

Albanian working paper for the Western Balkans Conference in Berlin, Germany, August 28, 2014

(Contribution to the discussions and to the relevant conference summary)

“VISION OF THE WESTERN BALKANS BY 2020: A VIBRANT, PEACEFUL REGION WELL PREPARED TO JOIN THE EU AND PROVIDING A DECENT LIFE TO ALL ITS INHABITANTS”

Introduction / Political Framework :

We, the democratically-elected leaders of the Western Balkans welcome Germany's leadership and initiative to establish a yearly conference of the Western Balkans. This conference gives us the opportunity to define a broad collective vision of where we would like to see our region by the end of this decade, in particular in relation to our strategic partner, the European Union.

From our perspective, enlargement is not calendar - but process and performance - driven. Since the European geopolitical and security situation has changed immensely during the past months, we believe that EU leaders should look at enlargement and towards the Balkan states in the future, in geopolitical terms.

Nobody should doubt that the Western Balkans is an integral part of Europe. We are in fact convinced that the huge geopolitical importance of the Balkan states should help revitalize the European idea.

A NEW DEAL IN THE REGION AND WITH THE EU AVOIDING A PERIOD OF STAGNATION

Not being full members of the EU, we do not have access to a series of EU programs and policies. The gap between those in the EU and those in the process of joining is still very large. In financial terms, measured by net inflows from EU funds the difference between membership and accession is by a factor of five to six.

Furthermore, IPA funds are, for the most part, used to build institutions and prepare sectorial policies. Only limited IPA funds can be used to build

necessary national and local infrastructure, or extend long term resources to improve human capital and build innovative SMEs. Importantly, since the crisis, limited fiscal space has been largely utilized to stabilize the economy and little is left for launching new projects, in particular those of regional/EU importance. Finally, with the significant deleveraging process taking place in our banking sectors, at the behest of euro-based banks complying with the Basel III regulation, the private sector is not in a good position either to provide necessary long term funds.

Within that context, a slower integration process, on top of negative political effects, deep negative economic consequences. The region, deprived of long term public and private financing sources will not be able to kick start on its own a new period of modernization and growth, in particular one based on investment and exports.

This negative scenario would mean that the region would remain outside of major energy and transport routes and on a weak growth trajectory path, offering very few business opportunities for EU key energy and infrastructure players. In a nutshell, the risk is that we could be seeing a period of stagnation until the end of the decade.

In order to counter those tendencies, we propose a new deal, between us, and with the EU.

We want the remainder of the decade to be a period of catch up and dynamism. To achieve this vision, we propose to launch several large scale initiatives of joint EU- Western Balkans interest.

I. FOUR MAJOR AREAS FOR JOINT WESTERN BALKAN-EU PROJECTS

We see four major areas for common work:

1. Regional infrastructure projects, in particular:

- The "Blue highway" : Adriatic-Ionian highway
- Railway infrastructure of regional/ EU-wide interest
- Logistical centers and multi modal ports
- Broadband connections closing the digital divide

2. Energy infrastructure and energy security:

In power, the region should be strongly integrated with the European electric energy grid and long delayed hydro and renewable projects should get the necessary financing so as to insure energy safety and make room for economic growth.

In gas, the building of the Trans-Adriatic Pipeline and its Ionian-Adriatic Branch would open new possibilities for power production and sustainable industry development. Generally interconnections between countries of the region and with the EU will make the entire continent more stable.

3. SME, human capital financing and education:

In order to offer development opportunities to some of our most talented entrepreneurs, strong, long-term financing for regional SMEs should be established. A Western Balkan "mittelstand" should appear. The current banking system is not able to provide the needed support.

Furthermore, we need vocational schools modeled after the German system, improving the knowledge, and approximating the capabilities of the labour force of the region with that of northern and Western Europe.

4. Regional tourism projects

Tourism is a vibrant service sector. Regional integration and infrastructure development will strongly favor it.

By working on these initiatives, we will improve the state of our economies and make ourselves more competitive, more ready to become productive EU members. For the EU, success in joint initiatives will deliver a region capable of meeting EU standards.

II. FINANCING AND IMPLEMENTING THE VISION

Too often public opinions in net EU paying countries reject transfers through the EU budget as insufficiently transparent and impactful. We believe that proposed projects, because they are concrete and can easily prove their usefulness in net paying countries meet the high criteria of demanding public opinions.

On the other hand, if one is to have impact and win the minds and the hearts of our citizens, it is imperative to secure appropriate financial means.

Above all, a significant element of grants is required given the shape of our public finances and sovereign debt. It is not the result of our profligacy, as our deficits are limited, it is rather the logical outcome of six years of an uninterrupted crisis. It will be above all essential to secure sufficient resources to finance necessary feasibility studies for large scale energy and infrastructure projects at EU standards.

We welcomed the joint IFIs action plan announced on November 8, 2012. It has allowed closer collaboration between IFIs and the region. It is now time for acceleration and expansion on the promising year and a half of this joint action plan. Acceleration on the priority projects mentioned here. Expansion on financial means, in particular on grant elements so as to finance feasibility studies and mix grants with loans for sustainability of public finances

We see as financial sources:

- Domestic budgets. We should provide part of the financing in line with our real possibilities;
- IPA national funds, with a greater share allocated to the four mentioned priorities;
- IPA multi-beneficiary funds that we propose to focus on this vision as it will help the entire region;

- Connecting Europe facility ran by the Commission which is ideally positioned to connect the missing dots in energy and infrastructure links between countries of the region and with the EU
- Bilateral aid, in particular through development banks such as KfW. The latter can help develop a web of development banks in the region with strong corporate governance, avoiding corruption and political patronage issues that have plagued some of the previous attempts to build such institutions
- International financial institutions, above all the EBRD, the EIB and the CEB with continued presence of the World bank
- EIB project bonds, currently limited to EU members that we propose to extend to accession countries
- Sovereign bonds, counter guaranteed by the EU. Namely, countries seeking the EU counter guarantee, and its lower financing costs, would need to go through a process similar to the European semester followed by EU Member States. Compliant public finances would be rewarded by such a counter guarantee whereas non-compliance would entail the loss of the counter guarantee and of IPA funds.

Overall, we expect the effort to reach around €20 bn until 2020 and the element if grant to be around half of that amount, about €10 bn euros. It is a significant effort but one that can be shouldered. It would have a multiplier effect on the economies of the region and help EU energy and infrastructure groups as well.

In order to implement such an effort a significant coordination will be needed. Pragmatically, we propose to build on the existing WBIF (Western Balkans Investment Framework), bringing all players and currently presided by Germany. We propose to turn the WBIF into a stronger governance mechanism, one that can decide on behalf of its backers on project selection and implementation. It could be the kernel of a joint EU-Western Balkans financial institution, not unlike the Nordic Investment Bank.

Concluding remarks:

We understand the difficulties currently facing the enlargement process. Yet we re-affirm full EU membership as our strategic goal. This goal serves above all our citizens by building reliable institutions and a State ruled by law. It also helps solve our remaining differences. By doing so, the integration process serves the EU as well.

The Western Balkan countries have much to offer to the EU as a whole because of their great human capital and economic potential in areas like tourism, energy and infrastructure. We are collectively fully prepared to take the necessary internal governance decisions to boost our courses towards the EU, especially in the areas of rule of law, economic governance and connectivity.

Given all the instability on Europe's doorstep, we offer the prospect of enhanced cooperation and security amongst nations now at peace with each other.

Short of rapid membership, it is important that the EU integration process keeps going on, giving tangible benefits to ordinary citizens so as to continue being the strategic anchor for the region. We would expect all countries in the region to be well advanced in their negotiations to join the EU by the end of this decade.