or very severe obstacle for doing business.

³ This issue is analysed further in: www.ebrd.com/publications/working-papers/firm-performance Firm performance and obstacles to doing business in the Western Balkans: evidence from the BEEPS" by Ana Kresic, Jakov Milatovic and Peter Sanfey (EBRD Working Paper No. 200).

Chart 3: Time to trade, in hours

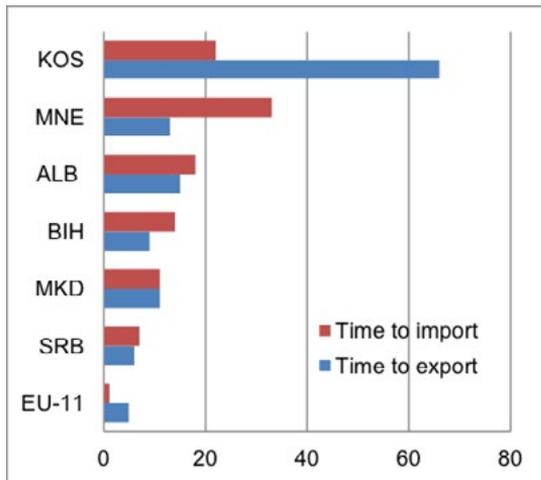
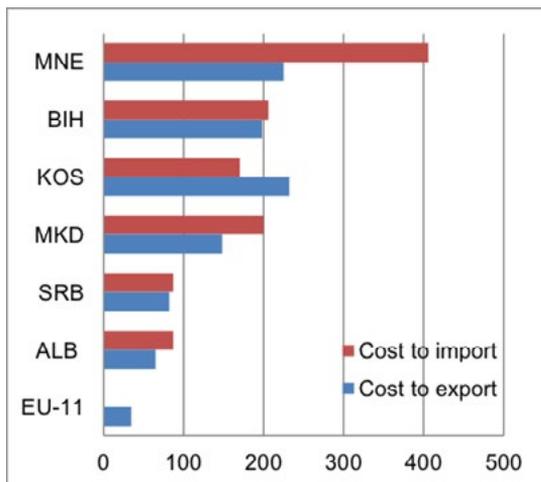


Chart 4: Cost to trade, US\$



Source: World Bank *Doing Business 2018* report.

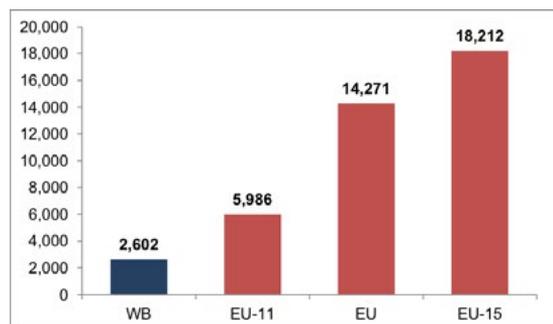
Some progress has been made recently in easing trade across borders. Recent major reforms include: (i) implementation of an electronic risk-based inspection system, which reduced the time for border compliance in Albania in 2016; (ii) rationalisation of the customs fee schedule and permit structure, improvement in the risk-based inspection system, simplified customs procedures and the elimination of a document previously required in FYR Macedonia; and (iii) the recent streamlining of the customs clearance process and implementation of the Albania-Kosovo Transit Corridor. These measures, and others, may help improve the somewhat negative business perceptions (cited earlier) of customs and trade regulations.

Investment

The REA foresees the harmonisation of investments policies through the development of a Regional Investment Reform Agenda. The six countries will develop a common platform for investment promotion. To this end, they inaugurated the idea of the Regional Chamber Investment Forum and an Online Investment Platform for the Western Balkans during the Trieste Summit. The EBRD has agreed to become the strategic partner of the Chamber Investment Forum and is currently funding its Secretariat, which is responsible for the Online Investment Platform.

To date, the region has had limited attraction for foreign investors. Western Balkans countries lag significantly behind the EU-11 in terms of FDI stock per capita received. The average FDI stock per capita in the Western Balkans is around €2,600, compared with almost €6,000 in the EU-11 (see Chart 5). In addition, much of the existing FDI did not target the tradeable sectors, and hence the export capacity of the region, but rather came through privatisations of sectors intended primarily for domestic consumption. Although Western Balkans countries have significant advantages in terms of stable economies, low labour costs, favourable tax regimes for investors and a strategic geographical location, none of these has been sufficient to overcome the obstacles highlighted above.

Chart 5: FDI stock per capita (€)



Source: Authors' calculations based on UNCTAD database.

The new Western Balkans online Investment Platform, to be launched at the EBRD Western Balkans Investment Forum in February 2018 and managed by the Secretariat of the EBRD-funded Chamber Investment Forum, may help improve FDI inflows. Investment in this region has been hampered by the small size of each individual

market and investors' lack of knowledge about the resources and potentials of the region. The new platform could help in selling the region's advantages and making it easier for interested investors.

Mobility

The REA envisages better integration of highly skilled professionals and academics in the region into professional and research networks. The Mobility Agenda aims at removing obstacles to the mobility of: (i) professionals, through regional mutual recognition agreements of professional qualifications (doctors, dentists, architects, and so on) as well as automatic recognition of academic qualifications; and (ii) students, researchers and academics, through joint academic mobility and cooperation programmes.

Lack of skills is a significant problem that cannot be easily fixed. The plan's proposals to enhance the intra-regional mobility of skilled individuals are welcome as far as they go, but will not fully address the major skills gap across the region. Studies show that the region lacks both hard and soft skills. For example, results from the OECD's PISA assessments point to a significant deficit in the three tested areas (science, reading and mathematics) of 15-year olds in the Western Balkans in relation to the EU average. At the same time, the policy framework and incentive systems are underdeveloped and do not encourage public-private partnerships in developing and delivering lasting improvements in skills.

Digital integration

The REA envisages that measures will be taken to further the integration of the region into the pan-European digital market, through synchronised digitisation strategies, updated regulatory frameworks, improved broadband infrastructure and digital literacy. A roaming-free region is also part of the action plan.

The region currently lags far behind EU standards in terms of digital transformation. The plan's focus in this area is much needed, particularly in light of the fast developing EU-level framework for ICT networks and services. At present, most Western Balkans economies have established a supportive strategic framework for digital growth. It is encouraging that they have prioritised telecommunications and broadband related structural measures within the 2017-2019 Economic Reform Programmes (ERPs). With the legislative framework mostly in place, the latest EC Enlargement progress reports stressed the needs to strengthen the capacities and the independence of the regulatory agencies for electronic communications. Pressing challenges also include finalising the delayed digital broadcasting switchover process (where not completed), allowing the use of the digital dividend spectrum for broadband services, and increasing the use of e-commerce.

The region needs to accelerate high-speed broadband roll-out so as not to be left out of the pan-European digital infrastructure map. A regional approach in this context is crucial. The success of this approach in advancing the digital agenda is clearly demonstrated through the recent regional initiative to reduce roaming costs. The Regional Roaming Agreement has led to tangible impacts in terms of reduced roaming prices and increased roaming traffic. This demonstrates how such a regional home-grown initiative, driven and supported by all parties, can be instrumental in achieving positive outcomes for consumers within the Western Balkans region. Nevertheless, the region is still far from the "Roam like at Home" EU model and there is still ample room for implementing further legal and regulatory measures to match EU standards.

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