Investing in the Western Balkans
Regional Forum, EBRD HQ, London
24 February 2014
It gives me great pleasure to welcome you to our regional forum “Investing in the Western Balkans”. This forum brings together all prime ministers from the Western Balkans and Croatia, accompanied by members of their governments and business leaders from the region, as well as foreign investors and many others interested in the economic development and potential of this dynamic region.

The Western Balkans have been an important area of EBRD engagement since the early 1990s, when the region embarked on the road towards open-market economies and democracy. Today, the EBRD remains one of the largest institutional investors in the region. In 2013, the Bank invested more than €1.2 billion across more than 80 projects in the Western Balkans and Croatia. Together with our partners in other international financial institutions we are on track to deliver the €30 billion Joint IFI Action Plan for Growth in Central and South Eastern Europe for 2013-14.

We are committed to continue investing in all countries of the region and to supporting their economic development. At the same time, in coordination with the European Union, we seek to promote regional cooperation in the Western Balkans, which is vital for sustainable development and stability.

During my first year in office as EBRD President, I had the opportunity to visit every country in this region. Along with significant potential for further growth I have seen a lack of foreign investment, and observed bottlenecks in infrastructure and the business environment. These will be the main topics for today’s forum.

The main objective of this conference is to promote the Western Balkans as an investment destination and to boost regional cooperation. We want to help translate the existing high level of political commitment to these goals into concrete regional and cross-border projects.

State leaders and private companies, many of which are clients of the EBRD, will talk about their priorities for existing and potential regional projects, and about the opportunities and challenges they face. Together they should be able to present a realistic picture of the business outlook for foreign investors. It will be particularly interesting for London-based and other international investors to receive these first-hand accounts from the region.

Thank you for joining us at the forum for what I hope will be a day of stimulating discussions and networking.

Juma Akbarov
**Event programme**

8.00 - 8.45  Registration and refreshments

8.45 - 9.20  Welcome address (auditorium)
- Suma Chakrabarti, President, EBRD
- Kenneth Clarke, Cabinet Office Minister, UK
- Kostas Hatzidakis, Minister for Development and Competitiveness, Greece, on behalf of the EU Presidency
- Stefan Fule, European Commissioner for Enlargement and Neighbourhood Policy

9.20 - 10.40  Prime ministers’ session* (auditorium)
- Vjekoslav Bevanda
- Ivica Dacic
- Milo Djukanovic
- Nikola Gruevski
- Zoran Milanovic
- Edi Rama
- Hashim Thaci

10.40 - 11.10  Coffee break/prime ministers’ press conference

11.10 - 12.30  Session 1 (auditorium): Investment climate
- Chair: Andras Simor, Vice President, Policy, EBRD
- Zoran Stavreski, Deputy Prime Minister, and Viktor Mizo, CEO, Free Economic Zones Authority  
  *The Macedonian model for improving the business environment*
- Arben Ahmetaj, Minister for Economic Development, Trade and Entrepreneurship  
  *Doing business in Albania*
- Zlatko Lagumdzija, Deputy Prime Minister  
  *Doing business in Bosnia and Herzegovina*
- Ellen Goldstein, Director for SEE, World Bank  
  *Beyond the “Doing Business” report*

Followed by a question and answer session

12.30 - 13.30  Networking lunch (auditorium ante area)

Parallel sessions: sessions 2 and 3

13.30 - 15.00  Session 2 (auditorium): Energy diversification in the Western Balkans  
  The role of new sources and routes of supply
- Chair: Riccardo Puliti, Managing Director for Energy and Natural Resources, EBRD
- Roberto Poti, Executive Vice President, Edison SpA  
  *Energy security in the Western Balkans*
- Al Cook, TAP team leader, BP  
  *Trans Adriatic Pipeline*
Investing in the Western Balkans

Vladimir Kavaric, Minister of Economy
A view from Podgorica

Damian Gjiknuri, Minister of Energy and Industry
A view from Tirana

Violeta Kogalniceanu, Head of Infrastructure and Energy Efficiency, Energy Community
Regional cooperation in the energy sector

Followed by a question and answer session

13.30 - 15.00  Session 3 (boardroom): Infrastructure in a tightening budget environment
The role of the private sector

Chair: Thomas Maier, Managing Director for Infrastructure, EBRD

Marco Rosso, Business Development Director, Meridiam
How can PPPs in transport be successful?

Sinisa Hajdas Doncic, Minister of Maritime Affairs, Transport and Infrastructure
The Croatian experience in private sector participation

Ensad Karic, Director of Autoceste FB&H, and Dusan Topic, Director of Autoputevi RS, Bosnia and Herzegovina
Corridor Vc

Gerhard Schumann-Hitzler, Director for Regional Cooperation and Assistance, EC
The use of innovative financial mechanisms to attract private capital

Followed by a question and answer session

15.00 - 15.30  Coffee break

15.30 - 17.00  Session 4 (auditorium): Commercial integration in the region

Chair: Claudio Viezzoli, Director for Western Balkans, EBRD

Emil Tedeschi, President and CEO, Atlantic Grupa (Croatia), and Bojan Radun, CEO, Nectar Grupa (Serbia)
Do we still have appetite to buy?

Robert Knorr, Senior Partner at Mid Europa Partners
What makes a private equity success story in the region?

Oliver Curri, CEO, Tulltorja (Kosovo)
SMEs: surviving the crisis and growing

Goran Svilanovic, Secretary General, RCC
Strategy SEE 2020

Followed by a question and answer session

17.00 - 17.15  Closing remarks (auditorium)

Jean-Marc Peterschmitt, Managing Director for Central and South-Eastern Europe, EBRD

17.15 - 18.30  Networking drinks reception (auditorium ante area)
Regional cooperation in the Western Balkans
By Oleg Levitin and Peter Sanfey

Executive summary

The high-level regional Western Balkans forum, held at the EBRD’s headquarters in London on 24 February 2014, 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.

Regional cooperation has been one of the greatest achievements of the Western Balkans. 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 Balkan 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. Increased regional ownership implies, among other things, a more prominent role for the countries of the region in deciding on priorities for major regional projects funded with the support of the European Commission (EC), international financial institutions (IFIs) and bilateral donors.

The intensity and diversity of regional cooperation, the dimensions of which boast more than 40 institutions and initiatives, is a contribution to regional stability in its own right. However, economic conditions have worsened in recent years, leading to increased unemployment and poverty, and short-term growth prospects remain uncertain. It is important therefore to focus additional efforts on a few areas crucial for the sustainable long-term economic development of the region – such as improving infrastructure, facilitating innovation and a knowledge-based economy, strengthening competitiveness, lowering trade barriers and improving the business environment.

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 strengthening of regional cooperation and good neighbourly relations is an explicit requirement for the Western Balkan 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 and enabling stable energy supplies, strengthening competitiveness and developing a knowledge-based economy, lowering trade barriers and 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 Balkan countries but, importantly, can be most efficiently addressed by their 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 five 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 when 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 Balkan 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 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 membership of Albania and Croatia in NATO and the involvement of the rest of the region in the NATO cooperation process, in different forms, are important sources of stability. More important still is the system of commitments and scrutiny stemming from the EU’s Stabilisation and Association Process (SAP) that today effectively plays the key stabilising role. All countries of the region participate in the SAP; and all, except Kosovo, which is currently negotiating it, have signed Stabilisation and Association Agreements (SAAs) with the European Union. Croatia's accession to the European Union in July 2013 was rightly hailed by its Western Balkan 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 – notwithstanding all the anxieties related to the situation in the eurozone – 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. 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 regional stability.
Good neighbourly relations support regional cooperation and contribute to regional stability in their own right. Recent achievements in developing these good relations between Western Balkan 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 recently 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.

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 (see more on page 7), a new phenomenon in the Western Balkans is the increasing popularity of the joint sessions involving the governments of neighbouring countries.

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 few years Croatia and Slovenia have provided a positive example of how to separate bilateral issues from the issues related to the EU accession process, but they have also highlighted problems when these two tracks are linked. Croatia’s accession to the European Union in July 2013 was accompanied by the Croatian authorities’ reaffirmation of their previous clear commitment to provide unconditional support to its Western Balkans neighbours in their EU approximation efforts.

Regional cooperation, regional ownership and inclusiveness

The format of the existing political umbrella bringing together heads of state and government has remained almost unchanged since the early phases of regional cooperation of the 1980s, except that one of the participants – Yugoslavia – has been replaced by its former republics. The South-East Europe Cooperation Process (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), also demonstrated some advantages of a more streamlined sub-regional format. A few new initiatives have been floated recently, from the periodic meetings of the presidents of the WB6+2 (which are already taking place) to the initiative on an alternative format within the geographical boundaries of the Western Balkans proper. Some believe that the latter should also include Croatia, which, as the newest EU member linked to the region in numerous ways, could become a real bridge between the European Union and the Western Balkans.

Greater regional ownership was one of the rationales for replacing the Stability Pact for South Eastern Europe with the RCC in 2008. The IFIs and bilateral donors in particular hoped that, unlike the Stability Pact, which in its last years largely generated the rhetoric of regional cooperation, the RCC would become a more practical vehicle for this cooperation and a genuine “voice of the region”. The new RCC Strategy for 2014-16 is more focused and “strategic” and rightly puts emphasis on the South East Europe 2020 Strategy, as a regional response to the European Union’s strategy, Europe 2020.

One of the challenges will be to ensure 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 as well, including with respect to the existing mechanisms. One such mechanism is 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 the severe fiscal constraints facing all countries in the region. As a coordination mechanism, the WBIF has also had some success in ensuring that a strategic approach is taken to investing in regional infrastructure. By the end of 2012 the WBIF had supported 137 strategic projects which, if fully realised, could result in around €13 billion of total investments in the coming years.

Regional cooperation in the Western Balkans can reach the objective of greater efficiency only if it is all-inclusive. Regional transport and energy corridors cannot stop at the borders within the region.

Montenegro and Serbia, currently the only EU candidate countries in the Western Balkans in the process of EU accession negotiations, are the testing ground for the EC’s new approach that places emphasis on those chapters of the accession treaty related to the rule of law. The new EC approach, which frontloads economic governance, rule of law and the fight against organised crime and corruption in the negotiations process, should be conducive to further improving the business environment in this region.

Economic aspects of regional cooperation

One of the most pressing issues facing Western Balkan 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 are all struggling at present, although some improvements are evident in the past year. GDP growth in 2013 was 0.9 per cent on average (see Table 1), a significant improvement on 2012 but well below the levels seen just five or six years previously. The prospects for growth in 2014 are only slightly better than last year. 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). Greater economic cooperation among the Western Balkan countries could be one of the main sources of economic growth in the coming years.

Economic cooperation can take many forms. The most obvious example is cross-border trade. At its simplest, this is a bottom-up process that occurs when two companies, or even individuals, decide to trade goods or services across one of the region’s borders. But it can also be facilitated by top-down decisions of governments, which have the power to ease or remove barriers to trade and to develop and implement formal trade agreements. Another example of economic cooperation is in the area of capital flows. Cross-border direct investments have been limited in the past two decades but some important deals have occurred. Economic cooperation can also take place through major projects in transport infrastructure and the energy sector. The benefits of these projects can be long-lasting: they facilitate trade and they make the region more attractive to potential outside investors.

Table 1: GDP growth rate (% change)

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>2012</th>
<th>2013(est.)</th>
<th>2014(proj.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>1.6</td>
<td>1.5</td>
<td>1.7</td>
</tr>
<tr>
<td>BiH</td>
<td>-0.5</td>
<td>0.8</td>
<td>1.8</td>
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<tr>
<td>Croatia</td>
<td>-2.0</td>
<td>-0.7</td>
<td>1.0</td>
</tr>
<tr>
<td>FYR Macedonia</td>
<td>-0.3</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Kosovo</td>
<td>2.5</td>
<td>2.5</td>
<td>3.5</td>
</tr>
<tr>
<td>Montenegro</td>
<td>-0.5</td>
<td>1.5</td>
<td>2.0</td>
</tr>
<tr>
<td>Serbia</td>
<td>-1.7</td>
<td>2.2</td>
<td>1.3</td>
</tr>
<tr>
<td>Average</td>
<td>-1.1</td>
<td>0.9</td>
<td>1.5</td>
</tr>
</tbody>
</table>

Source: EBRD Regional Economic Prospects, January 2014

Chart 1: GDP per capita (PPP-adjusted) in 2012

Note: EU27 = 100. Source: Eurostat.
Trade

Intra-regional trade is a key indicator of the extent of economic integration within a region. Chart 2 shows each country’s total trade (exports plus imports) as a percentage of GDP, while Chart 3 shows the percentage of trade that goes to other Western Balkan countries. Two points of interest emerge. First, the ratio of trade to GDP is below 100 per cent in most cases, with the exceptions of FYR Macedonia and Montenegro. This ratio is below those in smaller EU countries such as the Slovak Republic, Slovenia or the Baltic states, and therefore suggests that there is scope for overall improvement. Second, trade within the region has become increasingly significant: in 2012, nearly one-third of exports from Serbia, FYR Macedonia, Bosnia and Herzegovina, and more than one-half from Montenegro, went to other countries in the region. These figures are encouraging signs of regional cooperation, especially if one considers how little trade took place between neighbouring countries just 15 years previously.

The regional Central European Free Trade Agreement (CEFTA), signed in 2006 and ratified by signatory countries in 2007, has played a vital role in facilitating cross-border trade. CEFTA was an important breakthrough in regional economic cooperation, not least because it provided for the first time a comprehensive region-wide free trade agreement, replacing a patchwork of 32 bilateral agreements that were not mutually consistent. It provides for full liberalisation for virtually all manufacturing goods and most agricultural goods. However, it also goes well beyond these basic requirements by addressing fundamental issues such as the elimination of non-tariff barriers to trade between the signatory countries, the protection of intellectual property rights in accordance with international standards and the harmonisation of provisions on modern trade policy issues such as competition rules and state aid. A CEFTA secretariat has been established and provides a very useful forum in which to analyse trade issues and statistics and to ensure progress towards further liberalisation of goods and services.

Despite the advances of recent years, significant barriers to trade still exist in the region. One way of seeing this is to draw on the World Bank’s annual Doing Business report, which assesses 189 countries in terms of ease of doing business, including ease of trading across borders. Table 2 shows the World Bank’s sub-indicators for trading across borders, and their evolution since 2006. The latest average scores for high-income OECD countries are also added as a benchmark. The table shows that, while there has been some improvement over time with respect to the number of documents needed to export and import goods, all Western Balkan countries are still above the OECD benchmark (four documents for both categories). Also, while there has been a reduction in the time taken to export and import, dramatically so in the case of Serbia, it still takes longer to export and import in all countries of this region than it does in an average OECD country. Lastly, the costs associated with trading, although generally declining in real terms over the past eight years, are typically higher than the OECD benchmark. Taken together, these findings highlight the room for improvement in terms of simplifying and reducing the costs of trading across borders in the Western Balkan region.

Chart 2: External trade as share of GDP

Note: Exports+imports in US$/GDP, 2012 %. Reliable data for Kosovo are not available.
Source: IMF World Economic Outlook Database, October 2013.

Chart 3: Exports to Western Balkan countries

Note: reliable data for Kosovo are not available. Share of total exports in US$, 2012 %.
Table 2: Doing Business 2006 and 2014: trading across borders by subcategories

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>Documents to export (number)</th>
<th>Time to export (days)</th>
<th>Cost to export (US$ per container)</th>
<th>Documents to import (number)</th>
<th>Time to import (days)</th>
<th>Cost to import (US$ per container)</th>
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<td>Albania</td>
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<td>1775</td>
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<tr>
<td>Montenegro</td>
<td>..</td>
<td>6</td>
<td>..</td>
<td>14</td>
<td>..</td>
<td>985</td>
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<td>6</td>
<td>33</td>
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<td>1455</td>
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<td>1070</td>
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</tr>
</tbody>
</table>


Cross-border capital flows

Cross-border investment within the region remains rather limited. Most foreign direct investment (FDI) into the region in the past two decades has been from EU countries, but increasing interest is being shown by countries further east, such as Russia, China and United Arab Emirates. For FDI, data by country are sparse, but the evidence from the available data points to a growing interest in cross-border investment within the region. For example, 90 per cent of Croatia’s outward FDI in 2012 went to Western Balkan countries. For FYR Macedonia the equivalent figure for 2012 was 55 per cent.

For the foreseeable future, most FDI into the Western Balkans will continue to originate from outside the region. Nevertheless, enhanced regional cooperation will continue to play an important role in making the Western Balkans more attractive to potential investors. Such cooperation can take several forms. As already noted, the CEFTA process has contributed significantly to improved trading conditions in the region but more can be done to address non-tariff barriers and further the reach of trade liberalisation. Some persistent business environment problems, such as corruption on the borders, can also be tackled through cross-border cooperation. In the financial sector, the participation of most Western Balkan countries in the Vienna Initiative – the forum for decision-making and coordination among all key stakeholders in central and south-eastern European financial sectors – and the excellent informal cooperation among central banks in the Western Balkans have contributed in a major way to financial stability throughout the crisis years.
Energy, transport and communications

The energy sector constitutes one of the prime examples of regional economic cooperation in south-eastern Europe, including all countries in the Western Balkans. The creation of the Energy Community was perhaps the first successful case of sectoral cooperation in the region. Ensuring a reliable and affordable supply of energy is critical for the region’s long-term economic future, especially as countries further develop “light” infrastructure such as telecommunications and the internet. If the Energy Community can work as planned, it will help to optimise the use of existing hydro/thermal capacity, compensate for differences in energy resource endowment, create new opportunities for intra-regional trade in energy services and create new markets (renewables and natural gas).

Currently, cross-border interconnection constraints mean that intra-regional energy trade is lower than among EU member states, so the countries of south-eastern Europe have strong incentives to increase security of supply by consolidating the regional market. Intergovernmental coordination and cooperation are vital: the failure of just one country to invest in cross-border projects can lead to a “weak link” in the energy chain. Major projects in this sector typically bring financial returns only in the long run and, given the severe fiscal constraints facing most countries, other sources of finance, especially from bilateral donors and IFIs, will likely be needed for some time to come. Private investors will also have an increasing role to play, provided the right incentives and a strong regulatory framework are in place.

Good-quality transport is another key enabler of growth. Although there has been major progress in the past two decades, cross-country surveys, such as those of the World Economic Forum’s *Global Competitiveness Report*, show that the quality of transport infrastructure in the Western Balkans still lags behind typical standards in OECD countries. Much more needs to be done to develop the Trans-European Networks in order to increase regional integration. The private sector is playing an ever more important role in the provision of transport infrastructure and logistics services. The logistics market in the region has grown substantially in recent years, with the need for integrated services covering transport, storage and management of freight. This trend is closely tied with the growth of containerisation, which has created demand for different types of transport facilities, to streamline freight movements and lower transportation costs for industry.

The quality of telecommunications infrastructure in the region is significantly lower than in the European Union or in faster growing economies. The information, communications and technology (ICT) sector as a whole has significant potential for development in this region, but it is still feeling the impact of the global financial crisis, primarily through a shortage of growth capital in equity or debt. Although the legal framework for telecommunications is generally aligned with that of the European Union, implementation has been relatively weak. The market is still highly underserved in the fixed line and broadband internet segment as evidenced by a large pent-up demand and low fixed line penetration. The mobile telephony market is more developed and competitive, improving even further with the entry of 4G mobile network operators, and mobile penetration levels are growing rapidly. Further regional integration would improve ICT services and access to them. This in turn would enable network expansion, innovation and advanced communication services, and help to develop the scale of markets needed to develop the sector beyond basic services.

The contents of this article reflect the opinions of the individual authors and do not necessarily reflect the views of the EBRD.
Oleg Levitin is a Senior Political Counsellor at the EBRD, covering central and south-eastern Europe. He has more than 25 years of experience focused on south-eastern Europe, which includes participation in the Dayton Peace Talks and other major multilateral negotiations on the Yugoslav crisis throughout the 1990s, as well as research on inter-ethnic issues and peace building. He holds an MA and PhD in International Relations and Balkan Studies. He is an accomplished linguist and speaks all Western Balkan languages.

Peter Sanfey is Deputy Director for Country Strategy and Policy within the Office of the Chief Economist at the EBRD. He is responsible for the analysis of economic developments and reforms in south-eastern Europe, and he engages in research and publications on a range of topics covering the whole transition region. He graduated from Trinity College Dublin in 1985 with a BA (first class honours) in Economics, and received his PhD in Economics from Yale University in 1992.