

Conference Report

by
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What Can Business Bring to Balkan Reconstruction?

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About the Conference

The conference *What can Business Bring to Balkan Reconstruction?* took place in Brussels on October 3, 2000. Organised by *Humanitarian Affairs Review* and The Business Humanitarian Forum, with The World Bank and the Konrad Adenauer Stiftung, and in association with the United Nations Office for Project Services (UNOPS) and the United Nations High Commissioner for Refugees (UNHCR), the event brought together some 230 participants representing business, non-governmental organisations, governments, the European Institutions and the press.

The conference was divided into three sessions and a roundtable workshop, with each exploring a specific theme.

Conference Programme

Welcome addresses by:
Ambassador John J. Maresca, President, Business Humanitarian Forum Association and
Jean-Christophe Bas, Pan-European Dialogue Manager, The World Bank.

Opening address by **Javier Solana**, Secretary General and High Representative for the Common Foreign and Security Policy, Council of the European Union.

First Session:
What groundrules for major corporations and local partners?

Moderated by **John Whitehead**, Chairman, International Rescue Committee, the speakers were **Aleksandar Dimitrov**, Minister of Foreign Affairs, Republic of Macedonia, **Daniel Janssen**, Chairman of the Board, Solvay, **Rory O'Sullivan**, Special Representative, Joint World Bank Group for South East Europe Reconstruction, **Ivan Stancioff**, Chief Executive Officer, Cresta Marketing and **Nigel Thompson**, Chairman, UK Government/Private Sector Kosovo Task Force. Topics discussed were: What should be the role of the international business communities in reconstruction projects in the Balkans? The skills and know-how of corporations are badly needed to help drive forward key reconstruction programmes. But what framework conditions could help ensure that local economies will in the long-term be the chief beneficiaries, while at the same time offering outside investors an adequate return?

Second Session:
Are outside investors really being encouraged?

Moderated by **John Imle**, Vice Chairman Emeritus and Executive Advisor, Unocal Corporation, the speakers were **Emma Bonino MEP**, Member of the European Parliament, Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy, **Paolo Lembo**, United Nations Development Coordinator, and UNDP Special Advisor for Kosovo, **James Lyon**, Director, International Crisis Group, Sarajevo Office and

Eric Shaw, Vice President, Enron Europe. The themes for this session were: Competition has been fierce between giant industrial groups for the most attractive of the reconstruction contracts. Yet the reality is that inward investment in the Balkans by international business corporations remains cautious and slow. What has been done to help stimulate private sector initiatives and investment? Could new incentives, for instance easier war risk insurance, help? What is being done to stamp out corrupt and illegal local practices that are actively discouraging inward investment?

**Third Session:
Business and a coherent reconstruction effort: the road ahead**

Moderated by **Danuta Hübner**, Executive Secretary, United Nations Economic Commission for Europe, the speakers were **Fabrizio Barbato**, Director for Western Balkans, EFTA, EEA, Other European Countries, European Commission DG External Relations, **Werner Blatter**, Chief of Mission, United Nations High Commissioner for Refugees, Bosnia and Herzegovina, **Patrick Bourrier**, Corporate Director of International Affairs, Alcatel and **Michael Carbine**, Chairman of Central and Eastern European Working Group, UNICE. They discussed the following topics: The uncertain politics of the Balkan countries in the throes of reconstruction make it hard for private sector companies and multilateral agencies to establish clearcut relationships. What should the international

community be doing to give its reconstruction efforts a more coherent and transparent appearance? What concretely has to be done so that the international and domestic business community can play a full role in reconstruction projects in the Balkans?

**Workshop:
A blueprint for effective business-humanitarian action in the Balkans**

This workshop, organised under the auspices of the United Nations Office for Project Services (UNOPS), aimed to identify the principal obstacles to a positive business role in the region, and to develop possibilities for further joint business and humanitarian efforts. There were presentations of case studies from companies already active in the Balkan region and proposals and suggestions were developed for: bridging reconstruction and rehabilitation public works with long-term investment; managing financial risk in post-conflict direct business investment; speeding up the creation of a conducive environment for business investment and creating state, civil society and business alliances for stability at the local level. The moderators were **Christophe Bouvier**, Division Chief, UNOPS and **Jean Freymond**, Executive Director, Business Humanitarian Forum Association. The speakers were **Serge Ameye**, President, Belgian Business Club for the Balkans, **Svetozar Janevski**, General Manager, Pivara Skopje, **Konstantin Vuk Savicevic**, General

Director, ORAH.com, **Vebi Velija**,
Founder and President, Veve
Group, and **Thierry Vandavelde**,
Head of Humanitarian Mission and

Crisis Management Department,
Générale des Eaux-Vivendi.

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## Introduction

The conference, *What Can Business Bring to Balkan Reconstruction?* took place before the change of government in Yugoslavia. However, in light of the challenges outlined by participants, it remains to be seen whether the October victory of Serbia's democratic opposition leader Vojislav Kostunica will change the current environment for business in the near future.

Investment in the Balkans is cautious and slow. The private sector is looked to by the international community to kick-start economic growth, but there are many obstacles to overcome before investor confidence will be strong enough to achieve such an ambitious goal. NATO peacekeeping and the whole reconstruction effort will be ineffective until there is economic rebirth in the region.

South Eastern Europe has been ravaged by war - nine years ago in Yugoslavia, five years ago in Bosnia and Kosovo in 1999. This lengthy period of conflict has destabilised the entire region. Fortunately this is changing, said Javier Solana, the High Representative of the EU for the Common Foreign and Security Policy.

"The past decade of economic decline and growing international isolation is behind them," Solana told the conference. "Ahead lies the prospect of return - at last - to a

normality that many adults have almost forgotten exists and which their children have never known."

Reconstruction has been - and continues to be - an arduous task, made even more difficult by economic and political instability. This situation is exacerbated by the EU's lack of a clear vision for the region which, according to Emma Bonino, the former EU Commissioner for humanitarian affairs who is now a member of the European Parliament "is perceived by politicians and more so by the sensitive antennae of the business community. No wonder it continues to remain at a due distance."

European investors face uncertainty and reams of red tape. EU and UN agencies' efforts to end corruption and create a stable environment for business is in itself part of the red tape problem. The region is tangled up in a bureaucratic legacy that is both Byzantine from centuries of Ottoman-Turkish occupation and Soviet in the wake of 40 years of communism.

At the same time, the international community is still struggling to provide the necessary infrastructure to rebuild war torn societies and to assist local authorities in creating conditions that will encourage investment - a transparent regulatory system, respect for the rule of law and business ethics.

The skills and know-how of private corporations are badly needed to help drive forward key

reconstruction programmes. However, attracting their interest has been no easy task in a region perceived by many investors as rife with corruption and mired in bureaucracy at all levels.

Participants agreed that the anti-state forces are often stronger and better organised than the state that should be fighting them. And just as often, it is government officials themselves who are corrupt. *Baksheesh* has almost become a household word in many areas.

All is not bleak, however, as there has been some progress in the region, which may encourage others to follow suit. Several participants cited success stories and as the Special Representative of the Joint World Bank Group for SEE Reconstruction **Rory O'Sullivan** pointed out, the balance between public and private investment is being tipped from 80% and 20% respectively, to exactly the opposite.

**Jean-Christophe Bas**, the Pan-European Dialogue Manager for the World Bank, emphasised that the role of the private sector is crucial. Last September, the International Finance Corporation, the private sector affiliate of the World Bank group, announced the launch of the Balkan Enterprise Facility. The BEF, which has garnered about \$20 million in funding commitments to date, will launch a major effort to support the development of SMEs in Stability Pact countries.

"We are expecting this conference to give participants a clear picture of what role business can play in the post-conflict Balkan region and how they can better cooperate with international bodies to maximise their participation and contribution to reconstruction," he said. "But we are also expecting the feed back from the private sector on how we could better cooperate."

Perhaps in response to this, many conference participants outlined the problem areas in dealing with the World Bank, the EU and the United Nations and emphatically called for cutting through the red tape that removes incentives and is strangling initiative.

Most Balkan countries are negotiating Stabilisation and Association Agreements with the EU, which in effect represent a roadmap to EU membership. These agreements will include economic and financial assistance and cooperation, political dialogue, approximation with EU legislation, cooperation in other policy areas and free trade. Already, more than 80% of EU trade in the region is duty free and further trade liberalisation is planned.

Participants agreed the region's Diaspora problems must be addressed. Millions of people fled the region for political and economic reasons. It is now time to reverse this "brain drain" by encouraging them to return and play a role in the region's future development.

There was consensus that in addition to creating a level and inviting playing field for business, strengthening the rule of law and instilling business ethics, a prescription for the area's economic health should include:

- ?? Reduction of cumbersome, institutional red tape at all levels to get programmes up and running and funds flowing.
- ?? Immediate technical assistance in several areas, particularly in institution building and in creating a transparent regulatory framework.
- ?? Stimulation of the private sector and stronger and more coherent political will from both the EU and the international community.
- ?? An equally strong commitment by governments of the region.

One clear message from *What Can Business Bring to Balkan Reconstruction?* is that bridging the gap between emergency humanitarian aid and long-term, coherent reconstruction will require a much stronger alliance between civil society and business.

Participants engaged in a lively debate and did much to meet the challenge posed by the President of the Business Humanitarian Forum Association, Ambassador **John J. Maresca** in his welcome address: "This is a serious problem with many devoting their time and energy to finding solutions. Today, the first step is to identify the obstacles to investment and listen carefully to the ideas of those involved. Only in this way, can we define how business can truly act as a catalyst."

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Opening address

Peace, stability and growing confidence in the Balkans

Javier Solana

High Representative of the EU for the Common Foreign and Security Policy

Instability has been a barrier in the past to business and investment, but today, there is growing security, growing stability and growing confidence in the region, Javier Solana told participants.

The reason for this change involves several key elements including the rejection of communism by the countries of the region and their "enthusiastic embrace" of democracy and the free market. Another is the decision by western European countries to recognise the countries of the Balkans as essentially "being as we are."

Said Solana: "We are no longer satisfied with simply wanting to see peace and stability in the Balkans. Instead, we are committed to working for their full integration into the political and economic mainstream of Europe. The countries themselves are responding; they share this goal, they are working towards it and the results are very concrete."

The EU commitment in the region has always been substantial - together with member states, the EU has contributed more than Euro 18bn since 1991. But in recent

years, he said, the key commitment has been to open up the prospect of membership in the Union. Most countries are now candidates for membership or involved in the negotiation of Stabilisation and Association Agreements.

This commitment has been underpinned by the Stability Pact, which is coordinating assistance "but demanding reforms as well." Its focus is on regional infrastructure, such as the Romania/Bulgaria bridge over the Danube, democracy and human rights, such as projects on refugee return as well as security, such as measures to enhance law and order and freedom from corruption. Importantly, the work of the Stability Pact places major emphasis on encouraging countries to cooperate amongst themselves.

"I am pleased to see this happening first hand in a regular series of meetings with prime ministers of the region," Solana told participants. "Much of the resources come from government but we are looking at public-private partnerships. This is a very important contribution for business to make."

He pointed to the "return to normality" in Kosovo. Although there is much still to be done, progress is enormous. Fifteen months ago, hundreds of thousands were living in rough conditions in camps outside Kosovo. All of these people have returned home and major reconstruction is underway. Infrastructure is being repaired,

schools are opening, local administrations are up and running and municipal elections viewed as "a closer step" to normality.

There is hope on the horizon for Serbia, Solana observed. Behind them lies a decade of economic decline and growing international isolation. The Democratic opposition identified the challenges as:

- ?? Unlocking the huge potential of the economy.
- ?? Ensuring that Serbia participates in the economic growth taking place in the region, in Europe and internationally.
- ?? Focusing on the issues that really matter to Serbians - education, health and care of the elderly.

The EU has been determining what economic assistance can be offered as part of an intensive engagement

that will take effect quickly under a democratic government in Serbia.

"Our message to Serbia has been the same as to their neighbours," he said. "We are their friends and we are ready to welcome a democratic Serbia into the economic and political institutions of Europe."

The investment climate in the Balkans has "changed dramatically." Instead of uncertainty and instability you now have governments committed to democracy, economic reform and the free market, Solana concluded.

"With our help they are cracking down on corruption and organised crime, dismantling the state sector, bringing legislation into line with European norms, promoting refugee return and working for peaceful, inter-ethnic co-existence... I hope you will be able to respond equally positively across the whole region."

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## What groundrules for major corporations and local partners?

Participants outlined the many challenges faced by the Balkans and discussed framework conditions that would allow local economies to benefit while providing outside investors with an adequate return. No easy task, moderator **John Whitehead**, the Chairman of the International Rescue Committee told participants.

However, the chaotic situation faced by unsuspecting businesses when they first arrived in the Balkans is gradually improving. The good news, he said, is that those who weathered the uncertainty of the emergency phase have an “inside track” that will open greater opportunities. Nonetheless, “there is no smooth sailing” when investing in the Balkans, commented **Baron Daniel Janssen**, the Chairman of the Board of Solvay. What is needed, in a nutshell, is “a level playing field, the rule of law and business ethics.”

The formula for success is to be a good corporate citizen and to go forward with courage and determination, said **Ivan Stancioff**, the Chief Executive Officer of Cresta Marketing, a company actively involved in bringing foreign investment to Bulgaria and SEE countries.

This is particularly important because “in our part of the world,

we have inherited a combination of Byzantine and Soviet bureaucracy and we must be careful not to add elements born in Brussels or Washington,” he added.

Participant **Evgeni Kirilov**, a member of the Parliamentary Assembly of the Council of Europe, pointed out that “my biggest problem in the Balkans is the bureaucracy in Brussels” and commented that there have been far too many delays under Stability Pact projects.

**Nigel Thompson**, Chairman of the UK Government/Private Sector Kosovo Task Force, added that it is important to help the Kosovars understand a market economy, for many “would like to go back to the pre-Milosevic halcyon days of a controlled central economy.”

There is no doubt that partnerships involving the private sector are one of the best ways to help major corporations enter the marketplace and contribute to reconstruction, he said.

The positive experience in Kosovo to date has demonstrated this. By the private sector working with the UK government, the EU and UNMIK, reconstruction is underway and more importantly for the longer term, training and the development of management skills for future local partners and local enterprises.

Developing local capacities is key if the region is to prosper. This involves the full participation business paralleled by a process

leading to full economic integration with the EU, appealed **Aleksandar Dimitrov**, the Minister of Foreign Affairs for the Republic of Macedonia. He appealed to participants to become actively engaged now because the situation is “urgent and critical.”

Public investment cannot substitute for private sector engagement, said **Rory O’Sullivan**, the Special Representative of the Joint World Bank Group for SEE Reconstruction. At the same time, it is important to note an important trend tipping the balance between public and private investment. There is a major change in the way investments are being made in the region. In the past, it was a mix of 80% by public institutions and 20% by businesses.

Today, it is exactly the opposite, he noted. Increased private sector investment represents a major change in the move to a market economy and the creation of “a more friendly investment environment.” SEE countries are not there yet, but this will change, they are “turning very sharply and growing at quite a pace.” Projections are much more positive this year, O’Sullivan pointed out.

He noted that projects under the Stability Pact took some time to get organised and off the ground but “critics should revisit next year to see if the glass is half empty or half full.”

Dimitrov asked participants to pledge that “this will be the last meeting where we discuss how to

do something. At the next meeting, we can discuss prosperity.” He called on business, the international community and EU national governments to go beyond discussing investment to find ways to secure political stability.

The delay in implementing the Stability Pact has “given the wrong message” to all countries in the region, Dimitrov commented. The purpose of this conference is to find concrete ways to assist them in their economic development, because in its absence, democracy can never flourish. The region is at a critical crossroads.

### ***Courage and imagination***

Several speakers lauded Solvay’s investment in Bulgaria in 1996, at a time when the country was again under communist rule, completely bankrupt and pressured by the IMF to sell off some of its crown jewels.

The reasons Solvay went forward with such a major investment (it bought the state-owned Sodi Devnya in 1997, the largest soda ash plant in the world for \$160 million followed by a subsequent investment of \$60 million) were twofold - both European and pure business reasons.

Janssen pointed out that the Balkans are a part of Europe and that SEE needs peace and prosperity: “These countries have suffered enough during the last 50 years of communism while we

were free. We can now finally help them.”

The pure business reasons are that SEE countries represent enlarged, growing markets if peace is back and they are closer and culturally easier than doing business in Asia.

It has been a win-win situation, although “business has not been easy.” The company is consolidating with the purchase in August 2000 of main local suppliers of raw materials. The advantages for Bulgaria are that foreign direct investment help spread the benefits of knowledge and competition much faster and involves a deeper integration of economies than does trade.

“This is the simple logic of 1996 with the South East European Cooperative Initiative (SECI) and in 1999 with the Stability Pact,” he said. “We need to do what the Marshall Plan did for Western Europe.”

Solvay’s investment in Bulgaria, which turned out to be a very good strategic decision, took “guts and foresight” at the time, O’Sullivan pointed out. The World Bank now rates Bulgaria highly as an investment destination.

Under the Stability Pact, the World Bank is supporting the Trade Facilitation Project in six SEE countries to improve the movement of goods through facilitating transport, he added.

Stancioff pointed to what was in reality a long-term investment on

Solvay’s part as “an example of courage and imagination.” He noted that when the Solvay president in Varna was faced with potential union problems, he sent his two communist-trained union leaders to meet with union leaders in Italy.

“This also took courage and imagination,” he said. Other Belgian companies to be lauded include Union Minière, Amylum and Interbrew. There will be room for others to demonstrate these same qualities when the work of the SECI is put into place.

SECI, supported by the governments of Austria, the US, Italy and Switzerland promotes regional development by concentrating on facilitating cross border trade, crime reduction, regional infrastructure development and post-war reconstruction. SECI is working with the UN Economic Commission for Europe and the World Bank in cooperation with the Stability Pact and has proposed two “practical projects” that should provide concrete practical results for the region while avoiding duplication:

?? An energy development framework in the areas of natural gas, electricity and energy saving.

?? A project to analyse the effectiveness of the investment and insurance guarantee schemes - fundamental to further investment in the region. Large companies make

investments without such guarantees, such as what UniCredito Italiano has done in what it calls New Europe (Poland, Slovakia, Slovenia, Croatia and Bulgaria), but small investors need guarantees.

Over the past four years, SECI has been instrumental in working towards harmonisation of border customs procedures so as to facilitate trade and the World Bank has provided a loan to allow for the refurbishing of customs buildings, providing electronic equipment and training of personnel. This will avoid graft, speed up traffic and go far towards building normal commercial relations.

An example of good partnership is that Bulgaria and Macedonia have agreed to share the same border post, thus avoiding the cost of duplicate buildings and “hopefully coordinating their coffee breaks, so as not to hold up traffic!” Stancioff explained.

Dimitrov pointed out that Macedonia is in a period of “intense activity” in trying to implement an economic system through reform and reconstruction. However, the ongoing cooperation of international financial institutions is critical to this process.

### ***Focus Kosovo - some valuable lessons***

Thompson’s Task Force was set up by the UK Secretary of State for the Department of Trade and

Industry on 10 June 1999, the same day the UN set up UNMIK for the civil administration and KFOR for security. The Task Force is comprised of private sector leaders from the power sector, water industry, construction, manufacturing, consultancy, UK government and trade representatives. Its purpose was three fold:

- ?? To help the Kosovar people rebuild their country and economy.
- ?? Provide coordination for the UK private sector in the reconstruction of Kosovo.
- ?? Ensure that the UK private sector worked well together and seamlessly with the different departments of the UK government and the European Commission.

Thompson quoted the White Paper on Enterprise Development Strategy, prepared June 2000 by UNMIK, which noted that:

“Kosovo’s economy has been damaged not only by war and years of neglect, it also has been held back because it has not made the transition to a modern, open and market-based system integrated into the European and world economy. The task is not to rebuild the economy of the late 1980s. It is to build an efficient, modern economy.

The establishment of a viable, productive and growing economy in Kosovo means establishing a vigorous private sector.

There is no alternative; state or socially owned enterprises and economies simply do not work well enough to provide the growth, new jobs and the new investment Kosovo needs if it is to meet the aspirations of its people.”

This is the challenge, and it likely holds true for most SEE countries.

The Task Force provided an expert team funded by the EU and the UK government to manage the rundown coalmines and near-derelict power stations through the emergency phase of the first winter. It was “a nightmare task.”

The Serb management had left taking vehicles, equipment and know-how with them. UNMIK was understaffed and under-qualified and bureaucratic constraints prevented the EU from providing a sufficient cash flow to make the necessary repairs, provide spare parts and starter fuel to keep the generators working without blackouts. The damage was not so much war damage as ten years of serious Serb neglect, a total lack of maintenance and now a lack of equipment, spares, fuel and a dearth of local management skills.

A team of six expatriates tried to manage 9,500 Albanian Kosovars, provide training and supply all the

necessary paperwork to the EU for supplies and salaries, run the coal mines, keep three power stations generating electricity, repair and run the transmission and distribution systems, make recommendations for institutional reform and restructuring for a huge, loss-making state enterprise and do so without the complete cooperation of all parties. (For example, the self-appointed Kosovo Electricity Company considered it should have complete autonomy and not be answerable to UNMIK.)

The contract finished May 2000, but two of the team of six stayed on. The management of the coal mines, the power generation, transmission and distribution is now being supervised by Electricité de France and a consortium of private sector firms is being put together to continue refurbishing infrastructure.

A key to success and an essential requirement for any major corporation wishing to work in the region is a commitment to providing training and technical management transfer, Thompson emphasised.

As a beginning, to meet this need and provide some relief to the severe lack of technical skills and simple business management expertise in Kosovo, the Task Force has set up the Kosovo International Skills and Training Centre in Pristina. Funded initially by the UK government, it will be run by Crown agents and will focus on skills and management training,

training trainers for machinery and power sector maintenance, basic financial management and English language skills.

### ***Towards building sustainable solutions***

To encourage other major direct investments, several obstacles need to be overcome. These are discussed in more detail elsewhere in this report. However, Janssen outlined the basics, delivered May 2000 to Prime Minister Kostov in the name of the European Roundtable and all foreign investors:

- ?? More needs to be done to create a level playing field for all investors - local, foreign, small and big.
- ?? There must be better control over tax collection and tax evasion, especially VAT, duties and import taxes.
- ?? Continuous training is needed for government officials to implement rules and laws.
- ?? The morale of government officials must be raised.
- ?? Stronger public and private ethics must be introduced to fight crime, corruption and so on.

Janssen pointed out that most of the difficulties foreign direct investors encounter in the Balkans are of a political and administrative nature. These difficulties must be addressed, but in his view, there is

currently only one way to get that “quick help” and that is through access to the EU, first by negotiation and then by integration.

Stancioff agreed and added that businesses should be encouraged to use local talent. The brain drain must be addressed because in Bulgaria alone, it amounts 10,000 people a year. “Multinationals should identify and recoup the Western trained talent for local operations,” he said.

In addition, there should never be “baksheesh” or graft: “Never, never take or give bribes because once you’ve used the brown envelopes, you are dead. They’ll keep coming back for more and corruption will never end. Support local charities instead.”

**Richard Seebom** from the Quaker Council for European Affairs in Belgium pointed out that small businesses need special incentives to make the jump and asked whose role it is to help them do so. O’Sullivan answered that in post-war Yugoslavia there was no tax base. In the new system, it will be vital to reduce taxation on workers and to create a better taxation system that does not penalise small businesses.

In answer to a question about business opening private pension funds to provide some relief, Stancioff replied that people in the region had “worked for years under a system that has evaporated and are left with very little.” Inflation has wreaked havoc on

government pensions and mattress savings. The challenge to private pension funds is also one of culture, which “hopefully can be changed by businesses and investors leading by good example.”

Dimitrov urged participants to start with “some small but substantial and important step” towards attracting foreign investment, because without it, the region can never move forward.

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Are outside investors really being encouraged?

Investment in the Balkans has been - and remains - cautious and slow. This is not surprising, given the instability in the region and the dim hopes for progress in light of what Member of European Parliament **Emma Bonino** called “the black hole” of Serbia.

The powerful complicity that pervades all Balkan countries has reinforced a situation where in some instances, the anti-state forces are stronger and better organised than the state that should be fighting them.

“Only when the prospect for peace and stability is made concrete and when reconstruction appears possible will we be able to ask businesses and investors to assume the reasonable risk of taking part in the renaissance of this part of Europe,” she told participants.

If Serbia were to be governed by a democratically elected executive that respected the rule of law and international rights, there would be no more “crises with no way out” in Kosovo, Montenegro or in Vojvodina, Bonino observed. The tensions would not come to an end overnight, but if the political forces in these territories acted in a responsible, transparent manner, then the international community - and above all the European Union - would finally be able to devote itself to laying the foundation for political and economic reconstruction of the Balkan area.

To date, the EU has made far more use of hand outs (both necessary and opportune) rather than interventions capable of empowerment and giving partners the means and the know-how to set up a state based on democracy and justice, fuelled by a market economy.

“What projects capable of bringing development at a regional level, beginning with infrastructure such as roads, railways and telecommunications, could be initiated leaving out Serbia?” she asked.

Moderator **John Imle**, Vice Chairman Emeritus and Executive Advisor for Unocal Corporation, told participants that in his experience, the best business is done in places where the company entered early after conflict or change: “This entry is never easy and it is always controversial, but it pays off at the end of the day.”

James Lyon, the Director of the International Crisis Group, Sarajevo Office, added that many areas in the region are “donor dependent” in that a significant part of their GDP comes from foreign aid.

Considering Yugoslavia’s richness in natural resources and the amount of aid that has poured into the country since 1946, it should be the richest nation in Europe. The reasons it is not are primarily structural, he explained.

Participants discussed a number of obstacles to investment in the

region, including corruption, absence of the rule of law, cumbersome trade regulation and customs procedures, as well as cultural barriers.

Contract law is particularly weak and the legal systems simply do not function, Lyon pointed out. Mutually contradictory taxation and customs policies make it impossible to obey the law and governments often act the same as organised crime. The financial structures are hopeless. Today, to operate a business, “you should plan to operate illegally.”

In addition, he said, “the crown jewels” are still in state hands and may stay that way for quite some time. Many governments still limit asset ownership by foreigners to no more than a 49% stake, which dissuades investors.

United Nations Development Coordinator and Special Advisor to Kosovo, **Paolo Lembo**, told participants that Kosovo had “the most business unfriendly structure you could think of” and that in promoting the banking sector, there are “enormous obstacles that are fundamentally cultural.”

Peace cannot be sustainable unless supported by efficient development, which in turn cannot happen without the involvement of the domestic and foreign business community, he added. “Political and economic challenges are linked. How do we reinforce this lesson?”

A major cultural obstacle to overcome is the very image of FDI (foreign direct investment). **Eric Shaw**, the Vice President of Enron Europe, commented that there is perception among local decision-makers that by bringing in FDI, business is “colonising” the countries. “It is a zero sum game mentality. The attitude is that if someone is making money, someone else is losing it.”

With the issue of public money coming in to the region, there is inevitably a tension between effectiveness and cash flow, Bonino commented. Particularly with European Commission funds, there is a need for accountability. What is needed to overcome this situation is not just financial investment, but the construction of a mid-term political framework.

The bottom line is that the EU does not have a clear vision of how to deal with the region, she said. This is perceived by politicians and more so by the “sensitive antennae” of the business community, which has continued to remain at a due distance.

We need a clear vision

What has been obstructing any clear vision for the region and holding up the Stability Pact is the iron-fisted reign of Yugoslavia’s Milosevic. “Until now we were all aware of one simple truth that we preferred to ignore in the hope that events would alter the situation,” Bonino observed. “It was difficult if not impossible to

trigger the process of integration and/or a virtuous circle of democracy in a region at the heart of which stood a regime that produced nothing in the way of democracy, lawfulness or development, but on the contrary exported violence, lawlessness and poverty.”

The Stability Pact, launched in 1999 “with many good intentions and huge financial resources” has been a disappointment and a failure, according to Lyon and several participants.

“The Stability Pact reminds me of the fairy tale of the emperor with no clothes,” Lyon observed. “It has had no measurable impact on the region. It is just one more layer of bureaucracy. In short, a disappointment.”

Bonino commented that the Stability Pact needs to be “re-launched.” A clear political and institutional prospect for the entire Balkan area needs to be defined as well as the recognition of their right to join the European Community “if and when the necessary conditions exist.”

It appears that bureaucracy is slowing down the entire region. European Union funds allocated in 1996 for emergency aid for shelter in Bosnia and Herzegovina have still not been spent, Lyon added.

Participants generally agreed that the dynamic of EU enlargement, or “integration” as some preferred to call it, has a profound influence on events in the region. Once the EU

has “a clearer cut” on the process, business will have a better vision of where to go, commented **Mihaljinac Miroslav**, the Business Development Manager for the Technip Group in Italy.

Political risks are diminished if a country is deemed eligible for EU entry and NATO’s Partnership for Peace will also bring a dimension of added assurance for foreign investment, he said.

Bonino concluded that the lack of vision on the part of politicians coupled with reluctance by the business community to take risks is slowing down the region’s development. There are reasons for this that must be addressed immediately if this situation is to change.

Is accession the solution?

Participants were divided on whether focusing on EU enlargement, accession, integration or reintegration is a realistic way forward.

Bonino said she is “calling the EU’s bluff” in the absence of a realistic timetable: “If we talk about enlargement without speaking about timing, we risk causing a lot of disillusion and frustration. We could be speaking about the year 2050. Who knows? We must consider whether accession is a viable prospect right now rather than in the future. We have to determine how serious we are.”

She suggested that an interim step might be to create a South Eastern European confederation that would in turn develop a relationship with the EU.

Miroslav questioned her suggestion: “This is a dangerous idea because it would be a turn around in EU policy. Many countries are working hard to fulfil the criteria. The EU needs to put out precise rules on eligibility and stick to them.”

He was joined by **Blanka Jamnisek**, a Counsellor with the Mission of the Republic of Slovenia to NATO and the WEU in Belgium: “From a Slovenian point of view, EU membership is a very valid option for the region. This is a positive drive and we should not lose this momentum. The idea of a confederation does not work at this point in time.”

Lyon pointed out that enlargement may not be the “magical solution” to solving the region’s problems. Economic development and the necessary structural reforms are needed immediately. A more positive way forward might be to find the necessary tools to actively engage local politicians in the reform of economic structures, and thus create an enabling environment for FDI. What is needed is long-term regional stability, similar to what military occupation provided in post-war Germany.

Getting down to business

The pragmatic approach taken by the UNDP in Kosovo in first reforming trade regulation and customs rules came from understanding what was needed to concretely offer a degree of comfort to the foreign investor community, Lembo explained.

Reforming the trade regime was an important first step. Laws are still subject to disputes and activities fundamental to generating growth and employment are not yet in place and processing and manufacturing activities cannot yet be supported. However, re-tooling government is a lengthy process that must be supported by tackling corruption.

The issue of pervasive corruption was raised throughout the conference. According to Lyon, contract law is “less valuable than toilet tissue because at least toilet tissue serves a purpose.”

It’s time to get down to business and “define what structural economic, societal and political systems are needed in the area,” he added. Economic reforms should be put into place immediately in the international community’s two protectorates - Bosnia Herzegovina and Kosovo - to attract foreign investment.

Laws supporting most types of FDI and short-term trading deals are in place, Shaw told participants, but it is the unpredictability of their enforcement that is pushing away

FDI. In his experience, publicity and embarrassment are two very important weapons in fighting corruption.

In the absence of citizen advisory groups or watchdog agencies, he suggested that the Business Advisory Council to the Stability Pact could serve as a clearinghouse for exposing bad behaviour.

One area to watch is the environment. Lyon gave an example of a German company that tried to purchase a cement company in Bosnia. Once the purchase was on track, the government shut down the plant citing environmental reasons. The company pulled out. Environmental issues are important, he said, but they must be kept in perspective as they are sometimes used as leverage or bribes to force foreign investors to clean up entire industries.

Lembo added "we are going to have to make some painful decisions about environmental issues in the very near future."

In focusing on infrastructure, do not ignore medium-sized businesses, warned **Otmar Kaschig**, the Chairman of NBLD

Ost Consult Holding in Germany. Private investment is not being encouraged because for projects between €1 million and €10 million, there is no assistance.

Lembo pointed out that the lack of a range to meet the needs of SMEs is an impediment to good ideas: "There is certainly potential, but there are not sufficient resources in this area."

Bonino agreed that the "impasse that has prevailed for over a decade" must be addressed. What has flourished is an anti-state culture and criminal forms of economy based on trafficking of every kind - drugs, arms, smuggled goods and a trade in human beings destined to fuel illegal immigration or prostitution.

"While the integration advocated by our Stability Pact has failed to take off, what has developed with the speed and pervasiveness of a malignant tumour is the activity of various Mafia, which are perfectly in tune with the dynamics of globalisation," she added. "The European Union and the rest of the world has to come to terms with this dynamic and deal with it."

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## **Business and a coherent reconstruction effort: the road ahead**

Speakers generally agreed the road ahead will in many respects be a rather difficult one. It is true that the uncertain politics of the Balkan countries as they strive to rebuild their societies - often from ashes - makes it difficult for private sector companies and multilateral agencies to establish clear-cut relationships. Several messages emerged from this session, with the need to send help now being the strongest, followed by the need for communication networks to enable the potential of the information age.

Cumbersome, institutional red-tape must be cut to get programmes up and running and funds flowing; immediate technical assistance is needed in several areas, particularly in institution building and in creating a transparent regulatory framework; the private sector must be stimulated and there must be stronger and more coherent political will from both the EU and the international community. Over-arching all of these concerns is the imperative for an equally strong commitment by governments of the region.

The question, "What concretely has to be done so that the international and domestic business community can play a full role in reconstruction projects?" appeared to have a straightforward answer. The EU and the international

community must make helping SEE countries create an enabling environment for business investment and local entrepreneurship a priority if there is ever to be sustained peace and stability in the region.

Moderator **Danuta Hübner**, Executive Secretary of the United Nations Economic Commission for Europe, challenged speakers to confirm that business has an important role to play in civil society. "This must be considered in light of the role of another partner - the international community," she said.

Several speakers agreed with **Michael Carbine**, the Chairman of the Central and Eastern European Working Group of UNICE, when he pointed to a litany of broken promises from both the EU and international players as well as the Stability Pact as western failures in the region.

**Fabrizio Barbaso**, Director for Western Balkans for the European Commission's Directorate General, External Relations, told participants the EU is "making an effort without precedent" to favour Balkan reconstruction and to support sustainable democratic and economic progress.

The EU has embarked upon a strategy rooted in regional development with economic development as its centrepiece. To this end, the EU is contributing to a more secure environment through its efforts to fight corruption and organised crime, to establish

efficient customs systems and to train judges and police. This, according to Barbaso, “contributes indirectly to favour domestic and foreign investments and business.”

(Since 1991, the EU has delivered assistance programmes in excess of Euro 4.5 billion. This year, a total of Euro 576.5 million has been allocated for the region and more than 60% is already committed. For next year, there is a proposal for Euro 800 million, taking into account the specific needs of Serbia and aiming to launch new regional initiatives in the field of trade as well as justice and home affairs.)

Those involved in reconstruction would do well to look at what has happened so far in Bosnia and Herzegovina, said **Werner Blatter**, the Chief of Mission for the United Nations High Commissioner for Refugees. Each country has its specificity, however, it is apparent that there are no clearly defined boundaries between the humanitarian, infrastructure reconstruction and economic reconstruction phases - as much as possible, they must take place concurrently.

What all SEE countries have in common is that their economies are either totally destroyed or do not fit into today’s globalised market economies. New approaches and different types of industries must become a cornerstone of the recovery effort if the legacy of the communism economic system is to be truly overcome, he added.

An optimistic **Patrick Bourrier**, Corporate Director of International Affairs for Alcatel, reminded participants that the Internet revolution is at everyone’s fingertips, including those who live in the Balkans. The Internet could serve as “a digital bridge” towards the free trade area soon to be under construction in the region.

“This is the right time for the Balkans to leapfrog technology and jump-start into the 21st Century immediately through engaging in the information age,” he said. “Now that peace and stability are coming back to the region with an array of structural reforms intended for better living and working conditions, the new technologies can make it happen at both incredible speed and at affordable cost.”

To do this, a technology-wise, seamless, interoperable regional telecommunications network must be created - one that leaves room for each country’s identity and goals in terms of culture, language, beliefs, economics and politics. Through this network, SEE countries can enrich one another while strengthening the Balkan identity within the larger community of Europe, Bourrier said. There is plenty of room for European IT companies to help move this objective forward quickly.

***Bilateral and multilateral cooperation - a foundation for reconstruction?***

To promote synergy and to avoid duplication, the EU has opened a close dialogue with various bilateral and multilateral partners to maximise efficiency and to promote further regional links and cooperation, Barbaso told participants.

This type of coordination is essential if efforts to bring the Balkans forward are to succeed. He pointed to the Regional Funding Conference, held in cooperation with the World Bank where the EU pledged almost €1.1 billion. EU action is focusing on basic regional infrastructures that are essential to the economic development of the region.

“We want to build upon this approach by intensifying our cooperation with the various leading agencies and the private sector,” said Barbaso. “Regional action is critical to ensure the coherence of international action and to create better conditions for private sector companies and multilateral agencies.”

There must be cooperation at all levels if a strong civil society is ever to flourish in the region, Carbine commented. This involves setting up chambers of commerce and organisations representing employers and unions as well as encouraging community groups that reflect people’s interests. To do this, the EU and international

agencies must also develop trust in other players, something they have to date shown themselves incapable of doing.

“Trust involves openness and an inclusive attitude,” he said. “If we want open, honest and transparent business, we need to behave in the same way. Let’s get over our broken promises and give them what they really need - money and involvement.”

According to Carbine, it was not necessary to create a structure (the Stability Pact) to tackle the region’s immediate needs. The EU approach is to guide countries along the path to integration while slowly building institutions and regulatory structures is cumbersome and non-transparent. “No wonder the man in the street is disillusioned,” he added.

Bourrier pointed out that emerging economies do not necessarily have to go through the same industrial sequences as the developed ones. This leapfrogging exercise will require trust and long term commitment as well as a great deal of multilateral and bilateral assistance supported by NGOs and private initiatives in several fields.

Speakers agreed with his comment that nothing will happen without a clear congruence on common goals, a committed working relationship and smooth coordination of the efforts of politicians at EU and member state level, financial institutions (World Bank, European Bank for Reconstruction and Development, European

Investment Bank and European Reconstruction Agency), banks, private investors, operators and suppliers.

### ***Stimulating the private sector***

The primary institutional and government response to stimulating private sector involvement is the Investment Compact for the SEE region, launched under the auspices of the Stability Pact. Seeking to establish an efficient and non-discriminatory investment framework, the Compact features several interrelated actions:

- ?? Strengthening the independence of the judicial system and ensuring the enforcement of the rule of law
- ?? Enhancing stability, transparency and predictability of the legal and regulatory framework
- ?? Removing bureaucratic obstacles to the creation of new businesses, both small and foreign-owned.
- ?? Creating a simplified and balanced tax structure that fosters business development, including that of SMEs.

“To accomplish this, there must be a strong commitment from governments of the region as well as technical support and assistance from the international community,” Barbaso commented.

He noted the EBRD’s regional private sector initiatives - the promotion of cross border trade

and investment and regional coverage of SME support. They are designed for large private projects that promote inter and intra-regional commercial linkages and to meet the need of SMEs for broad access to the full range of existing and planned support programmes.

In addition, the International Finance Corporate provides valuable support to SME development, including through its Balkan Enterprise Facility, funded by the IFC in partnership with donor countries.

Barbaso pointed out that the EU already has a liberal trade regime with the region - more than 80% of trade from the countries of the region enters the EU duty free. A recent decision has been taken to enhance the current preferential regime with a view to the ultimate goal of creating a free trade area in SEE.

An important stimulus to growth and investment will come from the creation of new small businesses and foreign investment, from market expansion and from building an efficient public and private infrastructure. This means creating a vibrant private sector exchanging goods and investing freely across borders in a region itself integrated closely with the larger European and world economy.

South Eastern Europe is increasingly becoming a place with considerable investment opportunities, according to Barbaso, taking into account its

geographic position at the border of the Community's internal market, its competitive labour costs and its highly qualified labour force.

SEE entrepreneurs need encouragement and positive examples. To this end, he agreed with Carbine on the need to create mixed bodies, composed of foreign and local business people to discuss and identify local economic potential and possible investment opportunities.

Added Barbaso: "In parallel, cooperation between EU public administrations and private business, which in some EU countries has assumed the form of specialised task forces, can be a strategic tool to draw up *ad hoc* programmes of development and investment."

For example, activities of specialised joint bodies, such as the EU-Bosnia and Herzegovina and the EU-Croatia consultative task forces aim to prepare the legislative and administrative framework for sustainable economic development and progressive rapprochement to the Community *acquis*, particularly in the economic and trade field. Several meetings of these bodies have included dialogue with local and foreign investors to hear about their experiences and make specific recommendation to the local authorities on how to improve the situation.

The lessons being learned in Bosnia Herzegovina could be applied in other SEE countries. For example, Blatter reported that before the

war, the paper factory in Maglaj and the aluminium factory in Mostar employed multi-ethnic workforces. It is vital that private sector investors maintain the principle that only if the multi-ethnic demographic composition of the pre-war situation is reflected in the workforce, can real progress, stability and reconciliation be achieved.

### ***Reconstruction continues in Bosnia Herzegovina***

The reconstruction of housing stock through 96 major reconstruction efforts has taken place throughout Bosnia Herzegovina, Blatter reported. However, despite the continued need for reconstruction of destroyed houses, it is now economic development and reconstruction that has to be given priority.

It is important to remember that when considering economic reconstruction, several Dayton related factors must be kept in mind, "for only if all aspects are implemented evenly can we really talk about stability and economic development."

Common institutions must be established and strengthened, the return of refugees and IDPs (internally displaced persons) must be completed and last but not least, a unified curriculum must be put into place in all schools and at all levels.

“Real progress has been achieved over the past five years, but much remains to be done,” Blatter told participants. “Rule of law must be established, the railway system and road transport infrastructure must be repaired and upgraded and most importantly, the country has to overcome the legacy of the communist economic system.”

### ***Creating a digital bridge***

**B**ourrier envisions a rapprochement with Europe and European standards within ten years. In the field of information and communication, the Balkan region does not start from scratch. In fact, he reported, the telephone density is not low compared to certain other regions in the world and the region is sufficiently cabled using the latest technologies.

Today’s initial network of terrestrial and submarine fibre-optic links will be the core of the anticipated backbone that will move international voice and data flows onto the multiple information highways being built by flourishing pan European operators. And like everywhere else in the world, the wave of cellular telephony is catching on in most countries.

A number of impediments are blocking the desired take off, Bourrier observed, including:

?? Universal service and access to telephony is not sufficiently developed in several areas and the mobile local loop is not evenly scattered.

?? The various systems in place are not always connected to each other, making inter-networking difficult if not impossible. This holds true for public/incumbent telecom networks as well as for other public utilities such as railways, highways, power lines and pipelines.

?? Liberalisation is going far too slowly, with governments hesitating to sell off their national assets.

?? Parallel creation of the necessary independent regulatory bodies is in many cases still lacking, despite the fact that the deregulation is the best tool countries have to spur market development.

Despite these obstacles, there is room for European telecom operators and suppliers to move in and move in quickly.

“The ultimate goal is to install a modern network accessible to all, fit for the demands of the impending information society and its countless applications,” he said. “This network must be compatible with European standards and hence interoperable with EU networks.”

Bourrier observed that this effort will take years and will entail national legislation to respond quickly to attract FDI, ensure interoperability and to draw and enforce the rules for the introduction of or acceleration of competition.

Several EU programmes could assist in this effort including the Euro Info Centres, PHARE or the European Social Fund, he noted. Already the EU DANTE project is set to interconnect National Research Labs across an enlarged Europe while GÉANT will create a high-speed network. EUMEDIS, the Europe-Mediterranean Information System, is to encompass a much broader area from Finland to Africa and the Middle East.

“The Internet explosion is about creating a digital bridge to the world’s wealth of knowledge through instant, broader and deeper than ever communication,” he said. “Here, technology is user friendly. Learning how to use it is easy. It is a fantastic springboard for personal as well as collective knowledge-based development through massive deployment.”

Balkan-wide access to the Internet would bring multiple benefits to the region, according to Bourrier. To name a few:

- ?? High capacity of newly established trading networks should help bypass structural bottlenecks due to remote locations, too long supply chains, lack of field experience, inefficient administrative or transport infrastructure.
- ?? A greater visibility of and access to initiatives from both the public and private sectors will provide bridging platforms rather than merely witnessing

?? the poor transposition of models from developed economies onto more fragile ones.

?? A wider access to Internet will allow for the integration of a much larger number of actors and beneficiaries of electronic commerce.

?? More democracy, transparency and speed introduced in trade exchanges should also help decrease if not end some perverse effects - too often institutionalised - such as corruption, red tape or political black out.

Long term, through the revival of a personal and family feeling of security, the creation of jobs locally and the renaissance of an entrepreneurial spirit, “migrants to be” will settle for good with a sense of hope mixed with growing pride and enthusiasm, Bourrier added. As a concrete step forward, he called on the European Commission to re-initiate in 2001 a 1998 project that attempted - but failed - to bring all telecommunications ministers in the Balkans to the same table to plan how to create a homogeneous interconnected communications network.

“This time the ministers should be invited together with the private sector, including operators, suppliers, potential investors and financial institutions,” Bourrier recommended.

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Workshop

A blueprint for effective business-humanitarian action in the Balkans

Workshop participants identified the obstacles to a positive business role in the region and agreed that the spirit of entrepreneurship fuelled by private business initiatives are driving forces for change. Moderator **Christophe Bouvier**, the Division Chief of UNOPS, set the stage for discussion by asking for concrete suggestions of how best to bridge the gap between emergency reconstruction and long-term reconstruction.

Participants agreed that this will require a strong alliance between civil society and business as they work together to find new avenues for mutually beneficial cooperation.

The landscape is much the same across the region, according to **Konstantin Vuk Savicevic**, General Director of ORAH.com, a Geneva-based venture capital company. All countries share the same key characteristics:

- ?? Although privatisation is very slow, development of the private sector did continue despite wars and sanctions.
- ?? War profiteering, the grey economy and political elite businesses prevailed in economic life.

?? Middle-aged entrepreneurs lead private sector development.

?? Part of the state owned most valuable assets moved into private hands as the quickest directors took considerable control over the business channels and directed most of the activity to their private entities.

?? The market size narrowed and became segmented.

?? The international community supports NGOs, but it appears that little is done to develop a for-profit approach.

Similarly, all SEE countries share a “prevailing sense of envy” when looking at the countries of Central and Eastern Europe, observed **Svetozar Janevski**, General Manager of Pivara Skopje, a major privatised beverage manufacturer in Macedonia. In recent years, financial support to CEE countries has been ten times higher - \$ 120 billion in FDI against \$10 - 12 billion to SEE. The regions have approximately the same population and size and while some may view the CEE regulatory regime as more advanced, it cannot be ten times thus, he observed.

Countries this poor cannot easily build market economies and democratic societies:

?? GDP per capita is around \$2,000.

?? There is a low level of industrialisation, with about 10 to 30% participation of industry in GDP.

?? There is no significant degree of agricultural production.

?? Unemployment rates are as high as 30 to 50%.

“The transition to a market economy and democratic institutions has either been inconsistent or simply gone astray,” he said. “The progress in economic liberalisation, stabilisation, privatisation and reconstruction has been slow or non-existent.” Fortunately, this is beginning to turn around with today’s “dramatically positive changes” in the rate of increase of GDP and the pace of reforms, particularly in Macedonia, Bulgaria and Croatia.

Janevski’s cup-is-half-full attitude was shared by Savicevic, who pointed out that despite all the destruction, wars and sanctions, economic energy did not dry up: “On the contrary, it is very vibrant and there are many people and companies who are very healthy and capable to grow their businesses, which contributes to regional stability.”

Participants agreed with Janevski’s call for an effective classical development strategy that focuses on infrastructure and education while at the same time supporting business and commerce. This is important because one of the unexploited major advantages of the region is its highly regarded human capital. However, investments must also be aimed at resolving the high unemployment rate. To achieve this, the EU should set criteria to this end.

The picture is considerably bleaker in Albania, reported **Vebi Velija**, Founder and President of the Veve Group. The characteristics shared by countries in the region are “regrettably more pronounced” in Albania, where the number of private businesses dropped from more than 60,000 SMEs in 1996 to 46,000 in 1999.

The political-economic crises and the destruction over the past three years have produced irreparable consequences for the prospective development of local and foreign businesses in Albania, he pointed out, and the challenges are exacerbated by “total indifference and an abandonment of private businesses by international financial institutions.”

Velija pointed to a pilot project Veve initiated to promote the development of Librazh, aimed at building on the potential and traditions in the area by setting up factories to process tobacco, potato products and medicinal herbs. The project did not require large financing, however the Veve Group encountered “the full indifference of the World Bank.”

Added Velija: “By virtue of its humanitarian and development mission, business development should be supported by the international community, which so far has only been engaged with the political aspect of life in the region and the resolution of political conflicts. It has done almost nothing to heed the voice of private business or to assist it.”

A holistic approach is needed in the region, confirmed **Thierry Vandeveld**, Head of the Humanitarian Mission and Crisis Management Department at Générale des Eaux-Vivendi. Until now, relief agencies and major NGOs have been left alone to react to a major crisis facing a large number of people.

“Today, it seems clear that only an approach that combines public authorities, international organisations and major private sector groups specialising in urban services can provide an effective, long-term response,” he said.

Because of myriad challenges, those wishing to do business in the region should serve as role models, or “older brothers”, remarked **Serge Ameye**, the President of the Belgian Business Club for the Balkans. Ameye’s company, a midsize group that manufactures ingredients for bakers and confectioners, has been very successful in the Balkans with returns of more than 100% year after year in Romania.

“Our success is not due to the ease or size of the market,” he told participants. “We were first on the market, we worked with capable and honest local partners and we have a management team that is a dream team.”

Finding a “dream team” on the ground is possible, but not easy, participants agreed. For this, and many other reasons, the Diaspora element must be addressed. Millions of people left the region

for political and economic reasons. It is now time to encourage them to return and play a role in the region’s future development.

The obstacles

The obstacles are many and participants generally agreed that they are same throughout the region (with the exception of Velija’s description of the environment in Albania). The challenges faced by Macedonia are the same as for other SEE countries, Janevski told participants:

- ?? The high cost of doing business in areas affected by undeveloped infrastructure.
- ?? The deterioration of human capital, although Croatia and Macedonia are in a more favourable position compared to Albania, Bosnia and Romania.
- ?? Environmental degradation.
- ?? The formal and informal barriers to trading and investments.
- ?? Institutional weaknesses.
- ?? Fragile integration of the region with the rest of Europe.

Other challenges outlined by participants include:

- ?? A politicised business environment.
- ?? Blatant disregard for the rule of law.
- ?? Fragmented small markets.
- ?? Currency - some countries are coping with an ongoing monetary crisis and hyperinflation.

?? Inconsistent accounting procedures.

Participants agreed that as well as encouraging foreign direct investment, attracting venture capital and fostering the spirit of entrepreneurship, development programmes are needed to revive citizens' associations and NGOs.

To move forward, the countries must boldly pursue an agenda of reconstruction, market reforms and privatisation in parallel with institution building, state building and instilling the rule of law.

A very practical consideration would be to address the landmine situation in the region, pointed out **Cornelio Sommaruga**, President of the Geneva International Centre for Humanitarian Demining in Switzerland. Landmines are a "serious problem" that business could help address. To help build solidarity, business could also try to influence authorities in the area of missing persons.

Breathing new life into human capital

The region has been ravaged by a decade of violence and conflict, leaving its citizens to cope in an environment described by Janevski as "persistent agony, uncertainty and hopelessness." This situation has produced people with a "totally new mental constitution", many of whom have lost any hope of survival.

"As a result, many tend to be uncreative and intolerant, perhaps even destructive and their behaviour is often aggressive," he observed. "This is the normal state of affairs in SEE today."

The results of a September 2000 survey of Macedonian citizens are a reflection of how most SEE people feel about their lives:

- ?? 25.6% of the citizens expressed feelings of indignation and discontent
- ?? 20.4% expressed feelings of distress
- ?? 11.7% feel desperate and helpless
- ?? 9.8% feel resigned
- ?? 4.5% express fear
- ?? 19.3% are optimistic
- ?? 8.7% had no opinion

More than 80% were moderately to strongly negative, Janevski pointed out. In addition, 72.5% assessed the overall economic situation as being bad, 5.5% described it as good and 18.8% were undecided.

ORAH.com is putting a lot of emphasis on the power of Diaspora, Savicevic told participants and is trying to bring people back by offering regulated investments platforms and involving them in active business communication. Their future role could be significant because they:

- ?? Have great financial potential.
- ?? Have knowledge, ideas and market experience due to living and working in the western world.

?? Could assume an important role in business cycles by acting as marketing and sales centres, while the production base is kept in the region at a lower cost.

“In this area, the creation of online business communities could serve a significant long-term development purpose,” he added.

Italy and other EU member states spend millions of dollars to keep Albanian refugees who use these countries as a springboard to travel to other countries. This is both ineffective and destabilising, commented Velija. Instead, efforts should be coordinated to assist the Albanian private sector to create jobs and thus diminish emigration rates.

Indeed, the “brain potential” is often an underestimated factor in the Balkans, Ameye observed. The quantity and quality of education is far superior than in other emerging markets.

However, if the incomes of the population do not increase through employment, his businesses and those of other investors will perform less and less.

Time for realpolitik

Any political party in power dislikes independent companies, Janevski observed. Politicians are self-centred and sometimes short-sighted. In his opinion, the business environment

is still too politicised. As a result, management is under pressure and should balance long-term strategic goals with current activities and prepare for short-term external shocks.

Pivara Skopje, a highly profitable company and a positive example of privatisation, did not get the praise it deserved, even though no one could say anything negative, he said. The company was burdened by the problems of both the government and the opposition. This situation is exacerbated by the lack of maturity of political parties and leaders.

“Politicians fail to form a system that will provide relatively equal working and living conditions because most of them still belong to the former system,” Janevski explained. “They still want to rule the people, not to serve them.”

In this regard, SEE countries are still far from forming a fully democratic society and from having a vision for a full fledged market economy, he said.

It is also time for the EU to engage in realpolitik when it comes to accession. Moderator **Jean Freymond**, the Executive Director of the Business Humanitarian Forum Association, pointed out that it is time to start realistically managing expectations.

“We must lower the expectation that these countries will soon be part of the EU,” he said. “The EU has promised and promised and cannot deliver. We must focus our

energy on supporting local entrepreneurs.”

Building bridges between foreign and national interests

For various cultural and historical reasons, there is at times “a dose of xenophobic sentiment” running throughout SEE countries, Savicevic noted. As a result, direct and open inflow of foreign capital, large multinational presence and deal making may create resentment and opposition towards accepting proposed deals. Tensions resulting from these sentiments could become a source of future political friction as there are some groups who interpret deal making as anti-patriotic.

A way to reduce these negative effects is to act locally and present oneself as a business group that lives the same problems as local entrepreneurs and shares their concerns.

“We must be able to show understanding for their real problems, but be firm in enforcing business rules as we want them,” he said. “Local businessmen will become part of venture capital structures and build bridges between foreign and national interests.”

Businesses must demonstrate that cooperation between investors and businesses benefits local societies, creates employment and generates wealth. People must be assured that business is proposing win-win deals, not some old-style colonial approach.

“Being sufficiently local helps us to be in the midst of deal flows and enables us to protect our capital to a greater extent,” Savicevic added. “The existing laws do not offer seamless protection of foreign capital.”

Business has an essential role to play both in regional development through partnerships but above all in the “humanisation” of the Balkans, Velija observed.

Ameye’s many ventures succeeded because “we were smart enough to know we could not do it without local partners . . . they didn’t know our business, but they certainly knew the country.”

In the absence of prodding and support from the international community SEE countries will never develop democratic and free market institutions, Janevski commented. SEE players require “tutoring and incentives” to make them equal and respectable partners of European enterprises. To this end, ORAH.com, for example, is developing partnerships for training potential managers in companies that meet the criteria for investment.

Setting the stage for foreign investment

The markets are too small for many types of investment where scale is a determining factor of profitability, Ameye told participants. Some countries represent an economic interest less than half that of a midsize European city or small town. The

barriers between some of these countries are huge handicaps as well as differences in language, culture, currency and most important of all, import duties and regulations such as quotas. Participants agreed that a free trade area is needed if these barriers are to be overcome.

The market may be narrow, but it is a potential market of 22 million people, Savicevic pointed out. Local capital markets are just developing as banks are wary of risk taking and population savings rates are low. These factors combined with the lack of government budgets to support large-scale economic expansion underscore the obvious need for foreign investment.

ORAH.com believes that along with other means of financial assistance, this space shall be filled by active venture capital initiatives (VCs) and profit oriented ventures. The new breed of VCs engage in much more than investing; they carry the socio-political responsibility and strive to play an important role in overall economic development and transition process. "Our job is about making money in a socially responsible way," he said.

In this way, together with local business communities and entrepreneurs a new class of business owners will be created and supported who "will not allow destructive political leaders and their individual ambitions to prevail over economic growth and wealth creation."

Some ground level key elements to support transitions and generate profit from the Balkans include developing local partnerships, identifying and narrowly focusing on a particular target group, active marketing and use of Internet and other media channels, joint work with organisations to provide management training and creating alliances with VC associations.

Savicevic noted several possibilities an investment group could consider - large privatisation of state monopolies, privatisation of other state assets and private SMEs and start ups.

In his view, established SME companies, private or in the process of privatisation are "the only healthy economic tissue" as they operate in the space between large state deals and political corruption and small scale trading or corner shop type businesses.

SMEs are attractive because they are existing small industries with proper production facilities, expertise and established market presence. The owners have proved their abilities to survive and grow business in the most difficult environments and have managed to cut and defend their space in a tough market coloured by unfair competition.

With VC assistance, they will be in a position to step into new phases of business evolution and embark on higher value creation cycles. They are ready to step from batch to serial production, move into

export markets and embark on new product development.

“They are ready to grow, generate returns and become true backers of the new era,” Savicevic said. “We look for strong intellectual property embedded in the company. Portfolio companies must be able to become market leaders in three years and be able to beat the competition. They need an already established position on the market and a developed presence in neighbouring countries.

Janevski reported that Macedonia has experienced a positive and synergetic relationship with foreign strategic investors. They should be welcomed and encouraged to invest over the long term by way of financial incentives, the proper legal infrastructure and available exit strategies.

Strengthening the rule of law

Conference participants in all sessions raised the issue of corruption and rule of law. Nothing is more frightening for investors as insecurity, particularly from a legal point of view.

Ameye pointed to a tax holiday that was cancelled by the Romanians with no possibility of appeal. Bribing public officials is commonplace and done in the open. Financial police often raid companies, particularly western ones, whenever the government is in financial need. Often there is no possibility of dialogue as the

written reports fall under the same code of secrecy as military intelligence.

This must change, he said, and one way to do it would be to make governments and their administrations accountable to an international supreme court, much like EU governments. Balkan countries should be encouraged to adopt International Accounting Principles and taxation should become transparent.

Smuggling, corruption, organised crime and bureaucratic corruption must be addressed if the region is to ever prosper, Velija added.

To address these issues, the courts and other law enforcement branches should be revamped and the protection of property, industrial and intellectual rights as well as the securing of fair competition should become priorities, Janevski observed.

VCs operating in the region will establish working communication and exchange information, Savicevic told participants. Creating bodies of official representation of VC interests before local governments and industry associations is also key.

Protecting capital is prerequisite for success: “It is almost certain that in some cases we will deal with people who want to abuse our business relationship. In this instance we must be able to show firmness in protecting our capital and insist on the rule of law.”

The humanitarian dimension

Disaster, whether natural or man-made, is increasingly affecting urban populations. This is not surprising considering that in 20 years, about half the world's population will be living in urban centres. As a result, future disasters will very rapidly escalate to considerable dimensions.

The utilities required for daily life - water, sanitation and waste collection - are usually the first to be affected, resulting in dramatic public health consequences.

In most cases, public authorities are not armed to meet crisis situation, particularly in developing countries, leaving relief agencies and NGOs to cope. But due to growing urbanisation and the complexity of systems, it is becoming increasingly difficult for them to do so without external support.

In response to this situation, Générale des Eaux-Vivendi set up a permanent unit, Water Force, dedicated to crisis management and relief as well as development actions in a humanitarian framework. The unit is a permanent part of the International Technical Division of Vivendi Water with a team of five permanent people based in Paris. More than 50 technicians and specialists volunteers are on call to participate in field missions with a back up of more than 100 volunteers.

With an annual budget of \$2 million, Water Force has responded to crises in China, Central America, Turkey, Albania and Kosovo. In June 1999, Water Force was mandated by UNMIK to assist and manage the Mitrovica water company. The operation demanded more than 2,000 working days in the field by engineers and technicians.

Lessons learned from this experience were manifold, but the need to better organise the transition from the emergency phase to the development phase is essential, particularly with regard to public services.

“An effective management requires an overall approach to the emergency, post-emergency, reconstruction and development phases,” Vandeveldt told participants. “This involves integrating the repair of facilities, their operation in difficult conditions and their future integration into renovated public services.”

Success depends on an integrated approach that brings together all the players.

Preparing for the future

Participants had many suggestions on how to improve the region's business climate, ranging from introducing the euro in 2002 to creating a free trade zone. Velija offered a blueprint for reform that could also serve for SEE countries:

- ?? Sustainable political stability and the proper functioning of the state is vital for economic development. The state should focus on developing infrastructure, facilitating the movement of people, security issues, creating public calm and establishing order.
 - ?? A legal framework must be developed to legally protect private sector activities and production.
 - ?? Normal working relations must be established between business and banks, focusing on mutual responsibilities and commitments. The state's role is to regulate monetary policies and establish a balance between business and private banks.
 - ?? Customs and taxation must be reduced and red tape cut. New businesses should be exempt from a number of taxes until they become consolidated.
 - ?? Customs taxes must be constantly reduced and eventually eliminated for machinery and equipment used for production.
 - ?? Exports should be tax exempt.
 - ?? Free zones should be created to promote intensive business development.
 - ?? Centres and agencies that promote development should be encouraged to give business representatives information concerning investment opportunities, the legal framework, potential cooperation with regional companies and information about new markets.
 - ?? There should be fiscal stimulation of rural zones. Agro-processing industries must be encouraged.
 - ?? Regional cooperation should be enhanced by cross border cooperation.
- Until recently, the region knew only occupation and abuse by the outside world. "We turned inwards and took up weapons because violence is what life taught us, Janevski observed. "It's time for us to learn a different language, the language of communication, growth and investments. We must learn about the joys of entrepreneurship and, most importantly, we must learn to belong to the family of nations rather than being excluded from it."
- Added Savicevic: "The Balkans have come to the end of the painful 20th Century, now it is time to enter the 21st Century with a new, fresh set of values."

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