



**International Conference**  
**“The Global Financial and Economic Crisis: Challenges and Strategies in Southeast Europe”**

2-3 November 2009

European Commission, Representation in Germany, Berlin

Dear Mr. Erler,  
Ladies and gentlemen,

Distinguished participants of the conference, I wish to express high appreciation to the organizers of this event on behalf of the Regional Cooperation Council. The RCC, seated in Sarajevo, assumed the function of Stability Pact for South Eastern Europe a year and a half ago and has had an important role in regional networking of relevant stakeholders having increased regional competitiveness as one of the main goals. What is the context in which the RCC operates? What are the modes of its operation? The following presentation is an attempt to give a short insight in this respect.

**How is the global economic crisis affecting the countries of SEE? What are the main challenges and opportunities?**

The countries of SEE are being influenced by the global recession in several ways. Trade has plunged. During the first half of 2009, total exports for all CEFTA 2006 member countries fell by more than one third compared to the same period of 2008 as a result of lower international demand for manufactured goods and lower price of commodities. Imports followed a similar pattern. Capital flight remains a major concern, given the heavy dependency of the region on external financing. SEE countries have struggled to attract high amounts of FDI even in earlier, more prosperous years, while investors now look for safer returns on their investment. Borrowing costs for governments and companies alike are skyrocketing. While domestic banking sectors remain too small to fully support economic activity in the countries of the region, foreign banks are being cautious and cutting business loans. Remittances that contribute substantially to macroeconomic stability and act as a social safety net, having already hit a plateau before the crisis, will likely contract considerably as more jobs are lost in migrant-recipient countries. Lower domestic production and consumption will have direct effects on tax revenues. Many of the countries cannot afford to run a counter-cyclical policy to offset the effects of the downturn like many advanced countries. Fiscal space remains limited even though debt levels are relatively low. Domestic currencies are already under pressure and easing monetary policy too much could send them tumbling.

The recession will have harsh social effects. The most adverse impact would be on the part of the SEE population most in need of jobs and incomes – the poorest and most vulnerable. The crisis can produce a dramatic increase in unemployment, underemployment and a decline in wages. Such reduction in personal income can contribute to the reversal of many people's use of health care services and high-quality education. An aggravating factor would be the potential return of jobless migrants to their countries of origin.

If, as predicted, the world economy will slowly recover in 2010 or even 2011, a prolonged period of recession in SEE is very likely. Production and trade will continue to suffer and financing for SEE markets would be subject to long disruptions because of creditworthiness issues. The real economy downturn could have a deteriorating impact on the quality of bank portfolios what creates a second-round risk for the financial sector. Under such circumstances the countries could be forced to implement significant fiscal adjustment. On the other hand, if social impact continues to unfold, there is a risk of social tensions in regions that are particularly hard hit by the crisis. Under such a scenario, the countries of SEE will highly depend on and follow the recovery of developed countries. Demand for exports from the region will gradually be restored and international and local investors will look for more opportunities in the region as confidence is re-established. However, several years of recession and slow recovery will leave a strong mark on the SEE economies and their most vulnerable citizens.

What is the alternative? The SEE governments need to be very active in finding ways of tackling the crisis. It remains crucially important that while improving the general business climate, countries focus on increasing their competitiveness and efficiency. Meanwhile, they should incessantly adhere to the existing free trade agreements which are important rights of all nations. Trade also remains an important source of economic growth and poverty reduction. If protectionism becomes the norm, there will be no winners. Greater international cooperation and openness in difficult times is needed to avoid exacerbating cross-border spillover effects.

At the same time, international support can help countries buffer the impact of financial crisis on real activity and limit its effects on poverty. There is a strong need for support from the EU and international community in terms of capacity and transfer of knowledge as well as direct investment, while emphasizing that the future of the region lies in a unified Europe. Based on the great needs of the region, there are major opportunities for investment. In this respect, governments should join forces with the private sector in identifying and financing productive large-scale projects of importance for the region, while at the same time promoting entrepreneurial activities of different groups of population.

While the macroeconomic impact is immediate, the social impact acts with a lag. Therefore, there is still a scope for action before the situation gets worse. Social policy should shift towards cushioning the impact of the crisis on the poor and vulnerable.

Social programs need to be based on aggressive targeting and increased investment in human capital. Long-term reforms need to be balanced with short-term measures aimed at preventing job losses and sustaining household incomes. Inclusive labour market programs that enable rapid labour market re-entry for the unemployed (on-the-job training, intensive public work programs for the unemployed, support for SMEs) and a temporary increase in social assistance spending, unemployment and benefits for low pensions will help such segments of population stay above poverty line and support aggregate consumption when demand has declined. It is also important to concentrate on improving implementation capacity which still remains a major challenge. With international support, the example of the World Bank social funds can be followed, that provide financing for small-scale public investments at the local level which target the poor and vulnerable communities. It also remains of crucial importance to improve the efficiency of provision of healthcare and reduce health inequalities through increased attention to primary care, health promotion, better coordination and efficient use of resources.

Decisive changes and reforms are expected to happen related to the regional labour market in order to improve one of its key sources of competitiveness, as underlined in the recent OECD and World Bank studies on the Western Balkans.

### **How does the RCC operate?**

I wish to stress that in addressing listed as well as other challenges, Regional Cooperation Council collaborates with over 40 regional initiatives in South East Europe out of which at least one half contributes with their activities to increasing competitiveness of South East Europe. I will mention some of them which you may already know as well as others which have just been established or are in the process. I will also talk about some RCC activities which are of direct interest for today's event as well as for long-term cooperation and designing some new future projects. I will try to present thus far RCC's method of functioning and how regional ownership was manifested in the mentioned activities. In addition, I will mention some important partnerships established with key donors and international organisations operating in or towards the region.

Undoubtedly the most well-known regional structures, organizations and initiatives are CEFTA 2006, SEE Energy Community, Regional Environmental Centre (REC), South East Europe Transport Observatory (SEETO), SEE Transport Community Treaty (which is currently being drafted for signing), and Investment Compact (with SEE Investment Committee) under decade long auspice of OECD. Furthermore, I would like to list other initiatives of importance for today's event such are: Electronic South East Europe (e-SEE), Broadband South East Europe (b-SEE), Centre for e-Governance Development (CeGD), SEE Business Enabling Environment Policy Makers Network established with the support of IFC, RCC's Business Advisory Council (BAC), Rural Development Standing Working Group, Education Reform Initiative (ERISEE), Centre for Entrepreneurship

Education, Regional School of Public Administration (RESPA), RCC's Building Human Capital Task Force (RCC BHC Task Force), SEE Steering Platform on Science and Research, Network of Associations of Local Authorities in South East Europe (NALAS), recently established Regional Network of Investment Promotion Agencies, SEE Employment Network and SEE Health Network.

All mentioned regional networks cover different aspects of business climate and improvement of region's competitiveness – from good governance to better supply and higher quality resources for South East European economies. Regional Cooperation Council is expected to ensure good coordination, coherence, sustainability and continuity of these initiatives by providing political and technical support and facilitating access to capital but at the same time by limiting duplication and overlapping in their activities. RCC contributed to networking all these numerous initiatives and their better cooperation, opened channels of mutual communication and facilitated their functioning. RCC aims at identifying priorities among countries from the region, regional initiatives, international organisations and donors in the region. This role is especially relevant in selecting regional priority projects to be supported through Multi-beneficiary Instrument for Pre-Accession Assistance. RCC obtained an important role in programming this EU assistance instrument to the region.

On 25 September, a new network of public administration units dealing with public-private partnership was initiated at the conference organised by RCC and supported by UNDP. In outlining this event, UNECE provided the initial stimulus, but experts from the region (BiH and Croatia) had the key role in its further designing and developing the project that sprung from it. This network should influence improvement of legal and regulatory framework, enhancement of knowledge related to this type of investment and creation of overall incentive climate which would be greatly contributed by identifying and preparing investor attractive projects from around the region (state, local, cross-border).

Another emerging regional network is a network of associations of women entrepreneurs. On 1 October, in Sarajevo, RCC organised a preparatory workshop of key stakeholders in initiating this project which should be officially launched in spring at the Istanbul Conference prepared together with Turkish Chairmanship-in-Office of the South East Europe Cooperation Process (SEECF).

I would also mention the two important projects in the area of building human capital and innovation capacities of the region. They are Joint Strategy on Research and Development for Western Balkan countries and project of establishing a regional body for monitoring and inciting higher education reforms proposed at the last week's Conference on High Education in Western Balkans held on 30 and 31 October in Sarajevo.

Important information is that the RCC should take over an important organisational and programming role in the work of South East Europe Investment Committee from OECD which has been providing this support so far.

RCC will also have a significant role in the new project prepared with OECD, upon the European Commission request – Regional Competitiveness Initiative. Mapping of all what is being done regarding this in the region, consultations, political support, dissemination of research results and their translation into some future industrial policy in the region in line with European industrial policy is an extensive task our regional organisation is facing, with all expert support of OECD.

In this as well as in all other initiatives the RCC takes part in, our organisation advocates for engaging experts from the region, creating relevant expert networks and their full inclusion in the work of mentioned initiatives. Accelerated learning process is a key factor of regional competitiveness and RCC aims at making it possible and successful.

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