

# **SOUTH EAST EUROPE 2020: ANNUAL REPORT ON IMPLEMENTATION FOR 2017**

July 2017



## Contents

PART 1.	Overview .....	6
1.1.	Introduction .....	6
1.2.	Purpose of the Report.....	6
1.3.	Current status of SEE 2020 and Progress Towards Meeting its Targets.....	7
1.4.	Recommendations .....	12
PART 2.	Review of SEE 2020 Growth Pillars .....	15
2.1.	Integrated Growth .....	15
2.2.	Smart Growth.....	21
2.3.	Sustainable Growth.....	33
2.4.	Inclusive Growth .....	46
2.5.	Governance for Growth .....	55
Annex	.....	66

**List of tables:**

Table 1: Progress towards SEE 2020 Regional Headline Targets .....	10
Table 2: SEE 2020 Target 4 – Intra-regional Trade in Goods (% of GDP) .....	15
Table 3: SEE 2020 Target 5 – FDI Inflows (EUR million) .....	17
Table 4: Implementation of Integrated Growth actions during 2016/2017 .....	19
Table 5: SEE 2020 Target 6 - GDP per person employed in EUR.....	22
Table 6: SEE2020 Target 7 - Number of highly-educated persons in the workforce.....	23
Table 7: Implementation of Smart Growth actions during 2016/2017 .....	29
Table 8: SEE 2020 Target 8 – Net Enterprise Creation.....	34
Table 9: SEE 2020 Target 9 - Share of Energy from Renewable Sources in Gross Final Energy Consumption.....	35
Table 10: Transport Network Capacity Assessment .....	35
Table 11: Co-financed projects .....	36
Table 12: Implementation of Sustainable growth actions during 2016/2017.....	41
Table 13: SEE 2020 Target 10 – Employment rate, age group 20-64 .....	47
Table 14: Overview of employment measures prioritised in the ERPs for 2015, 2016 and 2017 cycles .	49
Table 15: Total health expenditure as % of GDP from 2010 to 2014 .....	51
Table 16: Implementation of Inclusive Growth actions during 2016/2017.....	53
Table 17: SEE 2020 Target 11 – Government Effectiveness .....	56
Table 18: Implementation of Governance for Growth actions during 2016/2017.....	60
Table 19: Overview of the recommendations contained in the Joint Conclusions of the Economic and Financial Dialogue Between the EU and the Western Balkans and Turkey, May 2017.....	66

**List of figures:**

Figure 1: WB6 intra-regional vs. extra-regional trade growth.....	16
Figure 2: Early leavers from education and training from 2010 to 2015 (age group 18-24) .....	24
Figure 3: Tertiary education attainment (age group 30 – 34) .....	25
Figure 4: Public Gross Expenditure on Research and Development (as % of GDP).....	26
Figure 5: Progress towards creation of regional electricity market .....	37
Figure 6: Public opinion on the main challenges in SEE6.....	48
Figure 7: ALMP spending as a share of GDP in the region compared to EU, total and by category .....	50
Figure 8: Main obstacles as perceived by business .....	57

**List of boxes:**

Box 1: SEE 2020 Regional Headline Targets and the challenge of statistics in the Western Balkans.....	8
Box 2: Recognition of Professional Qualifications .....	32
Box 3: Western Balkans Enterprise Development and Innovation Facility (WB EDIF) .....	40

**Abbreviations and acronyms:**

<b>ALMP</b>	Active Labour Market Policies	<b>PECI</b>	Projects of Energy Community Interest
<b>ARI</b>	Annual Report on Implementation of SEE 2020	<b>PEM</b>	Pan Euro-Mediterranean Convention
<b>CEFTA</b>	Central European Free Trade Agreement	<b>PES</b>	Public Employment Services
<b>CERT</b>	Computer Emergency Response Team	<b>PPS</b>	Purchasing Power Standard
<b>CET</b>	Common External Tariff	<b>R&amp;D</b>	Research and Innovation
<b>CESEC</b>	Central and South-Eastern European Gas Connectivity	<b>RAI</b>	Regional Anti-corruption Initiative
<b>EC</b>	European Commission	<b>REC</b>	Regional Environmental Centre
<b>EDIF</b>	Enterprise Development and Innovation Facility	<b>RES</b>	Renewable Energy Sources
<b>EE</b>	Energy Efficiency	<b>RESPA</b>	Regional School for Public Administration
<b>EIB</b>	European Investment Bank	<b>RWG Env</b>	Regional Working Group on Environment
<b>EnC</b>	Energy Community	<b>RWGJ</b>	Regional Working Group on Justice
<b>ERI SEE</b>	Education Reform Initiative in South East Europe	<b>SAA</b>	Stabilization and Association Agreement
<b>ERP</b>	Economic Reform Programme	<b>SEE 2020</b>	South East Europe 2020 Strategy
<b>ESAP</b>	Employment and Social Affairs Platform	<b>SEECEL</b>	South East European Centre for Entrepreneurial Learning
<b>ETF</b>	European Training Foundation	<b>SEEHN</b>	South East Europe Health Network
<b>EU</b>	European Union	<b>SEEIC</b>	South East Europe Investment Committee
<b>FDI</b>	Foreign Direct Investment	<b>SEE JTI</b>	South East Europe Judicial Training Institutions Network
<b>GDP</b>	Gross Domestic Product	<b>SEELS</b>	South East Europe Schools of Law
<b>GHG</b>	Greenhouse Gas	<b>SEETO</b>	South East Europe Transport Observatory
<b>GWP-Med</b>	Global Water Partnership Mediterranean	<b>SES</b>	Single European Sky
<b>ICT</b>	Information and Communication Technologies	<b>SME</b>	Small and Medium-sized Enterprise
<b>ITC</b>	International Trade Centre	<b>SOE</b>	State-Owned Enterprise
<b>ITS</b>	Intelligent Transport Systems	<b>SWG RRD</b>	Standing Working Group on Regional Rural Development
<b>IWW</b>	Inland Waterways	<b>TAP</b>	Trans Adriatic Pipeline
<b>JRC</b>	Joint Research Centre	<b>TCT</b>	Transport Community Treaty
<b>JSPA</b>	Joint Service Provision Area	<b>TEN-E</b>	Trans-European Energy Networks
<b>JWG MRPQ</b>	Joint Working Group on Mutual Recognition of Professional Qualifications	<b>TEN-T</b>	Trans-European Transport Networks
<b>LFS</b>	Labour Force Survey	<b>UNCTAD</b>	United Nations Conference on Trade and Development
<b>M&amp;A</b>	Mergers and Acquisitions	<b>UNFCC</b>	United Nations Framework Convention on Climate Change
<b>MRA</b>	Mutual Recognition Agreement	<b>VET</b>	Vocational Education and Training
<b>MSC</b>	Marie Skłodowska – Curie Programme	<b>WB6</b>	Western Balkans Six
<b>NALAS</b>	Network of Associations of Local Authorities of South-East Europe	<b>WBIF</b>	Western Balkans Investment Framework
<b>NEEAP</b>	National Energy Efficiency Action Plan	<b>WGI</b>	Worldwide Governance Indicators
<b>NREAP</b>	National Renewable Energy Action Plan	<b>WGIP</b>	Working Group on Industrial Policy
<b>OECD</b>	Organization for Economic Cooperation and Development	<b>WISE</b>	Regional R&D for Innovation Centre

## PART I. OVERVIEW

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### I.1. INTRODUCTION

The South East Europe 2020 Strategy (SEE 2020) was adopted by the ministers of economy of seven South East European economies<sup>1</sup> on 21 November 2013. Inspired by the EU's 2020 Strategy it seeks to boost prosperity and job creation and to underscore the importance of the EU perspective to the region's future through coordinated cooperation across a number of important policy dimensions. The adoption of SEE 2020 was driven, in part, by a need to reverse the negative trends evident in the aftermath of the economic crises through a concerted regional approach to economic development.

SEE 2020 was put forward to provide a roadmap to accelerating socio-economic reform and speeding up measures to modernize and reindustrialize the economies, create more jobs and deliver better living standards for the population. The Strategy itself is based on a set of interlinked development policy pillars that seek to stimulate long-term drivers of growth, articulated in a shared vision for region's development. The pillars include:

- Integrated growth: by way of promotion of regional trade and investment policies and linkages that are non-discriminatory, transparent and predictable.
- Smart growth: by committing to innovate and compete on value added rather than labour costs.
- Sustainable growth: by raising the level of competitiveness in the private sector, enhancing connectivity through infrastructure development and encouraging greener and more energy-efficient growth.
- Inclusive growth: by placing greater emphasis on developing skills, creating employment, inclusive participation in the labour market and health and wellbeing.
- Governance for growth: by enhancing the capacity of the public administration to strengthen the rule of law and reduce corruption, by creating a business-friendly environment and by delivering public services necessary for economic development.

### I.2. PURPOSE OF THE REPORT

This Annual Report on Implementation is the main output of the monitoring process of the SEE 2020 implementation. This report covers the period June 2016 to May 2017 and is divided into two parts:

Part I provides a summary overview of the progress achieved, issues arising and a reflection on some of the lessons learned and overall recommendations to adapt and strengthen the Strategy to meet the challenges of a dynamic political and economic environment in which it operates.

Part II contains a detailed review per each pillar, including:

- (i) The progress made towards reaching the various national and regional targets set for each pillar and an assessment of the probability of the target being met by the individual economies;
- (ii) A summary of the key achievements and activities under each policy dimension and an outline of specific challenges, followed by conclusions and recommendations for each policy area.

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<sup>1</sup> Albania, Bosnia and Herzegovina, Croatia, Kosovo\*, Montenegro, Serbia and The Former Yugoslav Republic of Macedonia.

\*This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.

### **I.3. CURRENT STATUS OF SEE 2020 AND PROGRESS TOWARDS MEETING ITS TARGETS**

Similar to last year's ARI findings, the region has seen varied progress in SEE 2020 implementation. The context in which the policy makers in the region operated changed constantly with both political and economic factors influencing the Strategy's implementation and performance of the economies.

Various regional cooperation processes and initiatives that took place over the past year were heavily influenced by the political developments in the region. The Berlin Process and the Paris Summit maintained the focus on connectivity, with additional funding pledged for improving road, rail, air, water-bound and energy connectivity in the region. The upcoming Trieste Summit is expected to continue with the approach, as infrastructure investment gap in the region is vast – the road and rail transport infrastructure needs are, for instance, currently estimated at EUR 9.64 billion.<sup>2</sup>

Notwithstanding the progress made on connectivity, there is a strong awareness emerging that infrastructure development, while sorely needed, will not itself provide the necessary boost to help the Western Balkans converge faster with the rest of the continent. This is being picked up at the political level as well, with the Sarajevo Leaders' Summit held in March 2017 articulating a clear endorsement for closer regional economic integration, with guidance on preparing a comprehensive action plan ready for the next Summit.

The political dynamics in the region, particularly the extended periods of instability in some parts of the region, have not allowed the materialization of the full potential of investments and growth. The effect of such political developments is manifold – it reduces investment inflows and increases the cost of capital, as investors are pricing in the political risk; it hinders the capacity of governments to implement much needed reforms; and it seizes up business activity within the economies, heavily dominated by public sector spending and often inefficient state-owned enterprises (SOEs).

In economic terms, the region has returned to a steady, albeit modest, growth pattern, with positive trend expected in the coming period. Over the period 2015-2016, private consumption and investment were the main growth drivers. Further short-term growth will also be supported by a gradual recovery of credit activity and major infrastructure projects. A particularly welcome development is the underlying rebalancing of the economy that has been happening over the past five years, with steadily increasing exports and somewhat subdued imports. This has led to a considerable reduction of the overall negative trade balance that the region has with its trading partners, from more than -22% of GDP in 2010, to -19.6% in 2015.

Another (qualified) success story has been the return of employment growth. The Western Balkans economies have managed to add almost 380,000 jobs in the previous five years. Although performance widely differed between the economies, the trend is easy to spot and is expected to continue into the next year as well.

Looking at the performance on SEE 2020 targets, it is important to note several challenges that the SEE 2020 monitoring and coordination structures had to cope with during the reporting period, including: withdrawal of Croatia from SEE 2020 monitoring; the need to quantify the new targets selected by the

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<sup>2</sup> SEETO Multi Annual Plan, 2016

Governing Board; mitigating methodological differences between different national data; limitations of existing targets, and other challenges outlined in Box 1 below.

**Box 1: SEE 2020 Regional Headline Targets and the challenge of statistics in the Western Balkans**

SEE 2020 is based on a set of headline targets that SEE governments agreed jointly in the process of preparing the SEE 2020 Strategy and adopted by the SEEIC Ministerial Meeting during 2012. The target-setting process was led by a regional Task Force on SEE 2020 targets composed of representatives of SEE governments, facilitated by the RCC, and with OECD's technical assistance.

The 11 underlying indicators selected for the headline targets were chosen based on data availability, methodological comparability, and relevance to ensure that each SEE 2020 economy will be able to report annually on progress in each of the targets set. However, several methodological changes implemented over the past period (such as those to the LFS data), breaks in data series, and data revisions have impacted data quality and comparability. Finally, becoming an EU Member State and joining the Europe 2020 framework, Croatia has withdrawn from the SEE 2020 monitoring effort impacting further the regional SEE 2020 aggregates which no longer include the Croatian national targets.

All of the SEE 2020 economies are also harmonizing and aligning their present methodologies and practices with the statistical acquis and integrating them into the European Statistical System. In practical terms, this often means methodological changes that break comparability within a specific time series as well as limit data comparability between the economies that have already implemented these methodological changes and those that are yet to do so.

One development that has had a significant impact on the monitoring of SEE 2020 and measuring progress on Strategy's headline targets has been the withdrawal of Croatia from the SEE 2020 monitoring process during the reporting period. Although part of the initial group of economies that developed the SEE 2020 vision, its targets and the Strategy, Croatia has since joined the EU as its most recent member and has taken over numerous responsibilities, including the monitoring of EU 2020 targets, thus making its participation in the SEE 2020 monitoring process superfluous.

Apart from having an obvious impact on the quantification of regional headline targets (as Croatia holds roughly 30% of economic activity of the SEE7 group of economies), Croatia's withdrawal from the monitoring has had a profound effect on their composition as well. All of the data on regional baseline and targets included in this report has been revised to accommodate this change. An immediate result of this change is the substantially diminished comparability of results achieved during this year with those achieved in the previous period. In some specific cases, the targets themselves need further revisions by the WB6 economies as they do not segregate between different regional economies. Such is the case with Target 4 – Intra regional Trade in Goods, which includes current and targeted trade flows between all seven economies, including Croatia.

Furthermore, measuring progress on a heterogeneous set of indicators such as those used in the SEE 2020 context carry some inherent challenges. The region has undergone an extremely volatile period in 2009-2015 (with a double-dip recession), and this volatility is amplified in the measurement of progress towards targets as well, as the progress measures the level of achievement of the target, using the 2010 figures as the basis.

Some of the targets are focused only on the most recent annual data, rather than being illustrative of a trend, which can result in misleading or oversimplified conclusions in terms of results. Such is the case with the FDI target which compares the annual FDI inflows with the target, rather than looking at the FDI stock increases, and this is insufficient to capture a longer-term trend. Net enterprise creation target has similar limitations.

Moreover, not all targets are created equal. The level of accomplishment on individual targets depends largely on the ambition contained in the national target. In other words, several SEE 2020 targets exhibit a substantial difference in national ambition which affects the level of effort needed to reach them. For example, on the 20-64 employment rate target, Serbia and The Former Yugoslav Republic of Macedonia envision a 9.9 and 9.4 percent increase, while Albania and Montenegro's target have been more conservative, targeting a 3.3 and 4.8 per cent increase, respectively.

Beneficiaries have further suggested using measurements such as progress measured in absolute figures and/or national contribution to the regional target. The national contribution is already captured in the regional aggregates and averages, as they are usually pondered by various relevant data illustrating economy size (GDP, population, employment, etc.)

While challenges in regional statistical cooperation are many, steps are being made to mitigate them in the SEE 2020 framework. Acting on the proposal by Eurostat and guidance of the SEE 2020 Governing Board, the Monitoring Committee has agreed to replace four targets to address some of the shortcomings in terms of data comparability and relevance. These targets include:



Previous SEE 2020 Target	New SEE 2020 Target	Rationale for changing the target
Target 3 - Trade balance, trade in goods and services (% of GDP)	Target 3 - Trade balance, trade in goods (% of GDP)	Methodological differences in compiling trade in services statistics in the region prevent direct comparisons. Eurostat recommended using the new indicator for the target.
Target 4 – Intra-regional trade in goods (EUR)	Target 4 – Intra-regional trade in goods (% of GDP)	Regional trade integration would be better measured through the new indicator monitoring the relative share of intra-regional trade to GDP, rather than using absolute figures. Eurostat proposed the new indicator for the target.
Target 9 - Exports of goods and services per capita (EUR)	Target 9 – Share of renewables in gross final energy consumption (%)	The old target did not capture well the developments in the Sustainable Growth pillar dominated by energy, environment and transport dimensions. The new target manages to encompass progress on all three sectors. Indicator for the target proposed by Eurostat.
Target 10 – Employment rate – age group 15+ (%)	Target 10 – Employment rate – age group 20-64 (%)	The new indicator is aligned with the one used under the Europe 2020 framework, enabling comparisons with EU MS developments. Eurostat proposed the new indicator for the target.

The four new headline indicators are being presented in this Report along with the 7 that have remained unchanged throughout the SEE 2020 implementation. To provide the proposals for actual 2020 national and regional targets as per above indicators, RCC has commissioned a forecasting exercise of employment and trade patterns that came up with the new set of proposed targets for the new indicators. The exercise was based on the Cohort Simulation Model (CSM) for employment and gravity model for trade-related targets, backed up by a Delphi survey of experts, where 26 responses were received from experts in each of the SEE 2020 economies to arrive at consensus figures that are presented as newly proposed SEE 2020 Targets 3, 4, and 9 in the Report. These are merely considered forecasts, as indicated in this Report, until they are confirmed by the SEE 2020 Governing Board.

Furthermore, Eurostat's technical assistance for SEE 2020 headline targets has also become available and is currently being implemented in the national statistical systems throughout the region. This technical assistance will not be limited only to the SEE 2020 targets, but will also address other supporting indicators selected by the SEE 2020 Monitoring Committee to help measure progress on SEE 2020.

Monitoring of SEE 2020 is an evolving process. Regardless of the limitations and challenges, there is a strong consensus that targets have proven to be a valuable tool in signalling political will to work together and strengthen accountability for results, and have helped raise awareness and steer policy discussions at regional and national levels. The issues listed above will be put forward to the SEE 2020 Monitoring Committee for consideration and further action during the next reporting period.

However, even with these several caveats, dynamic comparisons are still possible between the WB6 economies, allowing identification of some important trends and developments in SEE 2020 implementation.

Looking at the (revised) regional headline targets, it is evident that the region is having a diverse performance in different policy areas (Table 1)<sup>3</sup>.

<sup>3</sup> Progress from baseline towards target is measured as the level of achievement of the target, using the 2010 figures as the basis. This is calculated as a delta between the most recent data and baseline, divided by delta between target and the baseline of the indicator  $\left(\frac{A(y_1-x)}{A(y_2-x)}\right)$ , expressed in per cent, where 0% means no progress on the target, while 100% indicates full achievement of the target.

**Table 1: Progress towards SEE 2020 Regional Headline Targets**

SEE 2020 Headline Indicator	2010 (baseline)	2011	2012	2013	2014	2015	2016	2020 (target)	Progress from baseline towards target
<b>Overall Strategic Goals</b>									
1. GDP per capita relative to the EU average (in PPS), %	32	33	33	34	33	34	n/a	40	17%
2. Total trade in goods and services (EUR million)	54,686	62,972	63,638	67,032	69,965	73,004	78,261	129,500	32%
3. Trade balance, trade in goods (% of GDP)*	-22.1	-23.3	-23.7	-19.5	-20.5	-19.6	n/a	-20.8	192%
<b>Integrated Growth</b>									
4. Intra-regional trade in goods (% of GDP)*	10.6	11.0	10.5	10.1	10.2	10.1	n/a	14.3	-15%
5. Overall FDI Inflows (EUR million)	3,587	5,879	3,023	3,689	3,614	4,517	4,578	7,300	27%
<b>Smart Growth</b>									
6. GDP per person employed (EUR)	26,597	28,917	29,363	29,683	28,960	n/a	n/a	36,300	24%
7. No of highly qualified persons in the workforce (mil)	1.09	1.14	1.27	1.36	1.47	1.55	1.61	1.44	146%
<b>Sustainable Growth</b>									
8. Net enterprise creation (no. of companies)	29,639	30,927	30,579	34,416	31,958	32,622	26,872	26,790	n/a
9. Share of Renewables in Gross Final Energy Consumption*	27.1	20.2	21.7	25.9	30.0	24.0	n/a	31.8	62%
<b>Inclusive Growth</b>									
10. Employment rate - age group 20-64, %*	48.7%	47.6%	47.0%	47.8%	48.8%	49.4%	51.4%	55%	57%
<b>Governance for Growth</b>									
11. Government's effectiveness, WGI (scale 0-5)	2.21	2.24	2.30	2.30	2.44	2.41	n/a	2.65	52%

Source: Eurostat, WB national statistical offices, WB central banks, Worldwide Governance Indicators, RCC calculation

\*Targets 3, 4, 9 and 10 are new indicators as per decision of the SEE 2020 Governing Board. The 2020 values for targets 3, 4 and 10 have been proposed by the RCC to the SEE 2020 Governing Board, based on the forecasting exercise done during the reporting period (see Box 1).

While each of the 11 targets selected by the SEE 2020 economies is discussed in further detail in Part 2 of ARI, including comparisons between different economies, the rundown of the regional headline targets reveals the following:

- The **growth and convergence target** (Target 1 – GDP per capita relative to the EU average (PPS)) has shown steady if slow progress on this key indicator of region's relative wellbeing. With Croatia out of the regional aggregates, this target was revised considerably downwards, revealing that the Western Balkans Six region currently stands at 1/3 of EU average, a sobering statistic. The speed of catch up depends on the pace of addressing the challenges holding back the region's private sector from developing its full potential - i.e. better economic institutions and an enabling business environment. The improving external environment now creates better conditions for renewed convergence towards EU living standards, but the pace ultimately depends on the implementation of wide-ranging structural reforms.
- Similarly, **the progress on the trade growth** (Target 2 – Total including both goods and services) **has reached only 32% of the desired target at 2020**. It is important to note that while trade in goods (and especially exports) has been increasing substantially, the services trade have been mostly stagnant, revealing an area ripe for policy intervention, such as the ongoing liberalization of trade in services under the CEFTA framework.
- As noted above, the trade balance target (Target 3 – Balance of trade in goods as % of GDP) recorded substantial progress, revealing that the **region met and exceeded its target<sup>4</sup> for the end of the decade**. Strong export performance reveals that after the initial shock of the 2009-

<sup>4</sup> This regional headline target replaced the previous target 3 (Balance of trade in goods and services, % of GDP), as per decision of the SEE 2020 Governing Board. The target value for 2020 was proposed by the RCC based on a forecasting exercise of trade balance, trade of goods, and intra-regional trade of goods (see Box 1).

2012, the region's economies have managed to rebalance towards more export-led growth, indicating increasing competitiveness of its goods on external markets (mostly EU).

- The share of intra-regional trade in GDP, however, has been mostly stagnant with a slight downward trend, **as revealed by a negative progress on Target 4**<sup>5</sup>. This demonstrates that even after more than 10 years of having a free trade agreement in place, the economic operators in the region are either having difficulties breaking away from their domestic markets and crossing the borders with their goods and services, or, those that do trade with external partners, find the EU to be a preferred partner. While the overall trade with countries outside of WB6 grew by more than 37% in the 2010-15 period, the intra-regional trade has expanded by only 12% (Figure 1, page 16), thus further shrinking the share of intra-regional trade in overall trade.
- The second Integrated growth target (Target 5) – increasing the FDI inflows from EUR 3.6 billion to EUR 7.3 billion in 2020 – has seen a modest increase, at 27% of the target, but the trend seen so far indicates that **the region might miss the FDI target by the end of the decade** unless more decisive reforms are implemented both in terms of investment policy as well as improving the overall business environment. The region lags significantly behind the EU in terms of FDI stock per capita received and potential for closer convergence in this area is considerable.
- The two Smart growth targets (Target 6 – GDP per person employed and Target 7 – number of highly qualified persons in the workforce) have seen varied performance. Progress towards the target 6 has been restrained even though there have been annual variations and is currently at 24%. It is important to note significant differences between the economies in terms of performance, and the negative correlation with the employment numbers (given that employment is in the denominator of this indicator). **The Target 7 has been achieved by the region already in 2014**, with 500,000 highly qualified persons added to the workforce between 2010 and 2016. However, this increase did not result in a boost to productivity (as measured by Target 6 as a proxy), which would be expected given the considerably increased level of qualification of the workforce in a relatively short time period.
- The data on Target 8 - Net enterprise creation - includes newly registered companies in most cases (rather than actual net enterprise creation) which prohibits measurement against the set target. However, the data is still illustrative of a **fairly stagnant trend in terms of the number of new enterprises formed**, with only slight increases during the period, although there are some significant differences between the economies, discussed elsewhere in the report.
- The region has also shown good progress on increasing the **share of renewables in gross final energy consumption** (Target 9), with the targeted 32% share of renewables within reach.<sup>6</sup>

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<sup>5</sup> This regional headline target replaced the previous target 4 (Intra-regional trade in goods, EUR), as per decision of the SEE 2020 Governing Board. The target value for 2020 was proposed by the RCC based on a forecasting exercise of intra-regional trade in goods (see Box 1).

<sup>6</sup> This target replaced the previous indicator on exports per capita, as it was decided by the Governing Board that it captures better the developments under the Sustainable Growth pillar. The targeted value in 2020 was taken from the national commitments taken in the National Renewable Energy Action Plans developed under the Energy Community Treaty framework.

- The **most encouraging trend is illustrated by the employment target<sup>7</sup> (Target 10) measuring the increase of the overall employment rate**. The progress towards the target in 2016 stands at 57% and the reversal in the negative employment trends has been decisive. After initial contraction of the labour market, the region has seen employment expand by approximately 380,000 jobs in the past three years. Should this trend continue, this key SEE 2020 target should be within reach by the end of the decade. It is important to note here that performance was not uniform across the region with the largest share of new employment going to a handful of economies.
- Finally, the **performance on the governance target (Target 11) has also seen good progress with more than half of the targeted increase since 2010 already reached**, although some setback is evident in the last year observed. However, as in last year's report, caution is advised in terms of over-interpreting the progress made, given that the target itself was set rather conservatively.

The overall progress can be summarized as a long-awaited rebound in terms of employment and trade rebalancing, driven mostly by private and public investment and rekindled demand in the main export markets. However, the regional aggregates are influenced mostly by a strong performance of Serbia and The Former Yugoslav Republic of Macedonia and is not uniform across the region. For a more sustainable and pronounced growth, the WB6 region will need to look to other key drivers of growth as well.

#### **I.4. RECOMMENDATIONS**

Western Balkans Six (WB6) stands at an important juncture. While the previous decade had brought the region's per capita GDP almost 8.5% closer to the EU average, this convergence has since halted to a standstill, narrowing the gap by only 1% over the past 5 years. Reform efforts are underway in most of the economies in the region to address internal structural weaknesses, but considerable growth potential can be unleashed through closer economic integration. National growth strategies have more chance of success if they are embedded in a consolidated system of regional cooperation in all relevant areas.

The foundations for a closer regional economic integration have already been laid. The EU accession process has aided greater harmonization between the economies as they align their respective legal and institutional systems to those in the EU; South East Europe 2020 as a convergence framework for EU accession was introduced with common regional targets; tariffs and quotas for trade in industrial and agricultural products have been eliminated and advances were made in trade facilitation and negotiations on trade in services; initiatives to remove obstacles for mobility of highly skilled labour are underway; the Connectivity Agenda is helping integrate the transport and energy systems both within the region and with the EU; and the costs of communications for citizens and businesses have been substantially reduced through ongoing efforts to cut roaming charges.

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<sup>7</sup> The previous employment target promoting overall growth of employment in the 15+ age group has been replaced with the one focusing on 20-64 age group, in accordance with the decision of the SEE 2020 Governing Board. The target value for 2020 was proposed by the RCC based on a forecasting exercise of employment, unemployment and participation rates in the region (see Box 1).

The Western Balkans 6 Prime Ministers acknowledged this at their March meeting in Sarajevo where they agreed to *“start working on a proposal for a joint approach to furthering economic cooperation in the Western Balkans through different initiatives in order to present them at the Trieste Summit, which could include for example on circulation of goods, services and capital, free flow of skilled workforce, a common digital approach and a dynamic investment space”*<sup>8</sup>.

This call for further regional economic integration needs to be coupled also with a set of pro-growth policies and instruments in a twin-track approach: on the one hand progress towards rule-based economic integration; on the other hand stimulation of business and of investment relationships. To reap the economies of scale and refocus the growth model towards more indigenous drivers of growth, WB6 will need to upgrade its human capital, invest in innovation infrastructure and move swiftly in digitizing its economies and societies to make them more resilient to the 21<sup>st</sup> century challenges. A strong partnership with the region’s half a million companies is needed to support this transformation.

This integration can be structured along three main results areas:

- **A regional economic area for goods, services and capital.** The cornerstone of the Western Balkans Regional Economic Area, the trade and investment integration, can be achieved through gradual and progressive, rule-based economic integration that would ultimately enable the unobstructed flow of goods, services, and capital throughout the region. This shared trade and investment space will increase the competitiveness of the Western Balkans and enable its business to consolidate regionally and reap the benefits of economies of scale, while ensuring that policy coordination and harmonization is based on compliance with the EU internal market requirements.
- **Facilitated cross-border mobility of skilled professionals, students, researchers and academics, integrated into professional and academic EU networks.** Local economic spill overs are generated by the regional agglomeration of activities, both in innovation-driven industries, as well as other service industries that follow high-technology. Thus, in order to establish and maintain international competitiveness, the retention and subsequent leveraging of human intellectual capital is of fundamental importance for knowledge-based economies. Facilitated high-skilled mobility and closer integration into regional and EU networks would make WB6 economies more competitive and attractive to larger domestic and foreign investors, facilitate competitive integration of the region’s workforce into the global workforce, while at the same time preparing the WB6 for EU membership.
- **A common digital approach.** Digitization exerts significant changes at all levels of value creation: revolutionizes industries and business segments, changes business models, re-creates value chains and re-addresses social issues. WB6’s integration in the pan-European digital market requires an updated legal and regulatory environment, improved broadband infrastructure and access to digital goods and services, and digital literacy so as to unlock the potential of the digital economy. Cross-border integration, harmonization of ICT infrastructures and interoperable and secure digital services present crucial vehicles and catalysts in this regard. Exploiting digital integration’s untapped potentials ensures the supply of innovative and competitive services to consumers and businesses and acts as an important lever for socio-economic development, high value jobs generation and vibrant knowledge-based society.

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<sup>8</sup> Statement from the WB6 Leaders’ Meeting, Sarajevo, March 16, 2017



## PART 2. REVIEW OF SEE 2020 GROWTH PILLARS

### 2.1. INTEGRATED GROWTH

*Integrated growth pillar's main objective is to contribute to the regional economic integration making the SEE more competitive in the global market. This is intended mainly by synergizing trade and investment, so as to promote transparent, predictable and non-discriminatory policies that enable free flow of goods, services, investments, financial and human capital throughout the region, and pave the way for its business to better integrate with the global economy. This pillar comprises three interlinked dimensions: A) Free Trade Area, with emphasis on trade facilitation and trade liberalization; B) Competitive Economic Environment that strengthens synergies between trade and related areas, such as competition rules, public procurement and intellectual property rights; and C) Integration into the Global Economy, which seeks to improve regional market integration and market access through a number of initiatives including completion of a single diagonal cumulation zone, implementing priority reforms to improve the business environment and promoting the region as an uniform investment space, and ultimately integrating regional economic operators into the global market.*

#### Overview

Under this pillar, the economies have agreed on two specific targets until 2020: (i) an increase in the intra-regional trade in goods as % of GDP<sup>9</sup>, and (ii) doubling of FDI inflows by 2020. These targets feed into the overall growth convergence and trade expansion targets, coupled with reducing the region's trade deficit. These are important building blocks of a vision founded on integration and promotion of regional trade and investment to support economic growth and job creation in the region.

Economy	2010 (baseline)	2011	2012	2013	2014	2015	2016	2020 (forecast)	Progress from baseline towards target
ALB	4.0	5.0	4.5	5.3	5.3	5.0	n/a	4.9	111%
BOS	12.2	12.7	11.1	11.5	11.7	11.3	11.4	11.5	-114%
KOSOVO*	18.3	18.6	17.5	14.7	15.2	15.3	n/a	12.8	-55%
MNE	25.6	30.7	32.7	30.6	27.8	25.9	n/a	25.3	-100%
SER	8.9	8.3	8.3	8.1	8.3	8.6	9.0	9.6	23%
MK'	15.0	16.8	15.4	13.1	12.7	11.9	11.5	19.7	-74%
<b>SEE6</b>	<b>10.6</b>	<b>11.0</b>	<b>10.5</b>	<b>10.1</b>	<b>10.2</b>	<b>10.1</b>	<b>n/a</b>	<b>14.3</b>	<b>-15%</b>

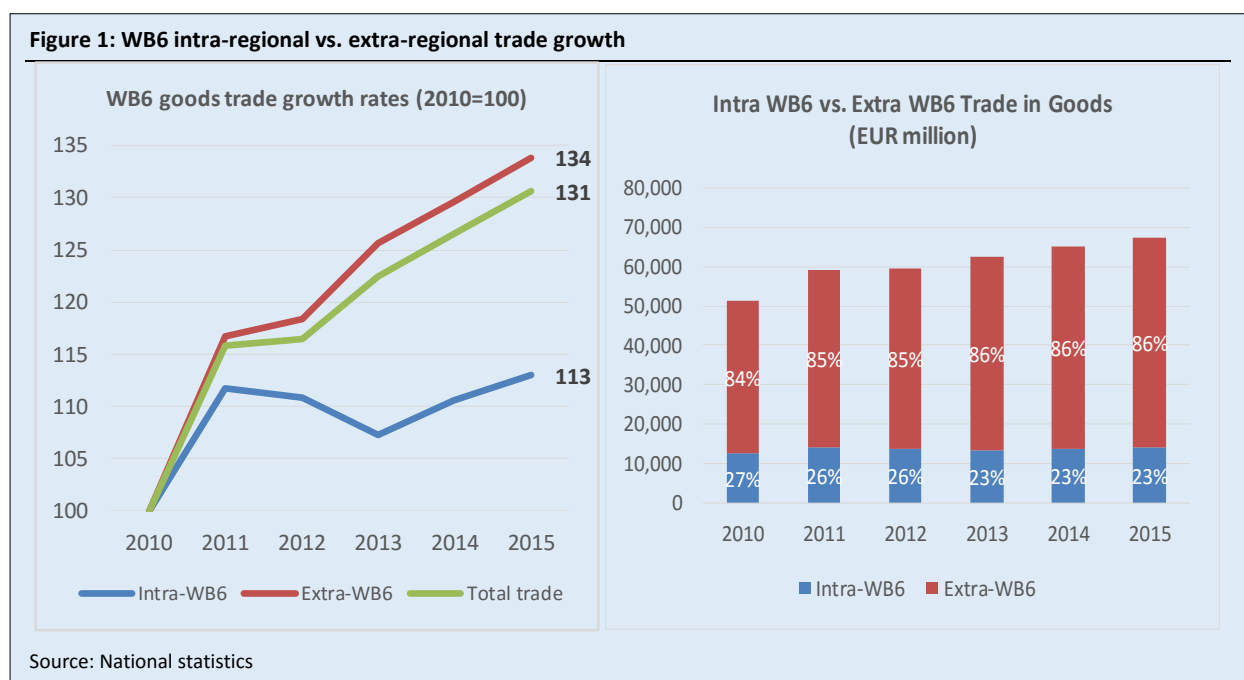
*Source: SEE6 National Statistical Offices, Central Banks, RCC calculation*  
*Note: New headline indicator, 2020 targets to be confirmed by the SEE 2020 Governing Board*  
*'According to the RCC Statute, the full name of MK is: The Former Yugoslav Republic of Macedonia*

The two integrated growth targets – expanding intra-regional trade and boosting FDI – have shown limited progress. The intra-regional trade in goods has been slowly contracting, with all economies except Albania and Serbia demonstrating a smaller share of intra-regional trade in the last year the data was available than in 2010. At the same time, the overall trade volumes in almost all economies have picked up considerably over the past several years, but most of the trade gains can be attributed

<sup>9</sup> Replacing the previous Target 4 – Intra-regional trade in goods in EUR. The new 2020 target is proposed by the RCC based on the forecasting exercise of intra-regional trade (see Box 1).

to trade flows with the EU. The growing trade divergence from the region is evident also by looking into the trade structure by partners, where intra-regional trade has dropped from 27% of overall trade in goods in 2010, to 23% in 2015 (Figure 1).

Despite existing liberal trade regimes (SAA, CEFTA, other bilateral trade agreements) and significant achievements in liberalizing intra-regional goods trade, the region’s private sector is still firmly anchored in the domestic markets, with low level of internationalization. Most of the private sector sales (85,5%) are generated on small domestic markets, with exports to the EU (7,7%) and the WB6 region (5,1%) being a distant second and third avenue of revenue generation<sup>10</sup>. Just as in the previous years, the findings of the Balkan Business Barometer reveal low level of internationalization of local companies, with majority of businesses reporting no plans (30%) or capacities (18%) to export, or consider their goods/services unsuitable for exports (36%), which seems to be a much larger hindrance on export growth than non-tariff or technical barriers.



The FDI inflows, while exhibiting a positive trend with gains towards the 2020 target, are still below the level needed to reach the ambitious objective of doubling FDI by the end of the current decade (Table 3). There are large differences between the economies in terms of FDI attraction with Serbia being on the receiving end of most of the regional FDI inflows in recent years, while Bosnia and Herzegovina and Kosovo\* have seen their shares of FDI decline in 2016, compared to baseline.

The trade patterns discussed above follow largely the investment patterns. The share of intra-regional FDI has also been declining from 5.4% to 3.9% in the FDI stock between 2010 and 2015, with Serbia having a slightly more prominent role as an investor in Bosnia and Herzegovina and Montenegro. WB6 is thus rather weakly integrated by capital flows and the large majority of FDI comes from the EU, with recently growing shares of Russian, Turkish and Chinese investment.

<sup>10</sup> Balkan Business Barometer, RCC, 2017



**Table 3: SEE 2020 Target 5 – FDI Inflows (EUR million)**

Economy	2010 (baseline)	2011	2012	2013	2014	2015	2016	2020 (target)	Progress from baseline towards target
ALB	824	755	713	945	869	890	983	2,200	12%
BOS	307	357	307	208	399	244	258	500	-25%
KOSOVO*	369	384	229	280	151	309	216	800	-35%
MNE	653	495	634	479	498	757	687	700	73%
SER	1,278	3,544	1,009	1,548	1,500	2,114	2,080	2,500	66%
MK	157	344	131	229	197	203	354	600	44%
<b>SEE6</b>	<b>3,587</b>	<b>5,879</b>	<b>3,023</b>	<b>3,689</b>	<b>3,614</b>	<b>4,517</b>	<b>4,578</b>	<b>7,300</b>	27%

Source: Central banks of Albania, Bosnia and Herzegovina, Montenegro, Serbia and The Former Yugoslav Republic of Macedonia; SEE6 aggregates based on RCC calculation

Note: Baseline figures for Bosnia and Herzegovina, Montenegro, Serbia and The Former Yugoslav Republic of Macedonia revised by national authorities.

Investment, and particularly FDI, explains also the shifting structure of trade. As discussed in previous year's ARI, most of the manufacturing FDI that was received in the WB6 region originated from the EU (Germany and Italy are most notable sources of manufacturing FDI for the region) and has, as a result, heavily diverted trade towards the EU as well. Another important result of this investment is the increased exports that have helped in rebalancing the region's economies over the past five years, with the negative trade balance (of both goods and services trade) dropping from almost -20% in 2010 to -13.5% of region's GDP in 2016<sup>11</sup>.

Given the current trends and the outlook, shaped also by the plans of the region's governments, the gradual pickup in FDI inflows will continue into the next period as well, although with notable differences due to differing economic environments in the WB6 economies. EC forecasts that investment is expected to contribute 1.5 percentage points annually to GDP growth across the six Western Balkan economies from 2017 to 2019 (up from 0.8 pps annually from 2014 to 2016). Privatization, although already at a mature stage, as well as private participation in infrastructure development, will continue to feature as a prominent channel for FDI. In Albania, development of TAP is currently underway, expected to generate considerable private investment; in Bosnia and Herzegovina, several large state-owned companies are slated for privatization; Montenegro is developing several large-scale tourism and infrastructure (transport and energy) projects expected to generate significant investment in the coming period; several larger-scale investments are currently underway in Serbia in the manufacturing sector, mostly in automobile parts and components.

In addition to the traditional privatization M&A (mergers and acquisitions) channel for FDI inflows, the investors are also increasingly turning to greenfield investment. This interest is partly generated by investment incentives currently on offer and the proliferation of special economic zones in the region (the number of zones quadrupled over the past 8 years to 39 in 2016), offering an attractive proposition for foreign investors. Serbia and The Former Yugoslav Republic of Macedonia have

<sup>11</sup> World Bank Development Indicators

pioneered these approaches and most of the other region's economies are currently following suit, creating intense competition for FDI<sup>12</sup>.

### Implementation of Integrated growth pillar activities during the reporting period

Integrated growth has recorded notable progress in all three dimensions coordinated by the CEFTA Secretariat and the RCC's SEE Investment Committee: Free Trade Area, Competitive Economic Environment, and Integration into Global Economy.

In the dimension of Free Trade Area (Dimension A), liberalization of trade in services, together with the facilitation of free movement of skilled workers in the region, remained as one of the dynamic forces under this pillar. Ten rounds of negotiations on trade in services liberalization were completed successfully, leading to the conclusion of the Additional Protocol 6 on Trade in Services and its three Annexes. A sustainable reporting and disseminating platform for trade in services and investment statistics was designed to respond to the needs of the wider community of policy makers, private sector and academia, anticipating to be fully operational by end-2017. Intra-regional temporary movement of services providers remained as one of the cornerstones of the successful implementation of the Additional Protocol on Trade in Services. The special emphasis was given to developing instruments to facilitate such a movement with the focus on concluding mutual recognition of professional qualifications in two sectors (health and construction) and four professions (medical doctors, dentists, civil engineers and architects), expecting official start of negotiations in the second half of 2017.

In the area of Competitive Economic Environment (Dimension B), a deeper insight and analysis needs to be taken so as to support regulatory cooperation framework, as well as the existing relationships amongst regulatory bodies in the region, and consequently explore possibilities for different forms of cooperation that could lead to removing barriers and accelerate services trade. An in-depth analysis of the current state of play in services sectors will provide a solid base for concrete proposals on preferable arrangements on cooperation amongst regulatory authorities by the end of 2017.

In the attempts of boosting the region's Integration into Global Economy (Dimension C) the SEE Investment Committee has undertaken several steps aimed at region's internal economic integration, to aid its integration into global markets. A detailed analysis was performed in cooperation with UN Conference on Trade and Development, on investment-pertinent policies with relevant recommendation for their improvement. This analysis will serve as a base for the implementation of the investment reform agenda, designed under the SEE Investment Committee's auspices, and in cooperation with CEFTA, so as to complement the trade agenda, as well as with technical support of the World Bank and financial support from the European Union. This agenda entails reforms of investment-related policies on national levels and a regional dialogue on their harmonization among the SEE economies, which represents a major step in overcoming internal competition as to avoid the "race to the bottom" among the participating economies. Furthermore, design and implementation of the regional investment agenda, which will be implemented as of end-2017, represents one of the cornerstones of the regional economic integration and creation of a regionally harmonized investment space. Individual-economy action plans will reflect on the regional investment reform agenda and streamline the

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<sup>12</sup> Tracking Special Economic Zones in the Western Balkans, OECD, 2017

individual-economy reform efforts. To verify this, the region will, under this agenda, promote itself in full geographical scope to the global investor community.

To further enhance integration of its business into global business scene, the region has agreed, again under the auspices of the SEE Investment Committee, to work on developing regional value chains in sectors of mutual priority for the whole region. This work is further elaborated under the Sustainable Growth Pillar – Competitiveness dimension.

In the attempts to scale up Business Enabling Environment, the SEE Investment Committee has engaged in support to creation of one-stop-shops in the region and improving business-friendly environment, so as to increase the region’s ranking in global doing business reports, and facilitate higher inflow of investments and business activities. In this respect, the SEE Investment Committee has undertaken activities to implement the electronic system for issuing construction permits throughout the whole region and set up and implement standards on business friendliness in local administration for rendering better service to business (building on work previously done in this area).

**Table 4: Implementation of Integrated Growth actions during 2016/2017**

Measures/Action	Activities and achievements 2016/2017	Expected Results 2017/2018
<b>Dimension A: Free Trade Area</b>		
Addressing and eliminating non-tariff measures	<ul style="list-style-type: none"> <li>The list of non-tariff barriers in the supply chains of beverages and auto parts, validated by UNCTAD and ITC was taken over by the CEFTA Committee of Trade Facilitation and became part of the monitoring in CEFTA. Each CEFTA Party is asked to report the elimination of those identified non-tariff barriers.</li> </ul>	<ul style="list-style-type: none"> <li>The measures of CEFTA Parties eliminating the identified NTBs in beverages and auto-parts will be reported to the CEFTA Committee of Trade Facilitation, and to the private sector.</li> </ul>
Facilitation of trade	<ul style="list-style-type: none"> <li>CEFTA Additional Protocol 5 was adopted on 26 May 2017</li> </ul>	<ul style="list-style-type: none"> <li>Adoption of Validation Rules for mutual recognitions in AP 5 in 2018.</li> </ul>
Liberalization of trade in services	<ul style="list-style-type: none"> <li>Four rounds of negotiations on trade in services liberalization held in 2016. Technical negotiations finalized in December 2016.</li> <li>Finalization of the internal procedures for adoption of the CEFTA Additional Protocol 6 on Trade in Services by mid-2018.</li> <li>Key elements and features of the Reporting system on services and FDI data will be set up.</li> </ul>	<ul style="list-style-type: none"> <li>Adoption of the CEFTA Additional Protocol 6 on Trade in Services by the CEFTA Joint Committee.</li> <li>Ratification by national parliaments and entry into force of the AP6.</li> <li>Fully operational reporting system and dissemination platform of data on trade in services and investment.</li> </ul>
Liberalization of free movement of experts, professionals and skilled labour	<ul style="list-style-type: none"> <li>See under recognition of professional qualifications in Smart Growth Chapter.</li> </ul>	<ul style="list-style-type: none"> <li>Liberalization of free movement of experts, professionals and skilled labour.</li> </ul>
<b>Dimension B: Competitive Economic Environment</b>		
Implementation of provisions on competition, state aid and public procurement	<ul style="list-style-type: none"> <li>The CEFTA Secretariat hired a monitoring team to report the implementation of CEFTA articles related to competition and state aid.</li> <li>The issues related to the implementation of competition and state aid with respect to the</li> </ul>	<ul style="list-style-type: none"> <li>The provisions of CEFTA regarding competition, state aid, and public procurement are fully respected.</li> </ul>

Measures/Action	Activities and achievements 2016/2017	Expected Results 2017/2018
	<ul style="list-style-type: none"> <li>relevant provisions of CEFTA will be reported to the CEFTA Parties.</li> <li>The CEFTA Secretariat will propose to collect trade statistics of exports and imports made through free zones in the CEFTA Parties in 2017.</li> </ul>	
<ul style="list-style-type: none"> <li>Dimension C: Integration into the Global Economy</li> </ul>		
Facilitation of free flow of investment	<ul style="list-style-type: none"> <li>CEFTA Investment Report under preparation.</li> <li>First draft of the regional Investment Policy Review conducted in cooperation with UNCTAD completed.</li> </ul>	<ul style="list-style-type: none"> <li>Publishing of the CEFTA Investment Report is scheduled for September 2017. Promotion expected during CEFTA Week in November 2017.</li> <li>Publishing and promotion of the IPR expected mid-2017.</li> </ul>
Integration of regional supply chains into the global market (for selected priority sectors, currently food and beverage processing and tourism).	<ul style="list-style-type: none"> <li>The measures related to facilitate trade in beverages and auto parts are identified by UNCTAD and ITC, and validated by the CEFTA Parties.</li> </ul>	<ul style="list-style-type: none"> <li>The AP 5 will begin implementation and all the trade facilitation related measures will be undertaken including those sectors.</li> </ul>
Introduction of full cumulation and duty drawback in CEFTA and application of diagonal cumulation under the Pan Euro Mediterranean Rules of Origin (PEM) Convention	<ul style="list-style-type: none"> <li>derogation to CEFTA for the application of full cumulation and duty drawback in CEFTA trade has been agreed by the PEM Convention Joint Committee on 16 May 2017, and the PEM Joint Committee agreed to amend Appendix II of the PEM Convention to include the legal basis of CEFTA full cumulation and duty drawback.</li> </ul>	<ul style="list-style-type: none"> <li>The application of full cumulation and duty drawback in the intra-regional trade in CEFTA is expected to start in 2019</li> </ul>

## Conclusions and recommendations

The key in reaching the intra-regional trade and FDI targets will lie in the appropriate targeting of foreign direct investment where stronger emphasis need to be put on FDI in tradeable sectors over the coming period, in addition to further trade facilitation and liberalization. Opportunities for further investments exist either by joining existing value chains/specialization patterns – e.g. the food industry, together with agriculture and tourism, or the textiles industry – or by finding niches, such as in the emerging regional automotive sector. While the first one (food) has a more domestic, regional focus, the latter one means moving up the value chain and producing higher-value added, high-tech products in wider value chain<sup>13</sup>.

The region should intensify its economic integration, so as to create a more uniform investment space, accompanying the liberalized trading space, which will attract more foreign investments into export oriented industries, able also to stimulate regional value chain creation, and boost its foreign trade activities. For small economies of the region, it is of utmost importance to present themselves as part of integrated regional investment destination with harmonized procedures and treatment of investors, to attract large multinational companies who would accelerate industrial development, instigate inclusion of local business into supply chains for foreign investments, and ultimately increase the volume of internal trade and exports to the EU and third markets.

<sup>13</sup> CEFTA Investment Report, wiiw, 2017 (draft)

In terms of the specific dimensions of the Integrated growth pillar, the following steps will be needed to bring the region closer to reaching the set targets:

- Implement Additional Protocol on Trade Facilitation including introduction of joint customs procedures and elimination of NTBs, adopt and implement Additional Protocol on Trade in Services, strengthen dispute resolution and enforcement, establish mutual cooperation between market surveillance authorities, maximize utilization of preferential origin arrangements (PEM, SAP+), and improve regular exchange of data and capacity building;
- Implement competition policies as required by SAAs, and cooperate by exchanging best practices and information between competition and state aid authorities in view of attracting investment and creating a trade defence measures-free region, and introduce measures to improve the level of regional harmonization rather than fostering a race to the bottom and eliminate remaining discriminatory practices in public procurement markets;
- Establish a common investment agenda to implement policy reforms pertinent to investor entry, and protections, to achieve regional harmonization and better alignment with EU standards; set-up targeted investment promotion efforts to jointly promote Western Balkans as a single investment destination, and establish a comprehensive reporting system on FDI;
- Develop joint regional products and supply chains in strategic industries and promote their commercialization jointly abroad;
- Enhance public-private sector dialogue for a competitive region, support business integration by enabling creation of regional value chains in priority industries, and create joint market entry strategies in specific areas to support WB6 exports.

## 2.2. SMART GROWTH

*Promoting innovation and fostering knowledge-driven growth is the central objective of the Smart Growth pillar as the regional economies seek to move away from low-cost labour to other more sustainable forms of competitiveness. This pillar combines the dimensions of D) Education and Competence aimed at creating a competitive skills base in the region; E) Research & Development and Innovation is anchored in the Regional Research and Development Strategy adopted by the Western Balkan economies in 2013 and seeks to promote more and better investment in research and innovation as a precondition to building a more competitive model of growth; F) Digital Society aimed at supporting the economies in reaping the full potential of information and communication technologies (ICT) to spur innovation, economic growth and regional competitiveness; and G) Culture and Creative Sectors aimed at strengthening the position of the cultural and creative sectors as drivers for socio-economic development.*

### Overview

**The Smart Growth pillar targets (i) an increase of GDP per person employed by 32%, and (ii) adding 300,000 highly qualified people to the workforce by the end of the decade.** These targets attempt to capture the dynamic of the transformation of Western Balkan economies towards more value-added products and services, underpinned by an enhanced educational profile of its citizens.

SEE has made modest progress on Target 6 – GDP per person employed – with the region at 24% of the 2020 target. However, given the composition of the indicator (where employment is in the denominator), caution should be applied when interpreting the result.

The progress towards achieving the Target 6 (Table 5) varies significantly between the economies. Significant progress has been made in Albania and Bosnia and Herzegovina, modest progress is observed in Montenegro, Serbia and The Former Yugoslav Republic of Macedonia, while in Kosovo\* a negative trend of diminishing GDP per person can be observed. However, as stated earlier the progress towards increased GDP per person is negatively correlated to the employment trends in the region. In other words, where employment trends have been most positive in the region the increase of GDP per person employed has been lower.

Economy	2010 (baseline)	2011	2012	2013	2014	2015	2020 (target)	Progress from baseline towards target
ALB	17,839	18,280	18,573	20,938	21,771	n/a	24,000	64%
BOS	31,455	34,353	35,344	35,430	37,233	37,711	40,200	72%
KOSOVO*	33,642	39,778	38,776	36,040	39,165	n/a	20,200	-41%
MNE	30,321	34,025	32,271	33,181	31,091	n/a	37,000	12%
SER	28,157	31,456	32,053	31,388	28,266	29,067	34,000	16%
MK	25,986	26,037	26,305	25,902	27,014	27,752	35,000	20%
<b>SEE6</b>	<b>26,597</b>	<b>28,917</b>	<b>29,363</b>	<b>29,683</b>	<b>28,960</b>	<b>n/a</b>	<b>36,300</b>	24%

*Source: SEE6 National Statistical Offices, regional aggregates based on RCC calculation*  
*Note: Baseline for Kosovo\* revised accordingly due to LFS methodology changes in 2011.*

On the other hand, Target 7<sup>14</sup> – Number of highly educated persons in the workforce – has already been achieved in 2014, with more than 500,000 highly educated persons added to the workforce since 2010. All the economies have seen a marked increase in the number of highly qualified people in the workforce and these numbers are expected to continue to grow until 2020. Serbia, Montenegro and The Former Yugoslav Republic of Macedonia have all surpassed the national targets, while Albania is close to reaching the national target. Bosnia and Herzegovina is somewhat further away in reaching the nationally set target; however, it is important to note that Bosnia and Herzegovina has set one of the more ambitious national targets.

<sup>14</sup> The baseline for this target has been revised due to methodological changes implemented to the LFS surveys after the 2013 census, but the overall target has remained the same and the economies will continue tracking progress towards this quantitative target in the next four years.

**Table 6: SEE2020 Target 7 - Number of highly-educated persons in the workforce**

Economy	2010 (baseline)	2011	2012	2013	2014	2015	2016	2020 (target)	Progress from baseline towards target
ALB	158,000	163,972	171,819	202,991	217,407	244,731	247,646	260,000	88%
BOS	154,000	168,000	164,000	185,000	191,000	177,000	179,000	255,000	25%
KOSOVO*	n/a	n/a	92,000	99,000	104,000	101,000	104,200	n/a	n/a
MNE	43,000	47,200	50,500	57,800	59,500	62,500	69,600	68,000	106%
SER	568,446	579,591	604,316	634,684	717,851	757,226	783,000	655,000	248%
MK	164,481	182,853	191,213	183,500	183,874	204,952	222,964	204,000	148%
<b>SEE6</b>	<b>1,087,927</b>	<b>1,141,616</b>	<b>1,273,848</b>	<b>1,362,975</b>	<b>1,473,632</b>	<b>1,547,409</b>	<b>1,606,410</b>	<b>1,442,000</b>	146%

Source: National Statistical Offices

Note: Break in LFS series in 2014 in Serbia. Data are comparable for the periods 2010-2013 and 2014 - onwards.

## Education and Competences

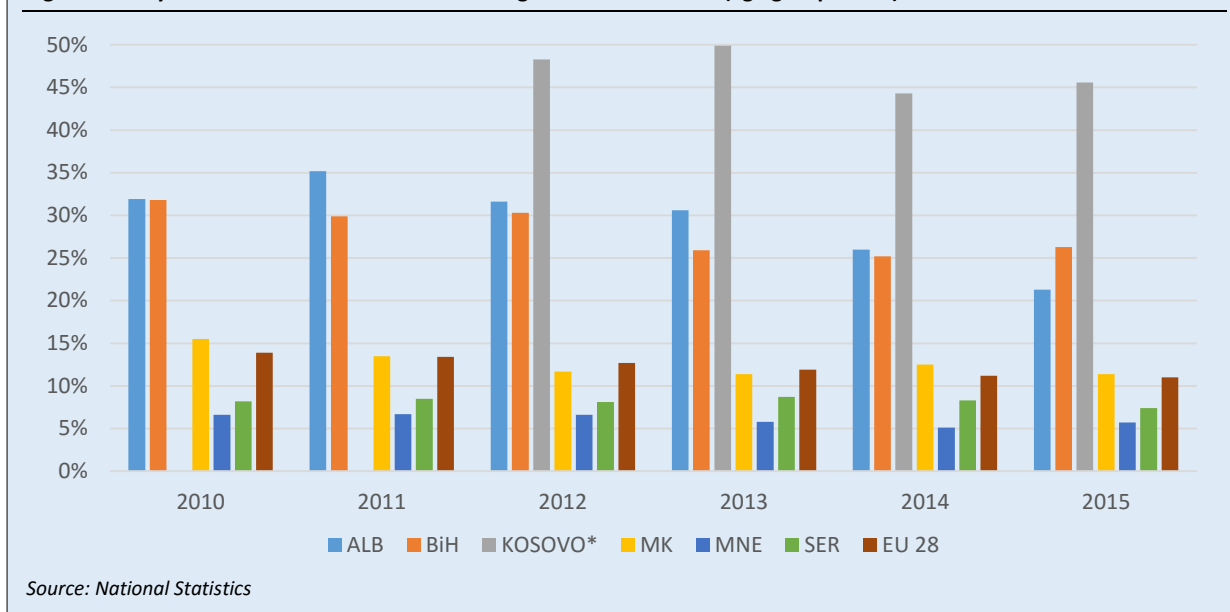
To achieve the Smart growth Target 7, the economies have committed to decreasing early leavers from education and training systems and to increasing tertiary education attainment of the population aged 30 – 34 under the dimension D. Education and Competences.

Young people who leave the formal education and training prior to obtaining at least an upper secondary qualification – early leavers from education and training<sup>15</sup> - are at a higher risk of unemployment, social exclusion and poverty compared to young people who have obtained a formal qualification. The percentage of early leavers from education and training has been steadily decreasing from 2010 to 2015 in all the economies (see Figure 2). However, the number differs significantly between the economies. While Montenegro, Serbia and The Former Yugoslav Republic of Macedonia have had low numbers of early school leavers, also compared to the EU average<sup>16</sup>, Albania, Bosnia and Herzegovina and Kosovo\* in particular have struggled with high rates of early leavers from education and training.

<sup>15</sup> Early leavers from education and training are defined as a percentage of 18 to 24 year-olds with less than upper secondary education and not in education and training in line with the EUROSTAT methodology.

<sup>16</sup> Source: EUROSTAT.

**Figure 2: Early leavers from education and training from 2010 to 2015 (age group 18-24)**



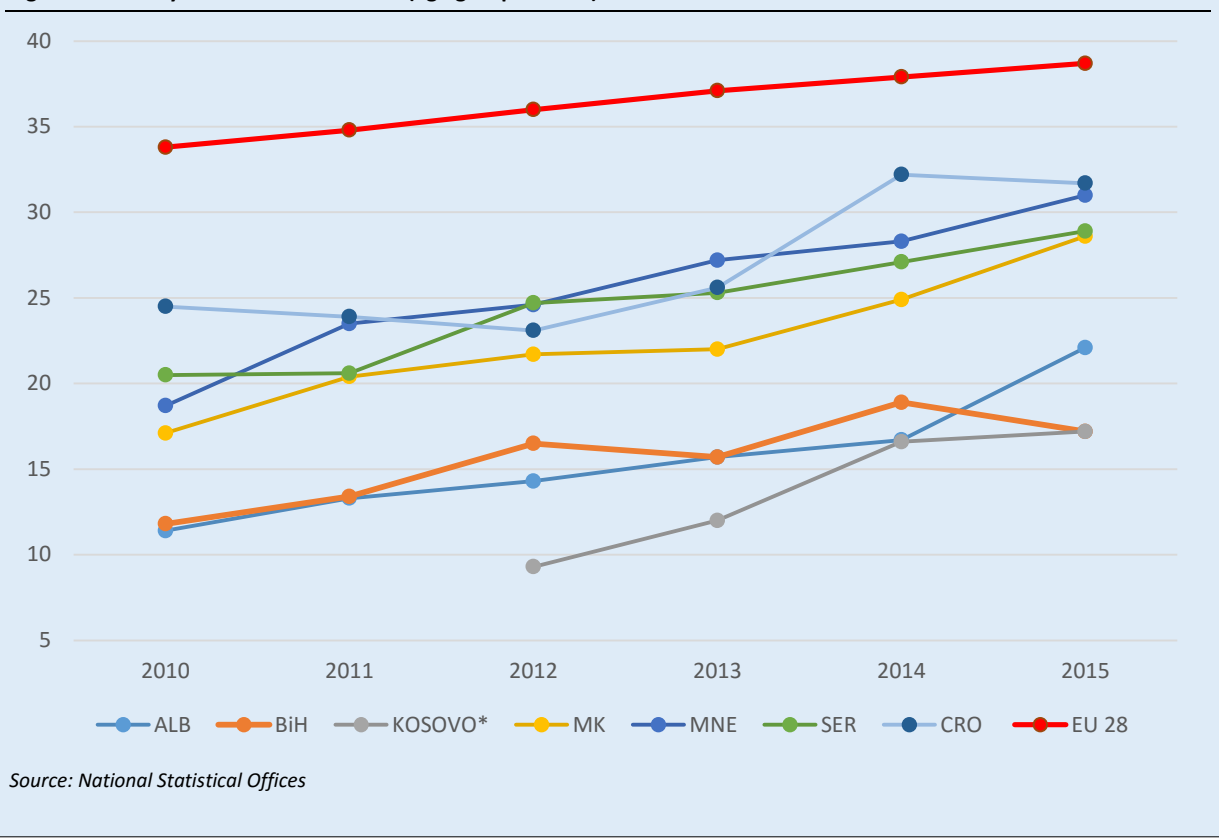
Socio – economic circumstances of students and their families coupled with structural causes (e.g. connectivity of rural areas to areas with secondary schools; lack of student financial support for secondary education; etc.) place vulnerable groups of students at a higher risk of early leaving from education and training.

While progress has been made towards reducing the gap of enrolment to primary education of Roma little progress has been made to ensure completion of primary education. Particular challenge for Roma students represents the increase of segregation in education, either in “special needs schools” for children with special needs, in “Roma schools” near Roma settlements with majority of Roma students, or in “special” or “Roma classes” in mainstream schools, all providing comparatively lower educational quality. Moreover, Roma children are exposed to higher likelihood of bullying and discrimination in schools both by teachers and peers. Therefore, drop out and early leaving already in primary schools is by far higher for Roma population than any other socio-economic group in the region. This trend translates into significantly lower enrolment to and completion of secondary education of Roma.

Over the past decade there has been a continuous growth in enrolment to higher education, which resulted in a steady growth of tertiary education attainment in the region. However, the tertiary education attainment of the population aged 30 to 34 continues to be below the EU average in all the economies in the region. While the EU is expected to reach, and probably exceed, the 40% of 30 to 34 population with tertiary education, economies of the region are still lagging behind with Montenegro, Serbia and The Former Yugoslav Republic of Macedonia in a better position with about 30% of 30 to 34 population with tertiary education attainment compared to Bosnia and Herzegovina with less than 25% and Albania and Kosovo\* below 20%.



**Figure 3: Tertiary education attainment (age group 30 – 34)**



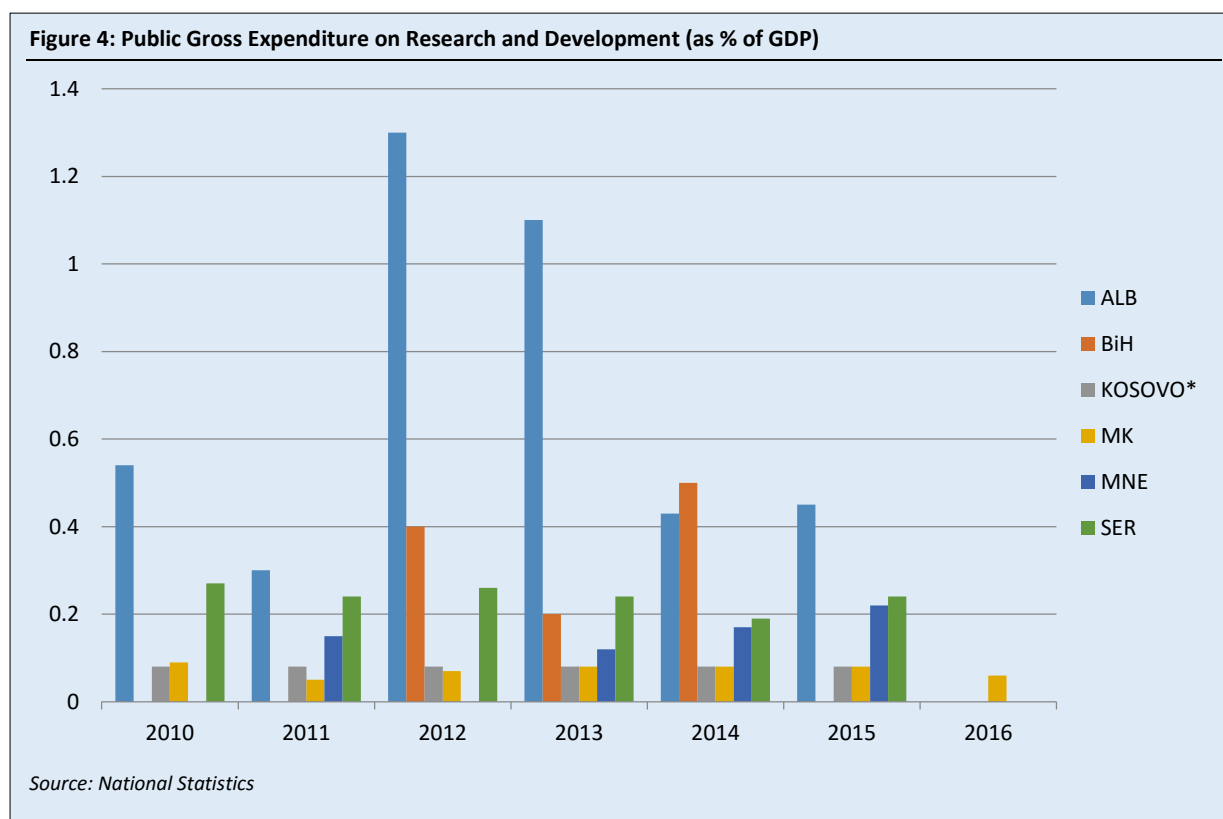
In addition, the EUROSTUDENT reports for most of the economies show that the widening of access to higher education has not contributed equally to social mobility across the societies. In other words, socio-economic background of students continues to have an impact on access to and completion of higher education. Students from poorer families, rural areas, those whose parents have lower education and students from vulnerable groups, including Roma, continue to have difficulties to access and complete higher education.

The PISA results in the economies show worrying trends with regards to the competences of students. Furthermore, the expansion of the higher education systems has been in part due to an increased growth of private provision of higher education where economies have struggled to establish comprehensive quality assurance and accreditation systems to ensure the quality of private education provision. Additionally, the expansion of the highly qualified workforce has been predominantly in the social sciences and humanities with continuous decrease of enrolment and graduation in the math, science and technology which places constraints to attracting investment towards technology intense industries. Therefore, the attention of the future education policies needs to focus on ensuring provision of quality education and developing incentives to widen enrolment to math, science and technology.

### Research and Development and Innovation

Research and development systems in the region have been underfunded for a protracted period of time and the persistently low investments continue to exacerbate the gap between research production and the impact of research produced in the region and the EU. The overall investment to

research and development from public sources remains below 1% in all the economies in the region (see Figure below).



The persistently low investments in research and development over a prolonged period of time is having profound effects on the impact and quality of public research production, integration of the academic and research networks into the European and global networks and the innovation and technology transfer potential of the public research organizations. All of the economies rank low across all indicators in the international databases on research impact<sup>9</sup>, including the number of citable documents produced and the low citation rates in internationally referenced journals of conducted research.

The low quality of research produced in the Western Balkans is reflected in low integration of Western Balkans in the European academic and research excellence networks. There are only 127 fellows from the Western Balkans who were successful in competing for a mobility fellowship awarded on excellence criteria through the Marie Skłodowska - Curie program. Furthermore, only two fellows from the European Union came to one of the economies in the region – both to Albania as part of the same programme.<sup>17</sup> Furthermore, only Serbia has been able to effectively absorb the potential offered through Horizon2020 programme and position its researchers and public research organisations as attractive, meaningful partners in the international consortia.

Research commercialization is at a very early stage of development in the Western Balkans. There are very few University Technology Transfer Offices and where they do exist they are underfunded, understaffed and have limited capacity to support the technology transfer processes. Some of the

<sup>17</sup> RCC, 2017

economies, notably Serbia, Montenegro and The Former Yugoslav Republic of Macedonia, have invested into the development of Science Parks and Incubators, however true Science and Technology Parks are rare in the Western Balkans and should not be confused with technology parks and free trade zones designed to encourage established businesses. Incubators are more common but there are few examples of incubators focusing on start-ups and spinoff with technology based and scalable ideas.

## Digital Society

WB economies continue to lag far behind the EU-28 average in terms of all available information society indicators, particularly in relation to fixed broadband, ICT goods exports and e-commerce. With the fast-developing EU-level framework for electronic communications networks and services, it is becoming increasingly challenging to bridge the digital gap. Western Balkan economies need to develop future-proof broadband policies and targets and accelerate high-speed broadband roll-out<sup>18</sup> so as not to be left out from the Pan-European digital infrastructure map. The absence of sustainable digital transformation strategies puts the WB economies at risk of even higher competitive disadvantages than today. Among all the challenges it is facing, the region must advance electronic identification, digital trust services, network and information security and cybersecurity as building blocks of a regional framework for deployment of interoperable cross-border e-Government and e-Business services.

At present, most of WB economies have established a supportive strategic framework for digital growth, and new targeted programs for supporting the development, competitiveness and export potentials of IT sector. It is encouraging that most of the WB economies have prioritized telecom and broadband-related structural measures within the 2017-2019 ERPs.

The success of the regional approach in advancing the digital agenda is clearly demonstrated through the regional initiative to reduce roaming costs. As confirmed by RCC-supported study, the Regional Roaming Agreement has led to tangible impacts in terms of reduced roaming prices and increased roaming traffic<sup>19</sup>. This demonstrates how such a regional 'home grown' initiative, driven and supported by all parties, can be instrumental in achieving positive outcomes for consumers within the Western Balkan region. Nevertheless, as the region is still far from the "Roam like at Home"<sup>20</sup> and there is still ample room for implementing further legal and regulatory measures to follow the EU model, the RCC will continue its support to this end.

With the legislative framework on information society mostly in place in the region, the 2016 Enlargement Progress Reports stress the needs to strengthen the capacities and the political, financial and operational independence of the regulatory agencies for electronic communications. Pressing challenges also include finalizing the delayed digital broadcasting switchover process (where not

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<sup>18</sup> Few IFIs currently support studies that analyse the prospects for improving broadband connectivity, including World Bank's studies and a regional study to scope prospects for electricity-telecommunications excess infrastructure-sharing for establishing a Balkans Digital Data Highway; EBRD's study of the supply of, and demand for, broadband infrastructure and service provision in order to map out the deployment of a modern high-speed broadband network. In a welcoming development, EU will start to measure progress under the five pillars of the Digital Economy and Society Index for the WB economies as well.

<sup>19</sup> Due to RRA, the maximum retail prices for each service, by July 2017, will have fallen, from those set in 2015 by 34% for outgoing voice services, 38% for incoming voice services, 33% for SMS services and 71% for data roaming services. For wholesale charges the rates have fallen since 2015 by 64% for voice services, 33% for SMS services and 80% for data roaming services.

<sup>20</sup> By applying this principle, on 15 June 2017 the EU will put an end to retail mobile roaming charges.

completed) and allowing the use of the digital dividend spectrum for broadband services; bringing the electronic communications laws into line with the EU acquis and with the 2009 EU regulatory framework; adopting broadband and cybersecurity strategies (where non existing); increasing the use of e-commerce and ensuring proper implementation of the e-commerce and e-signature laws, etc.

The citizens and businesses are also increasingly prioritizing the digital connectivity and digital agenda. Balkan Barometer findings demonstrate growing support of businesses for upgrades in telecommunications infrastructure (16%) and further roaming cost reductions where 57% of respondents find the removal of roaming charges to have moderate to large positive impact.

### Implementation of Smart growth pillar activities during the reporting period

As in the previous reporting period, the four dimensions of the Smart Growth pillar demonstrated varied progress during the past year. In the education and skills dimension most progress was made on the recognition of qualifications. Western Balkan economies have recommended opening of negotiations on mutual recognition of professional qualifications and development of procedures to facilitate automatic recognition of academic qualifications that will constitute the focus of RCC's work in this area. In addition, ERI SEE has mainstreamed its plan of work over the next three years with a focus on quality of secondary general education to complement the ETF work on quality in vocational education and training.

Considerable progress has been made with regard to the digital society agenda as well, with advancements made mainly on: progressive alignment to the EU acquis and Digital Single Market principles; significant benefits in terms of reduced communication costs; increased prioritization of telecom and broadband-related structural measures within the national Economic and Reform Programs (ERPs) and targeted support for competitiveness and export potentials of IT sector. Despite advances in terms of acquis alignment and elaboration of national digital strategies and targeted ICT support programs, WB's integration in the pan-European digital market will require an updated regulatory environment, improved broadband infrastructure, access to digital goods and services and digital literacy so as to unlock the potential of the digital economy.

Some progress was made in research and development and innovation. The establishment of the regional mechanism for cooperation (WISE) has yet again been delayed. However, Mobility of Researchers has become a policy priority resulting in a concrete proposal for a new instrument to fund incoming mobility of EU researchers to the Western Balkans. In addition, under the Western Balkans Enterprise Development and Innovation Facility (WB EDIF), the World Bank is implementing technical assistance to support development of an enabling venture capital ecosystem and assist with investment readiness of SMEs. Under this programme, the World Bank is conducting an assessment of the venture capital environment in the Western Balkans and is helping put in place the right legislative framework for investment funds. So far, the assessment has been completed in Albania and The Former Yugoslav Republic of Macedonia. Investment readiness pilots are also being implemented throughout the region.

Furthermore, the European Investment Bank (EIB) is conducting a feasibility study for a regional Centre of Excellence which should propose institution(s)/hub(s) with highest potential for Centre of Excellence based on research agenda, capacity to integrate related fields, enable industrial connectivity and

ensure visibility and sustainability. This activity is fully aligned with the priorities envisioned under the SEE 2020 Strategy on establishment of regional centres of excellence.

Finally, a project aimed at supporting technology transfer and innovation in the Western Balkans – EU4Tech – managed by DG NEAR and DG Joint Researcher Centre was launched at the beginning of 2016. The project intends to implement a holistic capacity building strategy that will look at the performance of all actors operating in the technology transfer and innovation ranging from academic institutions to early stage investors to science parks to spin-out companies to policy makers.

No significant activities were implemented in the culture and creative sectors during the previous period, with some preparatory work done to reposition regional cooperation in cultural heritage as a strategic economic resource and a driver of sustainable development, in particular through the development of an enhanced regional tourist offer built on the common cultural heritage of the region.

**Table 7: Implementation of Smart Growth actions during 2016/2017**

Measures/Actions	Activities and achievements 2016/2017	Expected Results 2017/2018
<b>Dimension D: Education and Competences</b>		
Introduce policies to improve access to and quality of education Identify and agree on programs of specific measures to be undertaken at regional level to: (i) improve access to education, (ii) increase quality of education through teacher training, and (iii) prevent drop-out from education system	<ul style="list-style-type: none"> <li>• Consultations and preparatory work on establishment of a regional network of experts on quality assurance of secondary, general education completed.</li> <li>• Provision of regional framework and technical and expert support to governments for effective and EU aligned cycle of Roma inclusion policies, with concrete results in improved budgeting and monitoring</li> </ul>	<ul style="list-style-type: none"> <li>• Establishment of the regional network of experts in quality assurance of secondary general education.</li> <li>• Joint seminar on regionally relevant issues on quality of education.</li> <li>• Increased pace and impact of the Roma inclusion policies, yielding tangible results for Roma, including in education, according to the strategic goals up to 2020</li> </ul>
Identify measures to assist SEE economies in removing obstacles to recognition of qualifications	<ul style="list-style-type: none"> <li>• Established international expert working group on automatic/fast track recognition of academic qualifications based on the jointly agreed quality assurance standards.</li> <li>• Identified health and construction and Doctors of Medicine, Dentists, and Architects and Civil Engineers as sectors and professions of mutual interest for opening negotiations on mutual recognition agreements;</li> <li>• Completed a comparative legal analysis of the current legislation frameworks for licensing and recognition of professional qualifications for the prioritised professions;</li> </ul>	<ul style="list-style-type: none"> <li>• Draft procedures for automatic/fast track recognition of academic qualifications based on the jointly agreed quality assurance standards;</li> <li>• Open negotiations on mutual recognition agreements in the prioritised professions</li> </ul>
Ensure education better meets economic and labour market needs	<ul style="list-style-type: none"> <li>• Enhancement of the cooperation among the VET systems in the region.</li> <li>• Enhancement of the cooperation between the VET sector and business sector.</li> <li>• Identification of the regionally relevant economic sectors with the growth potentials and labour mobility potentials.</li> <li>• Development of the project idea for the cooperation between the education and</li> </ul>	<ul style="list-style-type: none"> <li>• Project enhancing the WBL systems in the region developed, submitted and ongoing.</li> </ul>

Measures/Actions	Activities and achievements 2016/2017	Expected Results 2017/2018
	business sector on WBL.	
Ensure development of entrepreneurship competence at all stages of education	<ul style="list-style-type: none"> <li>• 95 pilot schools (ISCED 1: 32; ISCED 2: 32; ISCED 3: 31), 15 pilot universities (HEIs) and 6 TTAs implemented 'SEECEL EL Package' framework and entrepreneurship as a key competence instruments;</li> <li>• More than 28 600 students benefited from the EL content, and more than 1100 teachers and school/HEIs managers were actively involved in the implementation;</li> <li>• Teachers (ISCED 1, 2 and 3) have developed and applied 245 teacher development plans and 881 lessons plans in all subjects;</li> <li>• More than 150 peer visits were realized with 790 participants (teachers and school management representatives and students);</li> <li>• 3 in-service teacher training modules have been implemented by 6 national TTAs benefiting 3550 teachers and school managers.</li> </ul>	<ul style="list-style-type: none"> <li>• Publication of results of pilot programs and lesson plans at ISCED levels 1 and 3.</li> <li>• Publication of entrepreneurial learning at non-business faculties.</li> </ul>
<b>Dimension E: R&amp;D and Innovation</b>		
<p>Strengthen research capabilities and promote research excellence</p> <p>Assess options for regional actions to promote technology transfer and develop potential measures/instruments</p> <p>Design regional program to develop 'networks of excellence' in selected research areas</p> <p>Stimulate collaboration between industry and science</p> <p>Support introduction of a viable innovation finance market</p>	<ul style="list-style-type: none"> <li>• EU4Tech Western Balkans project funded through MB IPA on capacity building in technology transfer has commenced during the reporting period.</li> <li>• Established a Working Group on Open Science to implement an agreed action plan aimed at supporting Open Science policies and measures in the region as an instrument for promoting research excellence and stimulate collaboration between industry and science</li> <li>• Established a Working Group on Mobility of Researchers to implement an action plan aimed at removing obstacles to mobility of researchers at all stages of their career in the region and between the region and the EU as means of strengthening research capabilities and research networks of excellence.</li> </ul>	<ul style="list-style-type: none"> <li>• Key organizations in the ecosystem for TT capacity building identified and capacity building strategy confirmed and implementation of trainings to commence</li> <li>• Review of existing available TT financial instruments in region and identification of EU Good Practice</li> <li>• Identification of start-up companies or promising research projects for investment readiness training</li> <li>• Development of a Strategy and a Roadmap on Science Parks and Incubators in the region</li> <li>• Review of current e-infrastructure projects for Open Science reviewed and work on joint standards to ensure inter-operability to begin</li> <li>• Capacity building strategy for EURAXESS focal points agreed and implementation to begin</li> <li>• Proposal for an instrument to facilitate mobility of WU and WB researchers to, from and within the WB to be drafted</li> </ul>
<b>Dimension F: Digital Society</b>		
<p>Develop regional broadband infrastructure to provide high speed internet access</p> <p>Develop cross-border e-services</p> <p>Provide access to IT training to</p>	<ul style="list-style-type: none"> <li>• First legal and market impact study on the Regional Roaming Agreement completed.</li> <li>• All-inclusive WB6 policy dialogue platform on roaming established and</li> </ul>	<ul style="list-style-type: none"> <li>• Further market-based roaming costs reduction in line with EU-level advancements, as well as potential geographic extension of the RRA.</li> <li>• Implementation of a regional initiative on energy-telecoms</li> </ul>

Measures/Actions	Activities and achievements 2016/2017	Expected Results 2017/2018
expand employment opportunities	<p>operational.</p> <ul style="list-style-type: none"> <li>• Best practices exchanged with EP<sup>21</sup> countries in harmonizing roaming policies.</li> <li>• Improved legislative alignment with the broadband acquis, towards a more investment-friendly environment and new business models in infrastructure sharing.</li> <li>• Launched Balkans Digital Data Highway study (World Bank financed), scoping the demand for a regional infrastructure sharing initiative, using available excess capacity of energy networks for developing high speed broadband internet.</li> <li>• Strengthened regional coordination on the broadband reform structural measures included in Economic and Reform Programs for 2017-2019.</li> <li>• Extended targeted capacity building and maintained regional policy dialogue and exchange frameworks relevant for the digital agenda.</li> </ul>	<p>infrastructure sharing for broadband development.</p> <ul style="list-style-type: none"> <li>• Study on Digitization of Western Balkans.</li> <li>• Organization of a High-level ICT Summit on Digital Transformation of the Western Balkans.</li> <li>• Enhanced capacities and regional exchange of practices in key areas of digital single market framework.</li> </ul>
<b>Dimension G: Cultural and Creative Sectors</b>		
<p>Strengthen institutional capacities and implement an integrated heritage rehabilitation management tool to ensure rehabilitation of selected cultural heritage sites (Ljubljana Process)</p> <p>Encourage active cooperation between film policy bodies, public broadcasters, production and distribution companies</p> <p>Implement a regional Design Incubator based on a design network composed of relevant actors from the region</p>	<ul style="list-style-type: none"> <li>• The regional cooperation in the area of culture and cultural heritage in the context of SEE2020 has been entirely refocused on mainstreaming cultural heritage in sustainable economic development projects. In this sense, the regional tourism project that is currently under development includes a large section on cultural tourism as a way of revitalizing rich regional cultural heritage while putting it to economic development use.</li> </ul>	<ul style="list-style-type: none"> <li>• Develop three cultural routes to stimulate the development of cultural tourism along existing tourist routes in the region based on valorisation, and adequate promotion of the vast potential of the region's cultural heritage</li> </ul>

## Conclusions and Recommendations

**The development of a globally competitive skills base and research systems which foster innovation is a key factor for economic recovery and sustained growth in the Western Balkans.** The ability to use and transfer technology, underpinned by information and communication technologies and infrastructure, will be crucial in moving the Western Balkans towards knowledge-driven, globally competitive economies. In the context of rapid technological progress and globalization, with large shifts in the location of productive and innovative activity, the ability to compete depends increasingly on the ability to produce and provide relevant and coordinated skill creation, research and development and technological systems, as well as to implement a comprehensive digitalization of the region.

<sup>21</sup> Eastern Partnership Countries

Furthermore, Europe is among the global leaders in the production of high-skilled labour. The extent to which international high-skilled mobility channels are formed within the region and between the region and the EU, how well the high-skilled professionals and academics are integrated into European professional and research networks and to what extent the region is integrated into the *Digital Markets in EU's Digital Single Market* is a question of great importance in an increasingly global knowledge-based economy and will require significant efforts.

#### **Box 2: Recognition of Professional Qualifications**

One factor in facilitating high-skilled mobility and closer integration into regional and EU networks is the standardization of certifiable degrees meriting international recognition in line with the agreed European standards.

In accordance with the goals and priorities stipulated by the South East Europe 2020 Strategy endorsed by the Ministers Economy on 21 November 2013 in Sarajevo and the commitments spelled out in Articles 26-29 of the CEFTA 2006 Agreement, in light of the multi-dimensional approach required to achieve the recognition of professional qualifications, Central European Free Trade Agreement Secretariat (CEFTA), Education Reform Initiative of South Eastern Europe (ERISEE) and the RCC have formed a Joint Working Group on Mutual Recognition of Professional Qualifications under the auspices of the Regional Cooperation Council (hereinafter JWG MRPQ).

At the invitation of the Regional Cooperation Council the representatives of the Ministries of Education, Labour and Social Affairs and Economy were appointed to the JWG MRPQ with a mandate to (1) develop processes for recognition of professional qualifications in selected professions of mutual interest, (2) explore the potential for conclusion of mutual recognition agreements (MRAs), (3) enhance transparency of national and regional arrangements on recognition of professional qualifications and (4) enhance regional data exchange on the mobility of professionals and future skills needs in selected professions.

Following five meetings and three studies (Mapping Sectors and Professions of Mutual Interest for Recognition of Professional Qualifications; Legislative Frameworks on Recognition of Professional Qualifications in the Western Balkans; Mapping Positions of Key Stakeholders on Mutual Recognition of Professional Qualifications) conducted since the establishment of the JWG on MRPQ, the participants of the JWG on MRPQ agreed to recommend to the governments to open the negotiations on mutual recognition agreements of professional qualifications for Doctors of Medicine, Dentists, Architects and Civil Engineers in a multilateral framework between Albania, Bosnia and Herzegovina, Kosovo\*, Montenegro, Moldova, Serbia and The Former Yugoslav Republic of Macedonia in September 2017 and to establish a Database on Professional Qualifications and Mobility of Professionals in line with the EU Database on Professional Qualifications and Mobility of Professionals.

In terms of the specific dimensions of the Smart growth pillar, the possible next steps are summarized below.

On the Education and Competences Agenda, the following actions are proposed for implementation under the SEE 2020 framework

- Develop measures to support the delivery of a better quality education and strengthen the link with needs of the private sector;
- Continue to support the widening access to higher education to ensure the gap with the EU is closed, although incentives should be devised to increase enrolment in science, technology, engineering and mathematics (STEM) over social sciences;
- Remove obstacles to recognition of professional qualifications through opening negotiations on and consequently conclude mutual recognition agreements of professional qualifications for Doctors of Medicine, Dentists, Architects and Civil Engineers in a multilateral framework;



- Remove obstacles to recognition of academic qualifications by agreeing on procedures for fast track recognition of academic qualifications.

On the Research and Development and Innovation Agenda, the SEE 2020 economies would be well advised to

- Enhance capacity for technology transfer and design instruments to finance effectively technology transfer in the region;
- Identify legal and institutional barriers, including working conditions, recruitment systems and promotion criteria for open merit-based, competitive, international recruitment system and remove the identified legal barriers by 2020;
- Develop and a pilot scheme to support incoming mobility of post-doc researchers to the Western Balkans with an aim to build research excellent networks in the region by end of 2019;
- Map existing research infrastructure in the region to ensure transparent and available information to researchers interested to cooperation with and in the WB by 2019, with a view of identifying potential viable regional excellence centres;
- Strengthen the capacity of EURAXESS offices in the region, and the implementation of Charter and Code principles and Seal of Excellence; Support Open Science Agenda to address the structural issues of quality of research and opening effective avenues for use of research for innovation purposes.

On the digital agenda front, a common digital approach for WB can, *inter alia*, include:

- Development of future-proof broadband policies and targets, coordination of spectrum policies, continued decrease in roaming costs and deployment of regional broadband infrastructure to provide high-speed internet access;
- Development and exchange of incentive models for broadband deployment in rural and underserved areas;
- Advancing electronic identification, digital trust services, network and information security, data protection and cybersecurity;
- Increasing online sales and cross-border eCommerce, as a potential area for growth and creation of new businesses;
- Creation of regional digital innovation hubs where start-up companies can develop and business (traditional and digital) can take up new digital innovation through easy collaboration between academia, public and private sector;
- Enhancing interoperability frameworks, harmonized with EU's Interoperability framework, to support the delivery of interoperable cross-border and cross-sector services;
- Enabling cross-border transfer of data and harmonized technical standards.

### 2.3. SUSTAINABLE GROWTH

*The actions under the Sustainable Growth pillar seek to improve efficiencies in the use of resources, upgrade infrastructure, promote sustainable development and boost entrepreneurship and*

competitiveness of companies. The overall aim is to provide the necessary underpinning for a strong, diversified and competitive economic base in the region.

## Overview

Sustainable Growth pillar has a truly multi-dimensional scope, encompassing the sectors of transport, energy, environment and competitiveness, characterized by ambitious objectives and close political scrutiny. The transport dimension seeks to facilitate the fulfilment of obligations given in the context of the 2004 MoU on a regional transport network and the likely obligations under the forthcoming Transport Community Treaty, as well as the Single European Sky (SES) and the Joint Service Provision Area (JSPA) initiative. The energy dimension contributes to meeting the obligations deriving from the Energy Community Treaty, supporting a well-functioning SEE regional energy market and greater energy security. The environment dimension places the focus on sustainable development and use of resources. The competitiveness dimension pertains to the goal of improving economic competitiveness; increasing productive investment and foreign direct investment; diversifying exports; creating conditions for sustainable economic growth and convergence; and strengthening the business framework.

Two targets have been selected to track the performance of SEE economies in the Sustainable Growth pillar: (i) increase net enterprise creation (Target 8); and (ii) increase share of renewables in gross final energy consumption (Target 9)<sup>22</sup>. Methodology for data collected on Target 8 differs from that used when the targets were created, thus prohibiting measurements against progress made. However, the data still illustrates a sluggish trend in enterprise creation in the region, with Kosovo\* and Bosnia and Herzegovina performing slightly better in this sense than the rest of the region (Table 8).

Economy	2010	2011	2012	2013	2014	2015	2016	2020
ALB	2,088	1,849	1,886	2,114	n/a	n/a	n/a	2,500
BOS	3,598	3,849	3,688	3,500	3,710	3,772	4,294	2,300
KOSOVO*	2,888	3,095	5,215	9,198	9,496	9,929	10,445	170
MNE	n/a	4,513	2,813	4,064	3,382	3,864	3,703	520
SER	9,470	8,471	8,648	8,735	8,209	8,180	8,430	11,600
MK	11,595	9,150	8,329	6,805	7,161	6,877	n/a	9,700
<b>SEE6</b>	<b>29,639</b>	<b>30,927</b>	<b>30,579</b>	<b>34,416</b>	<b>31,958</b>	<b>32,622</b>	<b>26,872</b>	<b>26,790</b>

Source: National Statistical Offices  
 Note: Baseline data altered due to revisions of methodology; 2015 regional aggregate does not include data on Albania, 2016 aggregate without Albania, The Former Yugoslav Republic of Macedonia; due to methodological changes targets are not applicable.

The headline energy target of the Sustainable Growth Pillar is to ensure certain share of renewables in gross final energy consumption by 2020, as foreseen by the Renewable Energy Directive (Table 9 below). Intense activities are taken towards this end since 2012 when mandatory targets for each WB economy were set by the Energy Community Ministerial Council's Decision. Despite technological and economic weaknesses, but due to geographical and natural advantages, Western Balkans has notably

<sup>22</sup> The Monitoring Committee concluded that Target 9 (increasing exports of goods and services per capita) should be replaced with a target dealing with the share of energy from renewable sources in the gross final energy consumption as presented here.

higher renewable energy potential which is also reflected in the targeted share of renewables in 2020 well above EU average of 20%. The WB region is progressing well towards general RES targets. However, the transport sub-sector remains a weak link, where progress is negligible and where additional efforts are needed in order to spur the WB region to attain the expected progress. Despite significant progress achieved over the past few years, weak energy statistics are still a stumbling stone for a good quality and timely regional monitoring, especially in the area of biomass contribution. Going forward, it is recommended that data for Target 9 should be taken from the Energy Community Secretariat, to ensure consistency and similar methodological approaches in collecting and compiling data.

Economy	2010 (baseline)	2011	2012	2013	2014	2015	2020 (target)	Progress from baseline towards target
ALB	32.0	31.4	35.2	33.2	32.0	34.9	38.0	48%
BOS	18.7	18.0	18.4	19.6	42.3	n/a†	40.0	111%
KOSOVO*	19.3	17.6	18.2	19.1	19.4	19.1	25.0	-3%
MNE	40.6	40.7	41.6	43.7	44.1	43.1	33.0	131%
SER	20.9	17.5	20.3	19.1	22.7	21.0	27.0	2%
MK	16.8	16.5	18.1	18.5	19.6	19.8	28.0	27%
<b>SEE6</b>	<b>27.1</b>	<b>20.2</b>	<b>21.7</b>	<b>25.9</b>	<b>30.0</b>	<b>24.0</b>	<b>31.8</b>	<b>62%</b>

*Source: National Agency for Natural Resources of Albania, Ministry of Mining and Energy of Republic of Serbia, State Statistical Offices, Eurostat, data collected during the 2017 SEE 2020 monitoring cycle; national targets based on NREAPs.*

*Note: Regional aggregates based on RCC calculation using energy balances as per methodology established by Directive 2009/28/EC, SEE6 aggregate for 2015 is without Bosnia and Herzegovina's data.*

In terms of transport, SEE lags significantly behind the EU in respect to connectivity. SEE needs a high-quality transport infrastructure system to support increased trade and regional integration with EU. Hence, sustained and significant efforts are still needed to ensure that SEE transport systems appropriately support the movement of goods, people, services and capital and the competitiveness of the region. Further progress was made in meeting the objectives of the SEE2020 transport dimension by building on the regional Connectivity Agenda and the “Berlin Process”.

Region’s investment needs are still vast, while the targeting of investments addresses the most important regional connections. With investments in comprehensive network since 2004 amounting to EUR 12.5 billion, SEETO’s latest Multi Annual Plan 2016 Update puts the projections on the outstanding infrastructure investments’ needs at EUR 9.64 billion and welcomes the fact that approximately 90% of the total investments in the Indicative extension of the TEN-T Comprehensive Network

<b>Road</b>	47% is in no need of immediate intervention by 2030 33% in need of immediate maintenance/rehabilitation 20% needs to be upgrade/widening by 2030
<b>Railway</b>	48% is in no need of immediate intervention by 2030 19% in need of immediate maintenance/rehabilitation 33% needs to be upgraded by 2030
<b>Airports</b>	Adequate to meet the demand by 2030
<b>IWW ports</b>	IWW ports requires expansion by 2030
<b>Maritime ports</b>	Increase the capacity to handle passenger transport and Port of Durres for freight flows too

*Source: SEETO*

to the WB from 2004 were made on the core network.

Due to newly introduced EU co-financing of shares of investment costs, significant EU co-financing is already disbursed for mature regional projects, amid a growing diversification of sources of financing. The 'Berlin process' has been instrumental in establishing a clear strategic transport framework, as well as a regional context for decisions on investment funding. In this respect, in addition to the comprehensive Connectivity reform measures agenda, concrete infrastructure co-financing on behalf of EU, as part of the EUR 1 billion commitment, has been granted to a total of 9 projects valued over EUR 330 million (Table 11).

<b>Table 11: Co-financed projects</b>	
<p><b>Vienna Summit August 2015</b></p> <ul style="list-style-type: none"> <li>Construction Svilaj–Odzak and Svilaj Bridge, EUR 87m</li> <li>Completion of Banja Luka -Gradiska, EUR 27m</li> <li>Railway Route 10, Fushë Kosovë – MK, EUR 38.5m</li> <li>Railway Route 4, Bar -Vrsac, EUR 20m</li> <li>Railway Corridor X, Serbia –MK, EUR 47m</li> <li>Intermodale Terminal in Belgrade, EUR 18m</li> </ul> <p><b>Total EUR 238m</b></p>	<p><b>Paris Summit July 2016</b></p> <ul style="list-style-type: none"> <li>Rehabilitation Tirana –Durrës railway line, EUR 35m</li> <li>Railway Route 10, Fushë Kosovë –Mitrovica, EUR 17m</li> <li>Railway line Nis –Bulgarian border, EUR 44m</li> </ul> <p><b>Total EUR 96m</b></p>

Despite road transport’s dominance in terms of investments, rail investments are also on the rise. Increased investments in railways are particularly welcome both from market access and environmental impact. Findings from the mapping and analysis of FDIs in region (performed within the Study on economic corridors) highlight the underutilized potential of the rail networks in SEE-6. Even though a significant majority of FDIs and large companies lay along the region’s rail infrastructure, very few of them use it for the transport of goods and people. Hence, railway reform actions should be prioritized for all the Western Balkans economies.

Despite a lack of maturity of infrastructure projects and uneven tempo in implementing the Connectivity reform measures, progress has been made, especially with regards to the national measures. Bilateral border crossing agreements to facilitate railway transport were signed; yet those agreements need to be complemented with further rail market opening and prompt licensing of the new interested parties. Significant work ahead must follow to expedite the credible implementation of the regional measures (ITS, Maintenance and Road Safety) and it is expected that EC’s Technical Assistance ConnectA<sup>23</sup> will contribute to this end.

Steady progress continued with respect to streamlining infrastructure investments and improvement of the domestic investment prioritization processes, through the operational National Investment Committees and the established single project pipelines for investments.

Major progress has also been achieved towards the signing of the long overdue Transport Community Treaty (TCT), as a consistent and common framework for moving forward on the transport acquis in the region. It is expected that the signature of TCT and the establishment of the TCT Secretariat will mirror

<sup>23</sup> Deployed in December 2016

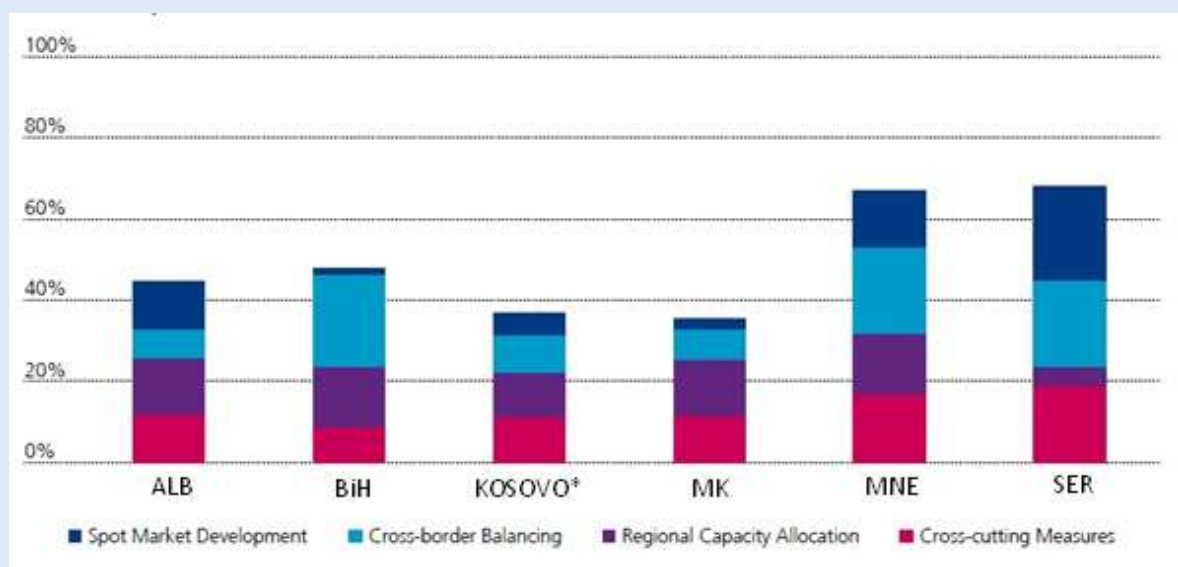
the advancement in terms of energy acquis alignment and integration in the Energy Union, as enabled with the Energy Community Treaty.

In addition to road safety, ITS and maintenance, the multimodal prospects and logistics performance<sup>24</sup> of WB6 economies call for improvements of multi-modal logistics connectivity throughout the region. Transport and logistics boost trade performance by making the delivery of goods easier, faster and safer and maximize benefits of reduced connectivity costs<sup>25</sup>.

In the area of energy infrastructure development, following the Ministerial Council Decision 2015/09/MC-EnC regarding the adaptation and adoption of the Regulation 347/2013/EU (TEN-E Regulation) in the Energy Community, the first selection of Projects of Energy Community Interest and Projects of Mutual Interest in electricity, gas and oil infrastructure was performed in 2016.

In addition to EUR 200 million (EUR 57.6 million EU grant for 4 electricity interconnections in WB6) provided at the Western Balkans Summit in Vienna in August 2015 under the Connectivity Agenda, the European Union provided a follow-up EUR 100 million for three connectivity transport projects and pledged additional EUR 50 million for the Regional Energy Efficiency Programme and the Green for Growth Fund, supporting EE and RES projects in the WB region to be blended with EUR 240 million support by other IFIs.

**Figure 5: Progress towards creation of regional electricity market**



Source: Energy Community Secretariat's Electricity Monitoring Report 03/2017

With regard to electricity market development, the activities on setting up a legal and institutional framework for establishing and operating an organized day-ahead market were initiated in the majority of WB6 economies. However, Serbia is so far the only economy where a functional day-ahead market is operating as of February 2016. Spot market development remains an area where substantial legal and

<sup>24</sup> In the latest 2016 World Bank's Logistics Performance Index rankings, four out of the five economies remain in the bottom half in the 160 country rankings.

<sup>25</sup> Savings could exceed 900 million Euros or 1% of the region's combined GDP if logistics costs were brought in line with those of the EU.

institutional reforms are needed to reach the targets. Balancing, both in terms of developing national balancing markets and models for cross-border cooperation, is the area where the most notable achievements were made. Those WB economies that have already put in place a balancing market at national level moved further with the development of the cross-border balancing cooperation within their control blocks. Implementation of the cross-cutting measures is characterized by slow pace of national reforms towards adoption of the Third Energy Package, as well as a lack of enforcement measures to implement laws. The most critical elements are related to price deregulation, unbundling of system operators and regulatory independence.

As an important step towards integrated approach of energy and climate consideration, the Sustainability Charter was signed in July 2016. The Charter intends to improve prosperity, health and job creation, to ensure cleaner environment and transition towards the low-carbon and climate resilient development of Western Balkans. It focuses on improving governance for energy efficiency, implementing smart support measures aimed at increasing sustainability of energy systems, as well as on fostering climate action by improving greenhouse gases (GHG) monitoring and reporting systems in line with the EU legislation. Furthermore, the Ministerial Council of the EnC adopted a set of environmental acquis<sup>26</sup> as well as a recommendation on implementation of the Monitoring Mechanism Regulation<sup>27</sup>.

The region continued progress towards achieving RES 2020 targets (overall and three sectoral targets) as well as reaching of 9% of energy savings by 2018. During the reporting period Montenegro and Serbia adopted national Energy Efficiency Action Plans (EEAPs) while other economies are in process of their finalization. WB6 economies also continued implementation and monitoring of National Renewable Energy Action Plans and submitted the second biannual Progress Report on Promotion and Use of Energy from Renewable Sources (with the exception of Bosnia and Herzegovina).

The so-called CESEC (Central and South-Eastern European Gas Connectivity) Action Plan 2.0 was adopted in September 2016 by the CESEC High Level Group in Budapest. The Action Plan includes an updated list of actions designed to provide a joint response of the Signatory Parties of the CESEC Memorandum of Understanding to challenges related to security of gas supply and promoting source diversification.

Recognizing the potential and needs, RCC initiated inter-sectoral dialogue and in cooperation with the EnC Secretariat organized the first regional workshop on sustainable use of energy in transport, convening representatives of the two relevant line ministries per each of the region's economies. The initiative aims to foster sustainable mobility in WB and transformation towards low-carbon economy, having in mind that the transport sector is responsible for approximately ¼ of total final energy consumed in WB contributing to similar share of CO<sub>2</sub> emissions.

Regional cooperation in the environment dimension has picked up speed as well, with the Regional Working Group on Environment (RWG Env) taking a central role. The first high-level Ministerial Panel was held in April 2016 resulting in the endorsement of "Podgorica Declaration". The Declaration reaffirmed the political commitment for regional cooperation and expressed strong appreciation to the

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<sup>26</sup> On environmental liability, environmental impact assessment, strategic impact assessment and Sulphur in fuels.

<sup>27</sup> Regulation 525/2013/EU

aspirations of the SEE 2020 Strategy. Ministers agreed on holding regular annual high-level panels under the auspices of the RCC.

In line with the Paris climate accord, the historic legally binding agreement on keeping the global temperature rise well below 2°C entered into force on 4<sup>th</sup> November 2016. Parties of the United Nations Framework Convention on Climate Change (UNFCCC) agreed on enhancing the implementation of the Convention, including its objective, and to strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty. All Western Balkans economies (with the exception of Kosovo\*) submitted their commitments under the UNFCCC containing National Determined Contributions for CO<sub>2</sub> emission savings by 2030. Work on preparation of Strategies on climate change continued, but so far Montenegro is the only WB economy that adopted it (in September 2015). The level of alignment with climate change acquis is still limited and in a very early stage.

Several donor funded regional projects in the area of environment have also been engaged with the governments to align the regional agenda with the SEE 2020 goals, including on Sustainable Use and Protection of Biodiversity; Sustainable Management of Natural Resources through Water-Food-Energy Nexus approach, and Enhancing Environmental Performance and Climate Proofing of Infrastructure Investments. Regional initiatives (SWG RRD) focused on inter-sectoral cooperation between agriculture, rural development and sustainable management of natural resources. Development of model for integrated waste management supported cross-border areas in the SEE while selected rural regions benefited from the implementation of the Area Based Development approach. The European Commission continued with support for regional activities in the environment and climate change areas, with two upcoming regional projects designed to support regional environmental cooperation and climate action and transition towards a low emission and climate resilient economy.

The external competitiveness of the region has been slowly improving with strengthening of industrial structure caused in large part by FDI inflows which hovered around 6% of GDP in recent years – approximately double the level of other transition economies. Higher value-added industries in capital goods and durable consumer goods production have experienced above-average growth.

This was also reflected in regional cooperation in the area of competitiveness where RCC's Working Group on Industrial Policy (WGIP) commenced a regional dialogue on developing proposals for strengthening the SEE's industrial base. In this sense, related policy reforms and actions in developing joint value chains in priority industries have been deliberated. The RCC study on the SEE's economic corridors, carried out in cooperation with Turkish Economic Policy Institute (TEPAV), attempted to link the competitiveness, trade and transport dimensions of the SEE 2020 Strategy, identifying opportunities for strengthened economic activity along the region's existing (and planned) transport corridors.

Moreover, the Working Group on Industrial Policy has commenced benchmarking the SEE's economies in the process of policy convergence with the EU in all areas related to industrial policy and competitiveness, helping share best practices and establish synergies in (re)designing effective industrial policies for the future. To support this further, RCC involved EU's relevant institutions to participate in the process and support the region's convergence with the EU's industrial policies, but also in helping the region better utilize EU funding in this area.

Shifting the focus of regional work from policy to implementation, RCC's Tourism Expert Group developed a project proposal for a joint regional product in tourism industry, with a focus on cultural/historical, adventure/natural, and eno/gastro tourism, to be promoted jointly to the global travellers. The proposal has since been awarded funding by the European Commission and should begin implementation during the next reporting period.

The 2016 SME Policy Index was launched by the OECD during the reporting period covering ten policy areas which focus on topics of special relevance for SMEs, such as entrepreneurial learning, support services, innovation and access to finance for SMEs. In each of these areas and for each participating economy, the SBA Assessment provided detailed scores, qualitative analyses and tailored policy recommendations.

Finally, the WB EDIF's window for equity finance for start-ups and early stage companies (ENIF) became fully operational during 2016, with first investments being made (see Box 3). This will help expand the access to finance for innovative, early stage firms in the Western Balkans and help them tap into risk capital that was not commonplace in the region.

### **Box 3: Western Balkans Enterprise Development and Innovation Facility (WB EDIF)**

The Western Balkans Enterprise Development and Innovation Facility (WB EDIF), launched under the WBIF in 2014, and funded by the EU, was set up to improve access to finance for small and medium-sized enterprises (SMEs) in the Western Balkans. The European Commission, international financial institutions (IFIs), governments of beneficiary economies and bilateral donors pooled EUR 145million of initial capital with an intention to leverage around EUR 300 million of direct financing available for SMEs in the region. The facility operates through four main pillars:

- SME Equity Financing, that includes the Enterprise Innovation Fund (ENIF) supporting innovative SMEs in the Western Balkans from the early up to the development stage of the businesses by providing equity finance; and Enterprise Expansion Fund (ENEF) supporting established SMEs with a high potential to grow in the Western Balkans to support their further expansion;
- SME Guarantee Facility providing guarantees to financial intermediaries to incentivise them to build up new SME loan portfolios improving SMEs' access to bank lending;
- SME Lending to enable deployment of new lending instruments; and
- Support Services facility to support implementation of policy reforms to create a favourable regulatory environment benefiting innovative and high-growth SMEs in the region.

Up until the end of last year, WB EDIF has made five investments under the ENIF window with a total value of EUR 2.1 million, 6 investments under the ENEF window with a total value of EUR 24.6 million, and has put forward guarantees to local banks in the amount of EUR 19.7 million.

### **Implementation of Sustainable growth pillar activities during the reporting period**

As in the previous reporting period, the four dimensions of the Sustainable Growth pillar demonstrated varied progress during the past year. More notable developments were registered in the areas of transport and energy, which are underpinned by legal and institutional frameworks, as lie at the heart of the highest level political processes. External competitiveness has been slowly improving over the past five years, but further progress will depend on updated business practices and investment in innovation, which are at least as equally important as infrastructure, skills and efficient markets. The main structural bottlenecks to competitiveness also include a relatively poor business environment (again confirmed by the World Bank's Doing business report, with a notable exception of The Former



Yugoslav Republic of Macedonia – ranked the 10<sup>th</sup> in the overall ranking - and Serbia which was one of the top ten improvers over the past year), uncompetitive and rigid markets for network industries, cumbersome and unpredictable regulatory environment, weak access to finance, high share of FDI in non-tradeables and a large informal sector.

Progress was made in meeting the objectives of the transport dimension and the improvement of connectivity levels between WB6 and between WB6 and EU was pursued through the development of the indicative extension of TEN-T Core and Comprehensive network to the Western Balkans and the fulfilment of the Connectivity reform measures, as two complementary pillars. Positive developments were registered towards initialling the Transport Community Treaty. Yet, addressing the uneven tempo in implementing the Connectivity Reform measures necessitates even firmer commitments and redoubling of national efforts.

Visible progress has been registered on the energy dimension, including on aspects related to: balancing and electricity market development, support for EE and RES projects in the WB region, endorsement of the Sustainability Charter, progress towards RES 2020 targets and energy savings target, security of gas supply and promoting source diversification. Yet, further progress is required, especially on the enforcement of the third Energy Package.

Developments within the environment dimension have been marked by the region’s submissions of commitments for CO<sub>2</sub> emission savings (under the UNFCCC containing National Determined Contributions by 2030), reinvigorated regional cooperation within RCC’s Regional Working Group on Environment and the confirmation of highest political commitment for regional cooperation in this area. Still, further efforts are required to improve the alignment levels, especially with the climate change acquis.

The competitiveness dimension has registered slow improvements and strengthening of the industrial structure, while, on regional cooperation, implementation will ensue on the project for joint regional product development in tourism industry.

The following table provides a more detailed overview of the actions implemented in the four dimensions of the Sustainable Growth pillar.

**Table 12: Implementation of Sustainable growth actions during 2016/2017**

Measures/Actions	Activities and achievements 2016/2017	Expected Results 2017/2018
<i>Dimension H: Energy</i>		
Implementation of National Energy Efficiency Action Plans (NEEAPs), contributing to attaining EE savings targets	<ul style="list-style-type: none"> <li>• 3<sup>rd</sup> NEEAPs adopted in Montenegro and Serbia, drafted in other economies.</li> <li>• GIZ ORF EE supported development of 3<sup>rd</sup> EEAPs (mentoring approach) and use of MVP platform for reporting on savings achieved. MVP transferred to servers in SEE economies and becoming an official tool for reporting.</li> <li>• 3<sup>rd</sup> NEEAPs include policy measures to timely transpose new Directive 2012/27/EU on energy efficiency, incl. 2020 target.</li> </ul>	<ul style="list-style-type: none"> <li>• Adoption of 3<sup>rd</sup> NEEAPs in all WB 6 economies.</li> <li>• Transposition of the Directive 2012/27/EU, including setting of the new 2020 EE targets.</li> <li>• Organization of Sustainability Forum in June 2017.</li> </ul>

Measures/Actions	Activities and achievements 2016/2017	Expected Results 2017/2018
Support adoption of National Renewable Energy Action Plans (NREAP)	<ul style="list-style-type: none"> <li>The Second Progress Report on the Implementation of NREAP adopted and submitted to the Energy Community Secretariat (except for BiH).</li> </ul>	<ul style="list-style-type: none"> <li>The Second Progress Report on the implementation of NREAP for Bosnia and Herzegovina and continuation in implementation of NREAPs.</li> </ul>
Support implementation of key energy infrastructure projects (Projects of Energy Community Interest – PEI)	<ul style="list-style-type: none"> <li>The final list of Projects of Energy Community Interest (PEI) and respectively, Projects of Mutual Interest was endorsed by the Permanent High Level Group and approved by the Ministerial Council in October 2016.</li> <li>Regulations on Guidelines for Trans-European Energy Infrastructure (TEN-E) transposition and implementation is ongoing, in a deadline and with the content defined under R347, adapted and adopted by virtue of MC Decision 2009/15/MC-EnC.</li> </ul>	<ul style="list-style-type: none"> <li>Continue with the transposition of the TEN-E Regulation and implementation. Line up activities between ENTSO-E and PEI project groups (ECS) regarding future PEI/PMI processes.</li> <li>Prepare for the next PEI/PMI selection process, scheduled for the beginning of 2018.</li> </ul>
Create well-functioning regional energy market	<ul style="list-style-type: none"> <li>Continuation of implementation of connectivity reform measures in WB economies. By the end of 2016 economies implemented 50% of them.</li> <li>Memorandum of Understanding on Regional Electricity Market Development and Establishing a Framework for Future Cooperation was signed in April in Vienna.</li> <li>A functional day-ahead market is operating as of February 2016 in Serbia.</li> </ul>	<ul style="list-style-type: none"> <li>Further implementation of the Connectivity Reform Measures.</li> <li>Operating day-ahead markets in all WB economies.</li> <li>Cross-border balancing mechanisms in place.</li> </ul>
Improving sustainable use of energy in the transport sector	<ul style="list-style-type: none"> <li>An initial workshop on sustainable use of energy in the transport sector organized in October 2016 in Vienna by the RCC in cooperation with the EnC Secretariat.</li> </ul>	<ul style="list-style-type: none"> <li>Strengthening inter-sectoral and regional cooperation in relation to use of alternative fuels in the transport sector.</li> <li>Improvement of national capacities for broader deployment of biofuels, and achieving the mandatory RES 2020 targets.</li> </ul>
<b>Dimension I: Transport</b>		
Increase use of transport network Remove physical and non-physical barriers to development of the SEETO Comprehensive Network	<ul style="list-style-type: none"> <li>Registered progress on the implementation of the Connectivity reform measures, especially with regards to the national measures.</li> <li>Deployed EC Technical assistance (ConnecTA) with regards to the regional measures: ITS, Maintenance and Road safety.</li> <li>Completed survey of roadside facilities and established inventory of road ancillary infrastructure along TEN-T extension to WB.</li> <li>Published Study on electronic queuing management system (eQMS) which provides for a roadmap (entailing technical, legal and financial conditions) to the Western Balkans</li> </ul>	<ul style="list-style-type: none"> <li>Continued implementation of the connectivity reform measures.</li> <li>Securing of additional EU funds for the infrastructure priority projects listed in the Vienna Summit conclusions, depending on the progress in implementation of the connectivity reform measures.</li> <li>Advancing the regional soft measures by setting the regional framework for national implementation (SEETO, together with the ConnecTA experts).</li> <li>Piloting selected BCPs for eQMS, depending on funding availability.</li> </ul>

Measures/Actions	Activities and achievements 2016/2017	Expected Results 2017/2018
	<p>economies interested in the system.</p> <ul style="list-style-type: none"> <li>Launched Study on rail freight corridors and action plans for road safety.</li> </ul>	
<p>Harmonize with EU regulatory framework for transport</p> <p>Track progress in transport policy areas</p> <p>Improve quality and expand dissemination of research and analysis on key transport issues</p> <p>Implement Single European Sky (SES) in SEE 2020 region (JSPA initiative)</p>	<ul style="list-style-type: none"> <li>Initialising procedure for the Transport Community Treaty launched.</li> <li>Completed Study on air transport connectivity in WB, identifying clear connectivity gaps in air transport.</li> </ul>	<ul style="list-style-type: none"> <li>Signature of TCT and establishment and operationalization of TCT Secretariat.</li> <li>Strengthened regional coordination on air transport connectivity, through potential support for small scale ATM projects for the smaller airports in the region (TEN-T Comprehensive airports), with a purpose to increase their competitiveness the overall connectivity.</li> </ul>
<p>Measures to improve ratio of railway and waterborne transport</p> <p>Promote further liberalization of rail services / railway reform (in line with Addendum to MoU)</p>	<ul style="list-style-type: none"> <li>Despite insufficiently open rail markets, progress noted in individual WB6 economies (ex. Serbia: contract for usage of the railway infrastructure with private operator signed; Montenegro: legal and institutional preconditions in place; and in Kosovo*: new entrant is in the process of receiving the Safety Certificate).</li> </ul>	<ul style="list-style-type: none"> <li>Continuation of the railway reforms, further streamlined through SEETO Working group on railways and Working Group on transport facilitation.</li> </ul>
<p>Development of co-modal solutions</p> <p>Promote energy-efficient and environmentally friendly transport system</p>	<ul style="list-style-type: none"> <li>Targeted inter-modal pilot measures, as identified in completed Study on intermodality, are submitted as project proposals through the ADRION program.</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of recommendations and pilot measures identified within the regional Study on Intermodality (including through project applications).</li> <li>Further institutional support, coordination and promotion with respect to improving the intermodality prospects in WB secured within SEETO inter-institutional Working group on Railways and Intermodality.</li> </ul>
<b>Dimension J: Environment</b>		
<p>Strengthen capacity of REC, GWP-Med and SWG to provide appropriate support for regional actions under the environment dimension</p>	<ul style="list-style-type: none"> <li>Implementation of the program commenced in 2016. Activities under the climate change component were financed under the RCC Calls for grant program.</li> <li>Management and monitoring of implementation of work program was conducted in the frame of 2 regular meetings of the Regional Working Group on Environment in April and December 2016.</li> </ul>	<ul style="list-style-type: none"> <li>Continuous implementation of the work program, subject to available funding and its revision in 2017.</li> <li>Management and monitoring of implementation of work program via regular bi-annual meetings of the Regional Working Group on Environment.</li> </ul>
<p>Awareness raising and education on environment and climate change adaptation</p>	<ul style="list-style-type: none"> <li>Final draft of the Study on use of environmental networks as potential adaptation measures prepared (including Dinaric Arc).</li> <li>Training modules developed for: Public Health and Climate Security, Food security and Climate Change, Energy Security and Climate Change, Disaster Risk reduction and Climate security were developed. In addition training</li> </ul>	<ul style="list-style-type: none"> <li>Promotion of Study on use of environmental networks as potential adaptation measures (including Dinaric Arc).</li> <li>Finalization and promotion of the Themis Action Toolkit.</li> <li>Further implementation of pilot projects on municipal level.</li> <li>Further support network of local communities on water management</li> </ul>

Measures/Actions	Activities and achievements 2016/2017	Expected Results 2017/2018
	<p>materials under Themis project were developed and Themis Action Toolkit is under preparation.</p> <ul style="list-style-type: none"> <li>• Under CRESSIDA project for Building Local Community Resilience for Sustainable Development in International Watersheds Drini - Drina River Watershed, 10 pilot projects are supported during 2016-2017.</li> <li>• Within SLED project, a number of studies completed for electricity and building sectors, providing an assessment and proposing options for the low-emission development transformation of the electricity sector in four economies.</li> <li>• Enhanced cooperation and dialogue amongst stakeholders responsible for environmental law implementation and enforcement, through Themis targeted training, regular communication and networking exchange of best practices.</li> </ul>	<p>regional planning at river basin level: one regional activity autumn 2017.</p> <ul style="list-style-type: none"> <li>• Support to 4 municipalities on building up the local resilience, mainly on flood prevention through smart cities initiatives and pilot actions.</li> <li>• Three community education program on river basin management and water quality.</li> <li>• Integration to other bigger scale river management processes such as Drini and Drina Management plans.</li> <li>• One on-the-job waste database training and 2 IMPEL-Themis trainings are being scheduled.</li> <li>• Three SOPs are being finalized. All SOPs are to be implemented (pilot exercise).</li> <li>• Further contribution to LEDS EEP Annual Forum and Steering Committee meetings.</li> </ul>
<p>Measures for sustainable forest management that foster economic growth, environmental protection and rural development in the Western Balkan economies</p>	<ul style="list-style-type: none"> <li>• Themis activities, in particular publications and trainings on timber trade, on nature and water protection.</li> <li>• Established regional inter-sectoral coordination and cooperation at the interface between agriculture, rural development and sustainable management of natural resources.</li> <li>• Evidence-based policy assessments and gap analysis have been developed and have provided policy recommendations in respect to rural development.</li> <li>• Development of models for integrated waste management in rural and river basin cross-border areas in SEE.</li> <li>• Income generation from the sustainable use of natural resources has been fostered via implementation of the Area Based Development approach in selected rural regions.</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of the Themis Action Toolkit and of the SOPs would greatly facilitate awareness rising.</li> <li>• CRESSIDA project will further support addressing issues of water management at river basin level during 2017-2018 both in Drini and Drina watersheds.</li> <li>• Strengthen regional inter-sectoral coordination and cooperation at the interface between agriculture, rural development and sustainable management of natural resources within the established policy dialogue platforms and regional expert advisory working groups.</li> <li>• Implementation and testing of the results of the:</li> <li>• Assessment of the areas with natural constrains.</li> <li>• Implementation of the models for integrated waste management in rural and river basin cross-border areas in SEE.</li> <li>• Asses the legal framework and promotion of suitable agrobiodiversity in the SEE region.</li> <li>• Mapping and assessment of ecosystem and their services in the rural areas.</li> <li>• Increase income generation from the sustainable use of natural resources.</li> </ul>
<b>Dimension K: Competitiveness</b>		
Develop regional value chains	• Full project proposal for a regional	• Commencement of the Regional

Measures/Actions	Activities and achievements 2016/2017	Expected Results 2017/2018
<p>Support SME development</p> <p>Establish expert working groups in selected sectors (food and beverages and tourism) under the auspices of the SEE IC providing advice and guidance on policy actions.</p> <p>Boost entrepreneurial learning and women's entrepreneurship and enterprise skills</p>	<p>tourism action developed to implement the recommendations of the Tourism Expert Group,</p> <ul style="list-style-type: none"> <li>• Two meetings of the Industrial policy working group during the period.</li> </ul>	<p>tourism project</p> <ul style="list-style-type: none"> <li>• Continued work on the development of the regional value chains.</li> </ul>

## Conclusions and Recommendations

Despite evident progress, especially under the transport and energy dimensions, to progress towards meeting the SEE2020 sustainable growth objectives, the region will still need to:

- Pursue the development of the transport and energy networks in line with the infrastructure investment priorities for the core network, amidst the growing public debt levels;
- Accompany the infrastructure developments with reinvigorated efforts to implement the regulatory and connectivity reform measures;
- Conclude the Transport Community Treaty and ensure continued commitment towards development of multimodal Core/Comprehensive Network;
- Intensify efforts towards strengthening of the relevant administrative capacities; implementing and enforcing road safety legislation; adopting legislation on intelligent transport systems (ITS) and improving the capacity and resources for ITS implementation;
- Continue focus on railways sector reforms: strengthening the regulatory framework and capacities of the railway regulators and ensuring their financial and operational independence;
- Continue efforts aimed at creating single energy market while ensuring protection of the environment and shift to resource efficient and low-emission economy;
- Complete full transposition and enforcement of the Third Energy Package and full market liberalization;
- Pursue transformation of the energy market in line with growing contribution of intermittent renewable sources together with implementation of smart connectivity measures;
- Reinvigorate efforts for exploiting the huge energy efficiency potential (enforcement of energy performance of building requirements, audits and certification schemes, as well as energy labelling requirements (together with changing consumers' habits);
- Continue efforts towards providing affordable, sustainable and safe access to energy (primarily produced from "green" sources) and energy services for all WB citizens and creating conducive environment for investments in the energy sector;
- Utilize the political momentum resulting from the Paris Agreement as a driver for transition of the region towards climate neutral, resource efficient and low-carbon society;
- Strengthen regional efforts towards prudent use of natural resources, mitigation and adaptation to inevitable climate changes and develop integral consideration of climate and energy, reinforced by uniform and integrated bi-sectorial planning and reporting;

- Strengthen efforts towards meeting of international commitments in the area of sustainable mobility.
- Ensure better integration of private sector within policy deliberations and investment decisions, to maximize the benefits from increased connectivity within the region and with the EU,
- Support the emergence of viable economic corridors that depend on the level of economic activity between entrepreneurs, companies, industrial zones, clusters and value chains, with the aim of increasing connectivity, efficiency and density.
- Undertake further improvements in external competitiveness through productivity-enhancing reforms and investment.

## 2.4. INCLUSIVE GROWTH

*The Inclusive Growth pillar of the Strategy aims to develop a common agenda for the Western Balkan economies which emphasizes the creation of employment, the development of a skilled workforce, inclusive participation in the labour market and health and wellbeing for all, including for Roma. This agenda puts forward measures that are mostly of a regional nature and which tend to complement national priorities and actions. In the area of employment, the measures revolve around promoting job creation policies and enhancing governance of the labour market and to stimulate social economy initiatives. In the area of health, the agreed measures aim to increase the provision of universal health coverage and increase the quality of health services, harmonize cross-border public health legislation, to adopt multilateral agreements to strengthen human resources for health and to improve inter-sectoral governance for health.*

### Overview

The Western Balkan economies have increased the employment by roughly 380.000 jobs from an estimated 5.55 million in 2010 to 5.93 million in 2016 representing an increase of almost 7% in the overall employment number. In absolute numbers the employment increased most in Serbia and The Former Yugoslav Republic of Macedonia. Furthermore, the unemployment declined by an estimated 200.000 people from 23% to 21% of the labour force<sup>28</sup>.

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<sup>28</sup> Vidovic, 2017

**Table 13: SEE 2020 Target 10 – Employment rate, age group 20-64**

Economy	2010 (baseline)	2011	2012	2013	2014	2015	2016	2020 (target)	Progress from baseline towards target
ALB	60.3%	64.9%	62.4%	56.7%	56.6%	59.3%	62.1%	63.6%	55%
BOS	42.8%	42.5%	42.5%	42.8%	43.2%	43.2%	44.2%	48.8%	23%
KOSOVO*	n/a	n/a	29.7%	33.0%	31.3%	29.1%	32.3%	35.9%	42%
MNE	52.9%	50.9%	52.2%	52.6%	55.6%	56.7%	57.1%	57.7%	88%
SER	51.2%	49.2%	48.9%	51.2%	54.7%	55.9%	59.1%	61.1%	80%
MK	48.1%	48.4%	48.2%	50.3%	51.3%	51.9%	53.3%	57.5%	55%
<b>SEE6</b>	<b>48.7%</b>	<b>47.6%</b>	<b>47.0%</b>	<b>47.8%</b>	<b>48.8%</b>	<b>49.4%</b>	<b>51.4%</b>	<b>54.8%</b>	<b>57%</b>

Source: National Statistical Offices, RCC calculation

Note: New headline indicator, 2020 targets to be confirmed by the SEE 2020 Governing Board; For Albania, LFS time series revised as a result of the Population and Household Census 2011; for Serbia, break in LFS series in 2014, data are comparable for the periods 2010-2013 and 2014 – onwards.

The target of the inclusive growth pillar is to increase the employment rate in 2020 (as a percentage of the population aged 20-64) from 48.7% to 54.8%<sup>29</sup>. Western Balkan economies have had different performance in terms of their progress towards achieving the employment rate target of the SEE 2020 strategy. In Serbia and The Former Yugoslav Republic of Macedonia, employment has shown significantly positive signs of growth with increases of 7.9 and 5.2 points in the 20-64 employment rates, respectively. According to data from 2016, Montenegro is already at 88% of its 2020 employment target and Albania is on a good path to meet the employment target before 2020, with Bosnia and Herzegovina and Kosovo\* trailing the group. It is important to note that some of the economies have been more ambitious than others in setting this target. For example, as shown in the above table, Serbia's target is to increase the employment rate by 10.4 points and The Former Yugoslav Republic of Macedonia by 9.4, while at the other end, Albania's targeted increase is only 3.3 points.

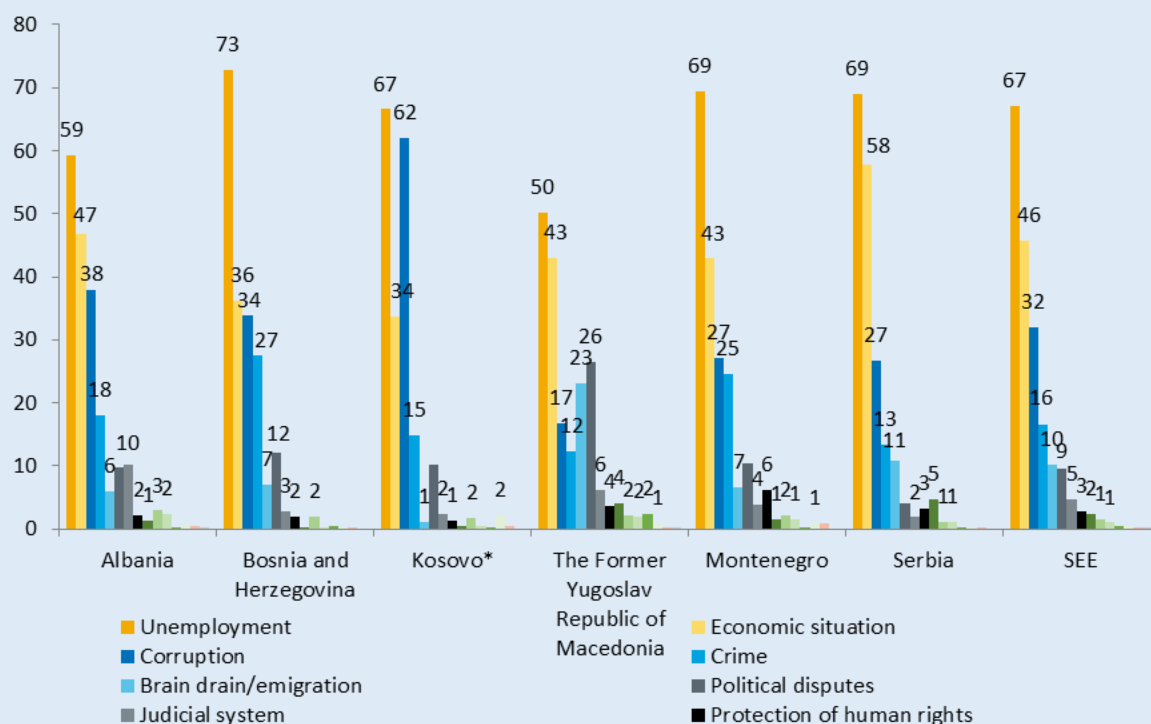
The emphasis that SEE 2020 strategy puts on job creation is echoed by the voice of the citizens in the region. For the third year in a row, the Public Opinion Survey of the Balkan Barometer 2017 confirms the employment as the main concern of the people. When asked what they think are the two most important problems facing the economy, 7 out of 10 citizens of SEE referred to unemployment in all of the economies of the region. Along with the economic situation, these stand out as the major concern of the citizens.<sup>30</sup>

<sup>29</sup> Replacing the previous Target 10 – Employment rate of the 15+ age cohort. The new 2020 target is proposed by the RCC based on the forecasting exercise of employment, unemployment and participation rates (see Box 1).

<sup>30</sup> Balkan Opinion Barometer, RCC, 2017

**Figure 6: Public opinion on the main challenges in SEE6**

*What do you think are the two most important problems facing your economy?*



The national employment strategies remain sectoral with an emphasis on the supply side policies and the central measures to tackle the unemployment remain to be the active labour market policies. Aspects of active labour market policy (or employment policy in narrow sense) appear to be over-emphasized at the expense of broader employment policy. The main explanation for this widespread phenomenon is that employment strategies in the region, unlike Europe 2020, or, for that matter, SEE 2020, are based on a more traditional sectorial approach, with a partial exception of Serbia and more recently The Former Yugoslav Republic of Macedonia. In general, supply side approach to employment and labour market policy creation still remains dominant in national employment strategies. Sometimes even the official names of employment strategies (as in Montenegro and Albania) include human resources and skills, thus emphasizing that the development of human capital is the defining component of employment strategy. Such approach is further augmented by priorities related to skill empowerment and enhancement via active labour market programs and activation policies for vulnerable groups. Priorities related to reforms of labour market institutions and general business environment bring some balance with their prevalent, although not exclusive, demand orientation<sup>31</sup>.

Similarly, the emphasis on the employment measures identified in the Economic Reform Programs has also been an orientation to supply-side policies with only two economies identifying job creation policies as one of the priorities. More specifically, the most frequently prioritized policy areas have been employment services, targeted activation measures, and education and training, each of which have been prioritized by five economies. Albania, Bosnia and Herzegovina, Kosovo\*, The Former

<sup>31</sup> Arandarenko, 2017



Yugoslav Republic of Macedonia and Montenegro have prioritized the reform of Public Employment Services (PES), mainly focusing on administrative and organizational reforms to improve efficiency of PES services and on the development of individual employment plans and other individualized services for clients. Albania, Bosnia and Herzegovina, Kosovo\*, The Former Yugoslav Republic of Macedonia and Serbia have prioritized reforms in the area of education and training that aimed at improving the quality of labour supply and on ensuring that education and training systems better serve the needs of the labour market.

Policy Area	ALB	BiH	Kosovo*	MK	MNE	SER	Number of economies prioritising the policy area
PA1: Legal and institutional framework	B, C	B, C*, C**			B, C	A, B, C	4
PA2(i): Job creation		B		B		B, C	3
PA2(ii): Employment services	B, C	B, C, C*, C**	A, B, C	A, B, C	A, B	B, C	6
PA2(iii): Targeted activation measures	C	B, C*	B, C	A, B		A, B, C	5
PA3: Social security and taxation	B	B, C					2
PA4: Work-life balance & gender equality	B, C				C		2
PA5: Education and training systems	B, C	B	A, B, C	B		A, B, C	5
PA6: Labour taxation (including undeclared work)		A, B, C**	A	A	B		4
PA7: Wage setting institutions		C**		A			2
<b>Number of policy areas</b>	<b>6</b>	<b>8</b>	<b>4</b>	<b>6</b>	<b>4</b>	<b>5</b>	

*Note: A=ERP 2015; B=ERP 2016; C= ERP 2017. Note: Policy consistency index ranges from 1 to 3 where 1=low to 3=high*  
*Source: RCC*

There has also been a focus on targeted active labour market policies (ALMPs) that address the needs of specific vulnerable groups - youth, elderly, women, people with disabilities, long-term unemployed and Roma. Specifically, five economies Albania, Bosnia and Herzegovina, Kosovo\*, The Former Yugoslav Republic of Macedonia and Serbia, have prioritized targeted ALMPs for vulnerable groups. In conditions of widespread unemployment, it is difficult to foresee that activation measures alone will secure jobs for individuals belonging to these groups in preference to better educated and more experienced workers. This is particularly true for the Roma as the ALMPs don't necessarily address the main root causes of the unemployment among Roma, namely long term unemployment, lack of employment experience, lack of competitiveness and discrimination by employers.

The national Roma Integration Strategies<sup>32</sup> aim to reduce the employment gap between Roma and the overall population, which is in line with the aim of the European Union's Framework for National Roma Integration Strategies. The latest available data collected for the "Roma Inclusion Index 2015" indicates

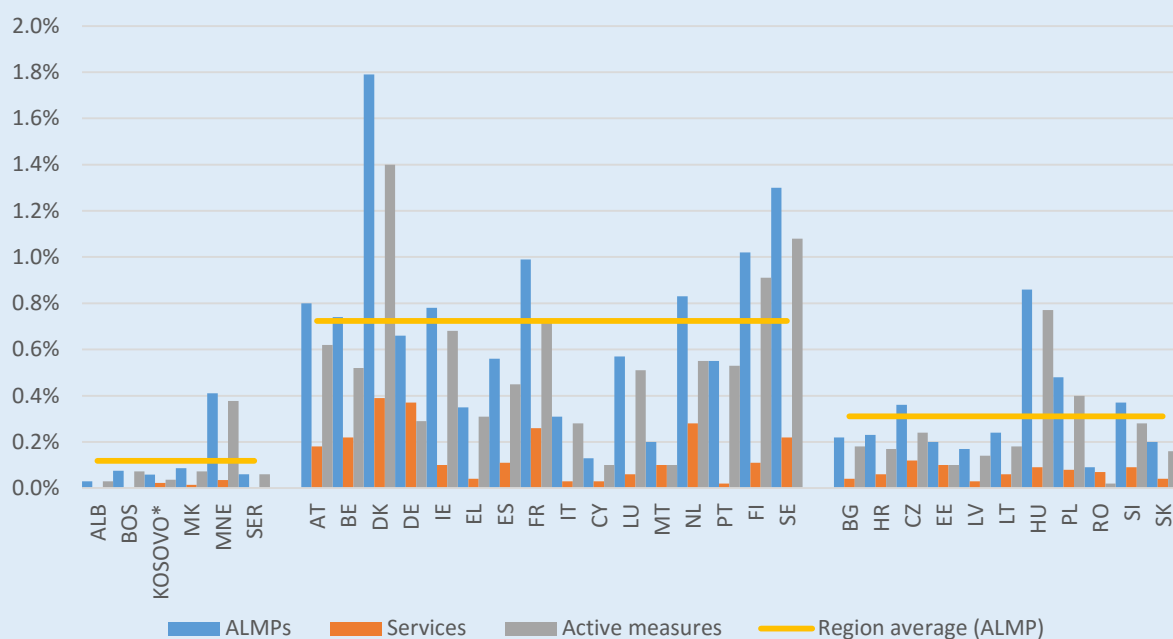
<sup>32</sup> All the national Roma Integration Strategies are available on the website of the Roma Integration 2020 project implemented by RCC: [http://www.rcc.int/romaintegration2020/docs\\_archive?search\\_type=2](http://www.rcc.int/romaintegration2020/docs_archive?search_type=2).

that there are positive trends towards reducing the gap in the employment rates of Roma and non-Roma; however the progress to closing the gap is very slow. The progress is also due to increased engagement of Roma in informal economy, while the rates of long-term unemployment are in fact increasing for Roma. Moreover, the gap in income between Roma and non-Roma is further increasing, which further increases the poverty gaps between Roma and non-Roma<sup>33</sup>.

The individual analyses of the ALMPs reveal a rather notable degree of variation between the economies in the region not only – and not so much – in the size of expenditures but rather in the numbers of beneficiaries and especially in the variability of measures in which policy effort is concentrated and thus also in the allocation of expenditures across measures<sup>34</sup>.

On the whole, expenditures on ALMPs are uncharacteristically low, both by comparison to the EU average and by comparison to other neighbouring economies such as Bulgaria, Romania, Croatia and Slovenia. On average (unweighted) across the Western Balkans, ALMP spending represents around 0.12% of GDP, a figure which is significantly skewed by the expenditures in Montenegro, which reach 0.41% of GDP – for the rest of the region, the figure ranges between 0.03% (in Albania) and 0.09% (in The Former Yugoslav Republic of Macedonia). These low figures are comparable to the figure for Romania (0.09%) but compare poorly to the figures found in Bulgaria (0.22%), Croatia (0.23%) and Slovenia (0.37%), as well as to the average of the EU former transition economies (0.31%) and to the ‘old’ EU Member States (0.72%)<sup>35</sup>.

**Figure 7: ALMP spending as a share of GDP in the region compared to EU, total and by category**



Source: RCC

Notes: Regional averages calculated for Western Balkans 6, former transition EU states and all remaining EU states (excluding the UK, for which data is not available). Data for the Western Balkans 6 are from own data collection and concern the year 2015. Data for EU Member States are from the Eurostat LMP database and concern the year 2014

<sup>33</sup> Decade of Roma Inclusion Secretariat Foundation, 2015

<sup>34</sup> Arandarenko, 2017

<sup>35</sup> ibid

The pressure on the public employment services has been rising over the past years as the number of beneficiaries has also been steadily growing. With the limited investments into the ALMPs the quality of service provision is of primary concern.

The analysis of the distribution of expenditures on different types of ALMPs reveals a rather important degree of diversity in the region. There are possibly four distinct groups: one formed by Albania and Kosovo\*, where effort is directed mainly on traditional labour market measures; a second formed by Bosnia and Herzegovina and The Former Yugoslav Republic of Macedonia, where a significant effort is allocated on start-up incentives; a third group represented by Serbia, where allocations seem to be closer to the ‘flexicurity’ model; and last a group represented by Montenegro, where effort is disproportionately concentrated toward measures for temporary employment and, secondarily, direct job creation<sup>36</sup>.

The second policy area covered under the Inclusive Growth pillar, the health dimension, is one which has faced severe difficulties in attracting attention and funding from the donors including EU assistance at the national and regional level, although health sector reforms feature highly on the national reform agendas.

The public sector health expenditures as % of GDP have been continuously low in all of the economies between 2010 and 2014.

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Albania	5.3	5.7	5.6	5.7	5.9
Bosnia and Herzegovina	9.6	9.7	9.9	9.5	9.6
Montenegro	6.9	6.9	7.2	6.4	6.4
Serbia	10.1	9.7	9.9	10.1	10.4
The Former Yugoslav Republic of Macedonia	6.8	6.6	6.8	6.1	6.5

*Source: WHO Global Health Expenditure Database.*

Austerity measures have led to further reduced spending in many parts of the health budget, especially in the area of pharmaceuticals and medical technology. While many of the most cutting-edge medicines and devices are reimbursed in principle for all citizens, the reality is that governments have cut health budgets in recent years, many face shortages or a complete lack of accessibility to the latest treatments, and some of the poorer economies often find it difficult to maintain access to even basic technology. Most governments in the region have poor systems for negotiating competitive prices for essential drugs and devices, reflecting the lack of a comprehensive system for assessing healthcare investments and, in some cases, local procurement practices<sup>37</sup>.

Universal health insurance remains inconsistent and out-of-pocket costs are rising across the region. While majority of the economies nominally guarantee universal healthcare, access to services can be

<sup>36</sup> Ibid.

<sup>37</sup> EIU, 2016

uneven and out-of-pocket costs remain high, accounting for as much as 40% of healthcare expenditures in Albania, Bosnia and Herzegovina and Kosovo<sup>38</sup>. The rising out-of-pocket costs further increase the potential corruption risks in the health sector, which has been perceived as particularly corrupt by the citizens of the region with the notable exception of Albania<sup>39</sup>.

The inconsistent universal health coverage and the rising out-of-pocket costs have a direct and disproportional impact on the disadvantaged population, including Roma, by limiting further their access to healthcare. Access to health insurance remains a challenge for the Roma population, even though some improvement has been made towards reducing the gap of access to health insurance of the Roma population compared to non-Roma<sup>40</sup>. The introduction of Roma health mediator programs implemented in a number of economies in the region as part of the Roma Integration Strategies have been instrumental in facilitating access to health insurance and health care for Roma. However, despite the positive results, economies have been reluctant to institutionalize the Roma health mediators.

### Implementation of Inclusive Growth pillar activities during the reporting period

Under the Employment dimension, the “Employment and Social Affairs Platform” (ESAP) has become the key instrument for regional cooperation in employment. The Employment and Social Affairs Platform (ESAP) aims to address the regionally shared structural employment and labour market challenges, including high unemployment and low employment rates coupled with high rates of labour force inactivity and low rates of job creation.

ESAP specifically provides, on one hand, demand driven support to the national administration in developing effective design, implementation and monitoring of implementation of national employment and labour market strategies, policies, measures and instruments. On the other hand, ESAP supports the modernization and capacity building process of the Public Employment Services (PES) in the Western Balkans with an aim of enhancing the efficiency and the delivery of PES services to the citizens, as well as preparing the PES to participate in the EU PES networks and activities as the accession process advances.

European Investment Bank (EIB) has been developing a Youth Employment Initiative under the WB EDIF framework to help alleviate youth unemployment in the region through a guarantee instrument to be marketed to banks in the Western Balkans. The Youth Employment Initiative is modelled on an existing EIB product implemented successfully in the EU, and starting in 2016, the EIB has deployed its own loan product, and has signed youth employment tranches for EUR 154m, of which the biggest portion is being implemented in Serbia.

Under the health dimension, the SEE Health Network continued to build capacity for quality health provision and improved governance of the health sector through a series of technical workshops and trainings, as well as a series of analytical studies. RCC has supported the SEE Health Network (SEEHN) to conduct a feasibility study for creating a platform for emergency and response in South Eastern Europe.

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<sup>38</sup> Ibid.

<sup>39</sup> RCC Public Opinion Barometer, 2017

<sup>40</sup> Decade of Roma Inclusion Secretariat Foundation, 2015

**Table 16: Implementation of Inclusive Growth actions during 2016/2017**

Measures/Actions	Activities and achievements 2016/2017	Expected Results 2017/2018
<b>Dimension L: Employment</b>		
<p>Enhance labour market governance for employment</p> <p>Improve the region's abilities to develop and implement employment policies</p> <p>Create harmonized data on migration and build capacity to assess labour market development and future skill needs</p> <p>Create a regional consultative process on mobility</p> <p>Abolish labour market restrictions in the region</p> <p>Enhance capacity of labour market institutions for policy making and the promotion of partnerships</p> <p>Forge innovative programs to tackle employment of vulnerable groups</p> <p>Tackle informal employment through exchange of information and experience</p> <p>Stimulate social economy initiatives</p>	<ul style="list-style-type: none"> <li>• Launched a demand driven technical assistance instrument under ESAP available to Ministries of Labour and Social Affairs and PES offices in the region.</li> <li>• Supported ministries of labour and social affairs in preparation of employment measures in the Economic Reform Programs and Employment and Social Reform Programs (ESAP).</li> <li>• Conducted an in-depth national and comparative analysis of employment policies of active labour market policies based on EUROSTAT methodology and provided a catalogue of active labour market policies in the region (ESAP).</li> <li>• Conducted a comparative study on performance management of PES in SEE (ESAP).</li> <li>• Developed a methodology for mutual-learning model in line with the EU mutual learning model on employment policies, measures and instruments for SEE (ESAP).</li> <li>• Developed a methodology for bench-learning for PES in line with the EU PES network model (ESAP).</li> <li>• Provided a regional framework and technical and expert support to governments for effective and EU aligned cycle of Roma inclusion policies in employment (RI2020)</li> <li>• Improved budgeting and monitoring of Roma employment inclusion policies at regional and national level (RI2020)</li> </ul>	<ul style="list-style-type: none"> <li>• Implement mutual-learning model for Ministries of Labour and Social Affairs.</li> <li>• Implement bench-learning for PES.</li> <li>• Launch the Employment and Social Affairs Platform.</li> <li>• Continue the technical assistance to the Ministries of Labour and Social Affairs and PES.</li> <li>• Increased pace and impact of the Roma inclusion policies, yielding tangible results for Roma in employment, according to the strategic goals set in Roma Integration Strategies and National Action Plans until 2020 (RI2020)</li> </ul>
<b>Dimension M: Health</b>		
<p>Strengthen the delivery of universal and high-quality health promoting services at all level of care</p> <p>Strengthen and improve the inter-sectoral governance of the health sector</p> <p>Harmonize cross-border public health legislation and enable a Free Trade Area from public health perspective</p> <p>Adopt multilateral and bilateral agreements to strengthen human resources for health, harmonize and mutually recognize health professionals' qualifications</p>	<ul style="list-style-type: none"> <li>• SEEHN conducted a study on Health Economic Footprint in SEE aimed at identifying most promising avenues for investment in health to promote inclusive growth and address underlying determinants of improved health development in SEE.</li> <li>• With RCC, SEEHN completed a Study on "Establishing a cross border platform for emergency and response in South Eastern Europe".</li> <li>• A series of capacity building events aimed at improving quality provision of health and strengthen governance of the health sector were organized by SEEHN.</li> <li>• Provided a regional framework and technical and expert support to governments for effective and EU</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to promote the importance of national investment in health sector for economic growth.</li> <li>• Continue capacity building for provision of universal quality health care and improved governance of the health sector.</li> <li>• Increased pace and impact of the Roma inclusion policies, yielding tangible results for Roma in health, according to the strategic goals set in Roma Integration Strategies and National Action Plans until 2020 (RI2020)</li> </ul>

Measures/Actions	Activities and achievements 2016/2017	Expected Results 2017/2018
	<p>aligned cycle of Roma inclusion policies in health (RI2020)</p> <ul style="list-style-type: none"> <li>• Improved budgeting and monitoring of Roma health inclusion policies at regional and national level (RI2020)</li> </ul>	

### Conclusions and Recommendations

Overall a positive trend of increased employment rates can be noted in the SEE; however there are significant differences between economies. The investment into the Active Labour Market policies is low, with each economy developing a specific mix of active labour market measures. While some of the ALMPs aim to address the needs of specific vulnerable groups - youth, elderly, women, people with disabilities, long-term unemployed and Roma, in conditions of widespread unemployment it is difficult to foresee that activation measures alone will secure jobs for individuals belonging to these groups in preference to better educated and more experienced workers. The national employment strategies, as well as the measures prioritized under the Economic Reform Programs, remain sectoral with an emphasis on the supply side policies and the central measures to tackle the unemployment remain to be the active labour market policies.

The public health systems have been under significant budget constraints which had an impact on the accessibility to the latest treatment, medicine and technology in the region. As the budget constraints persist the universal health insurance will continue to remain inconsistent and out-of-pocket costs will continue to rise across the region which will further the risk of corruption in the health sector and have a devastating impact on the disadvantaged population in the region. This is particularly relevant for Roma as they suffer from deeper poverty than others combined with widespread discriminatory practices.

To bring all of the economies closer to reaching the employment target and to ensure that the opportunities for employment are equitable for all groups in society it is important to:

- Develop policies to address developing a steady pace of job creation which will at the same time ensure the sustainability and quality of new jobs. Additional considerations to job-creation measures, as well as measures increasing the active portion of each economy's labour force through well-targeted activation measures should be taken into account.
- Carry out reviews of active labour market policies with a view of improving coverage and targeting with an aim of enhancing the impact of ALMPs in particular towards vulnerable groups, e.g. long-term unemployed, youth, women, Roma, etc. Coordinated regional approach is needed with innovative ideas that would target the main root causes of the unemployment among Roma, namely long term unemployment, no employment experience, lack of competitiveness and discrimination.
- Develop policies and measures to actively address and find avenues to formalize informal and shadow labour market employment.
- Enhance the capacities of the public employment services and the quality of provision of active labour market measures with specific development of capacities to address the needs of vulnerable groups, including Roma.

- Continue to raise awareness of importance of investment into health sector in the region and efforts to build capacity to provide universal health coverage and access to quality provision of health services to all, including Roma for which institutionalization of Roma health mediators should be considered over the next period.

## 2.5. GOVERNANCE FOR GROWTH

*The Governance for Growth pillar seeks to ensure: well-functioning, responsive, transparent and efficient government institutions at national and sub-national level; increased transparency and contained corruption in dealing with business and the public; and more efficient and competent judicial systems, as the main building blocks of a sound business environment conducive to growth.*

This pillar comprises three interlinked dimensions: A) Effective Public Services, where the emphasis is on improving quality of public services and upgrading policy and regulatory capacities of public administration; B) Anti-corruption, that aims at increasing transparency and accountability of public institutions, and C) Justice, that focuses its activities on achieving an improvement in the functioning of the judicial system in SEE. An independent, efficient and accountable judiciary is also a sine qua non precondition for the rule of law, democracy and human rights protection.

These cross-cutting elements of the SEE 2020, relating to effective public services, anti-corruption and justice, are the key prerequisites for the achievement of the Strategy's objectives and for the effective implementation of the Strategy's policy measures. They can significantly influence overall success expected as a result of the activities implementation under the four other pillars. This approach aligns with the "Fundamentals first" principle of the EU Enlargement Strategy, which places rule of law, including anti-corruption and public administration reform, as key area to be tackled within the framework of European integration of the SEE.

### Overview

The regional headline target of the Governance for Growth Pillar is to improve the average regional score on the World Bank's Worldwide Governance Indicators from 2.2 to 2.7. The original regional baseline (2.3) and target (2.9) were amended to reflect Croatia's withdrawal from the SEE 2020 monitoring. The index is a composite that measures citizens' perception of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation and the credibility of the government's commitment to such policies, thus indicating where improvements are required.

The performance of regional economies on governance indicators has been moderate. 2016 Annual Report on Implementation indicated that the overall government effectiveness ratings were among the lowest in Europe, and improvements so far, while moving the region closer to the 2020 targets, have still been fairly modest in absolute figures, the reason being that the national targets set were rather conservative. Compared to last year, when all of the region's economies recorded progress, this year's data reveals a backtracking of all of the region's economies, except for Albania. However, even with this negative development, the overall progress towards reaching the target is substantial, again, mostly due to relatively unambitious targets set by the economies.

Given the time lag in compiling and publishing these indicators and the overall political developments in some of the economies in the region, we can expect similar, mixed progress to be recorded in next year's report as well.

**Table 17: SEE 2020 Target 11 – Government Effectiveness**

Economy	2010 (baseline)	2011	2012	2013	2014	2015	2020 (target)	Progress from baseline towards target
ALB	2.2	2.3	2.2	2.2	2.4	2.5	2.7	68%
BOS	1.8	1.7	2.0	2.0	2.0	2.0	2.1	52%
KOSOVO*	1.9	2.0	2.1	2.1	2.2	2.1	2.3	51%
MNE	2.6	2.6	2.6	2.7	2.8	2.7	3.1	14%
SER	2.4	2.4	2.4	2.4	2.6	2.6	2.9	33%
MK	2.3	2.4	2.4	2.4	2.7	2.6	2.8	61%
<b>SEE6</b>	<b>2.21</b>	<b>2.2</b>	<b>2.3</b>	<b>2.3</b>	<b>2.44</b>	<b>2.41</b>	<b>2.65</b>	52%

*Source: Worldwide Governance Indicators*

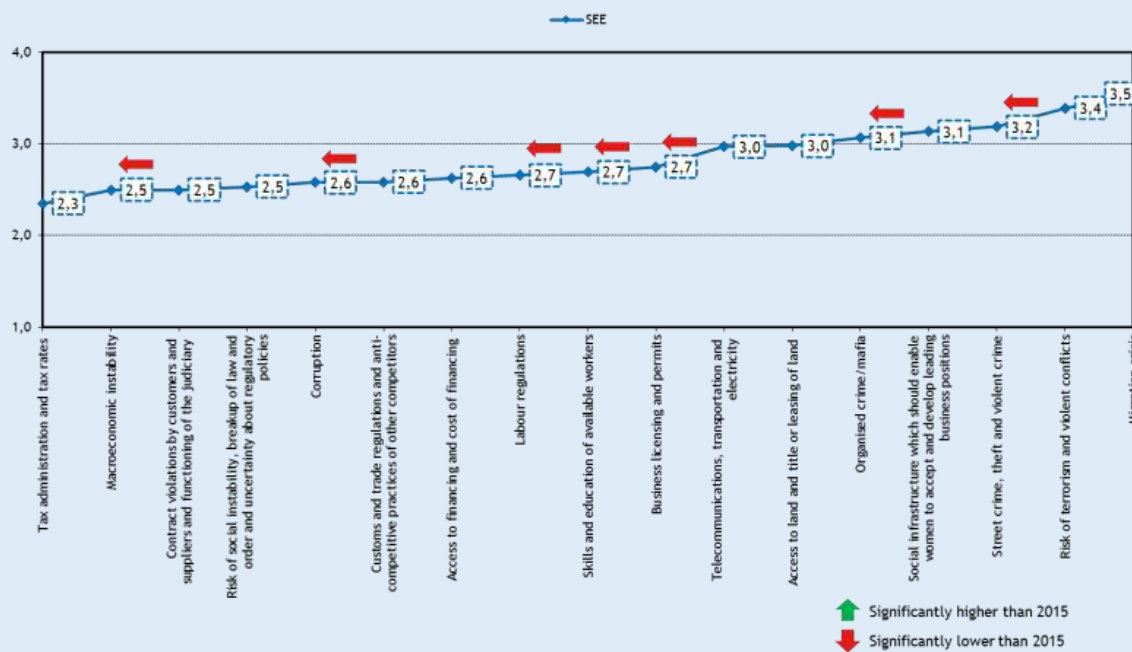
Independence and accountability of the judicial systems is still viewed as fragile, even though some progress is evident. European Commission's Progress Reports' assessments show that in the rule of law area, most economies have undertaken serious efforts to modernize the legal frameworks and infrastructure of their judicial systems. New institutions - such as the Montenegrin Anti-Corruption Agency - have been established, and substantial efforts were deployed to foster specialization, both in the police and within the judiciary. Albania unanimously adopted constitutional amendments in July 2016, which provide the basis for a deep and comprehensive judicial reform. Although the EC's assessment compliments the above-noted developments, most economies must reinvigorate their efforts to increase the independence, capacities and accountability of their judicial systems. In terms of regional efforts and cooperation, the focus has been in peer-to-peer support, capacity building and court backlog reduction by promotion of mediation as alternative dispute resolution instrument.

Citizens and businesses are feeling the pressure as well. The business and public attitudes provide a fuller picture on the described situation and results felt on the ground. In this context, the Business Opinion part of the Balkan Barometer shows increased concerns about corruption as an obstacle for operation and growth of business as compared to the previous year, while the policy and institutional framework, as well as their insufficient implementation, continue to be the main obstacles to growth and employment in the region. Nevertheless, caution must be used when interpreting these perception based data, as these higher rates as compared with last year may be the result of a better understanding and better awareness of corruption risks, rather than higher rates of corruption.



**Figure 8: Main obstacles as perceived by business**

How problematic are these different factors for the operation and growth of your business? Can you please rate each?  
 (1 Major obstacle, 2 Moderate obstacle, 3 Minor obstacle, 4 No obstacle, 5 DK/NA)  
 (all respondents, N=1404)



Source: Balkan Barometer 2017

The Business Opinion of the Balkan Barometer show also that very modest progress is perceived when it comes to attitudes regarding how much the governments in the region take into account businesses' concerns, or how they consult and involve private sector when developing new laws and regulations for doing business. Similar perceptions are recorded even in regard to what are the major obstacles to doing business. Most companies report institutional factors as prohibitive to doing business, functioning of the judiciary, regulatory uncertainty and inefficient tax administrations topping the chart.

Corruption in particular has yet again been pointed by the region's citizens (Public Opinion part of the Balkan Barometer) as a third major concern for the third year in a row, right after unemployment and economic situation. The number of those who disagree that their government fights effectively against corruption remained unchanged compared to last year. As mentioned above, the same caution should be exercised in interpreting these data, as they can be the result of better awareness and understanding of the corruption risks.

### Implementation of Governance for growth pillar activities during the reporting period

The main priority during the previous period has been to streamline activities in governance for growth as part of the SEE 2020 Strategy, with the purpose of identifying the best opportunities to enhance the regional cooperation in support of national efforts. The activities in the area of Governance for Growth became more focused, building up on the previously achieved results as well as efforts invested by the regional dimension coordinators and the RCC.

In Effective Public Services area significant efforts have been devoted to upgrading policy and regulatory capacities as a key measure of the Strategy. In the course of 2016, several public

administration and decentralization reform efforts of the relevant regional cooperation mechanisms in SEE, such as the Regional School for Public Administration (ReSPA) and the Network of Associations of Local Authorities of SEE (NALAS), have been implemented. RCC and ReSPA have focused in particular on the improvement of the quality of public services, upgrading of policy and regulatory capacity, the continuous improvement of public officials' capacities, and of e-government. ReSPA-led activities in the field of administrative legal framework and administrative justice, on better regulation and on upgrading regulatory capacities of public administration were also supported by RCC.

NALAS assisted in development of a new draft Law on Local finances in Albania which would ensure adequate financial resources for local government services. Furthermore, NALAS Quick Response (QR) service in 2016 provided contribution to member local government associations in formulating policy positions and strengthening their regulatory initiatives by using the regional experiences.

In addition, the RCC has launched in 2017 a new activity to assist governments in Western Balkans to improve their practices on public consultations in drafting legislation and public policy documents. This activity is carried out in partnership with the Regional School of Public Administration, and it is synchronized with SIGMA and USAID actions on this topic.

The expected long term outcome is to provide knowledge and skills for governments to design policies and legislation in an inclusive manner, enabling active public participation, including non-governmental organizations, private sector and advisory bodies.

In order to promote the subsidiarity principle as a key to decentralization as foreseen by the SEE 2020 Strategy, the RCC assisted NALAS through the project called "Towards SEE Decentralization Observatory" that was implemented through 2016. The project aimed at boosting the application of the subsidiarity principle in delivery of public services in SEE as per the standards of the European Charter of Local Self Government and at putting in place the proper conditions for decision-making to establish the SEE Decentralization Observatory.

Regional efforts on anti-corruption were more focused on the prevention side. Numerous activities were carried out by the RCC and the Regional Anti-corruption Initiative (RAI) as the Dimension Coordinator. RAI focused on measures towards transparent rules, mostly through such preventive measures as corruption risk assessment in public institutions and anti-corruption assessment of laws. As a follow-up on the previously developed RCC/RAI Regional Methodology on Corruption Risk Assessment in Public Institutions and Regional Methodology on Anti-corruption Assessment of Laws, technical assistance was provided with the aim of building and strengthening capacities of governments and civil society organizations from SEE to prevent and fight corruption. RAI provided assistance and expertise to authorities of targeted economies, through identification of the best model tailored to national circumstances of corruption risk assessment and corruption proofing of legislation. It also assisted them in developing the national methodologies, and provided trainings on corruption risk assessment and corruption proofing of legislation. National methodologies have been aligned with the regional methodologies on corruption risk assessment in public institutions and anti-corruption assessment of laws. Specifically, authorities in Albania, Bosnia and Herzegovina, The Former Yugoslav Republic of Macedonia, Moldova and Serbia developed or upgraded their related mechanisms to assess the laws under an anti-corruption angle, and to carry out corruption risk assessments in public institutions.

Significant progress in the field of public awareness on corruption and anti-corruption has been made in 2016. With the help of the RCC, RAI Secretariat implemented the Project “Whistleblowers are important - Raising Awareness about the Whistleblowing in South East Europe”. Overall objective of the Project was to improve the status and the protection of whistleblowers in SEE. The main result of the Project was production and wide distribution of documentary about the whistleblowing and whistleblowers protection in SEE. Furthermore, several activities have been carried out in order to further enhance and foster cooperation between public sector and civil society at a regional level, as well as to increase capacity of relevant public institutions about protection of whistleblowers and needed legal solutions in South East Europe. The work of the Southeast Europe Whistleblower Coalition continued to be supported by both the RCC and RAI. The world’s first regional initiative dedicated to Whistleblowing became fully sustainable. The Coalition serves as an umbrella function for policy-making, advocacy and awareness-raising efforts as well as a network for exchange of knowledge, experiences and support. On top of that, the RCC conducted a regional survey to examine for the first time how citizens in Southeast Europe view whistleblowers and the practice of whistleblowing.

In the area of Justice, the RCC established Regional Working Group on Justice (RWGJ) maintained its central role in the area of regional cooperation on justice reform. RCC’s Working Group on Justice, based on EC’s Progress Reports and national plans and strategies in the area of justice identified two areas with significant value added from strengthened regional cooperation: judicial training as a precondition for the improved competencies of judiciaries and mediation as a tool for enhancing efficiency of judiciaries by reducing court backlogs. Both processes are tools for combating corruption, thus improving business friendly environment and creating cross-border instruments to support efficient procedures in the area of business and foreign investments.

In 2016 RCC established SEE Judicial Training Institutions Network and SEE Associations of Mediators Network and the RCC started to serve as a hub and a focal point for regional activities in the field of judicial training and court annexed mediation.

The SEE Judicial Training Institutions Network continued to provide a platform for peer support, exchange of experiences and identifications of the needs of the Western Balkans’ judiciary training institutions. It served also as a link with partner institutions of the EU Members and with the relevant European institutions. The work of the network was focused on enhancing mutual legal assistance between judiciaries in the region, cross-border cooperation in civil and commercial matters, as well as on improving competences of judges in EU case law through regional seminars with relevant European institutions and with SEELS for training of trainers at regional level. In cooperation with European judicial training institutions RCC as a hub of SEE JTI Network organized regional seminars for judges and prosecutors in international law, ethics, English legal terminology and other topics of common interest. In addition to European institutions, RCC links the SEE JTI Network with SEELS (SEE Schools of Law) and CSO active in judicial training.

The SEE Associations of Mediators Network established a dialogue between representatives of mediators and ministries of justice on the possibilities of reforming legislation in favour of mediation, but also on raising awareness about mediation as a tool for court backlog reduction. The Network serves also as a platform to report and exchange experiences on the implementation of the RCC’s studies on mediation and court backlogs reduction recommendations. The network helped to raise

awareness in particular among business partners on the possibility to resolve disputes by mediation and not through litigation as a long lasting, expensive and often unpredictable process.

During 2016, the RCC and GIZ ORF-LR started to implement the 20-months sub-project on “Improving the regional cooperation between Western Balkans’ Judicial Training Institutions”, aimed at preparing and train the trainers for judges and prosecutors at regional level.

**Table 18: Implementation of Governance for Growth actions during 2016/2017**

Measures/Actions	Activities and achievements 2016/2017	Expected Results 2017/2018
<i>Dimension N: Effective Public Services</i>		
Upgrade Policy and Regulatory Capacities	<ul style="list-style-type: none"> <li>• The Better Regulation Baseline Tables produced by the study in 2015, were used for benchmarking in 2016.</li> <li>• Supported preparation of a comprehensive comparative regional study on Better Regulation efforts in Western Balkans (ReSPA).</li> </ul>	<ul style="list-style-type: none"> <li>• Publishing and dissemination of the comparative regional study on Better Regulation will further contribute to benchmarking and raising political awareness in the region on the importance of a strategic approach towards Better Regulation.</li> <li>• Analysis in the field of public consultations in the process of legislation drafting shall produce recommendations and contribute towards improvement of quality of public consultations.</li> <li>• Specific training for drafters of legislation in the area of Administrative Law on performing full regulatory impact assessment (RIA), shall contribute towards improvement of legislation in the field of administrative law.</li> </ul>
	<ul style="list-style-type: none"> <li>• NALAS supported development of new draft Law on Local finances in Albania expected to ensure adequate financial resources for local government services.</li> <li>• NALAS Quick Response (QR) service in 2016 provided contribution to member LGAs in formulating policy positions and strengthening their regulatory initiatives by using the regional experiences.</li> </ul>	<ul style="list-style-type: none"> <li>• NALAS Quick Response service, as a demand-based service, will continue to help member LGAs use the experiences of SEE economies in formulating their policy positions and the needed legal changes. It is expected that the policy dialogue on over 20 new laws will be supported with this instrument during 2017.</li> <li>• Continued support to member LGAs in addressing national legal challenges for improving the role of local government and stimulating sustainable development.</li> <li>• NALAS new Strategic Plan 2022 to focus mainly in promoting local economic development.</li> </ul>

Measures/Actions	Activities and achievements 2016/2017	Expected Results 2017/2018
<p>Improve the quality of public services</p>	<ul style="list-style-type: none"> <li>• ReSPA has initiated comparative regional study on Quality Management in Public Administration. It will be followed by the feasibility study devoted to establishment of Regional Quality Management Centre within ReSPA. The feasibility study will provide the decision makers with the sufficient information to justify acceptance, modification or rejection of the proposed establishment of Regional Quality Management Centre (ReSPA QMC) in the future. At the end of 2017 the preparatory work on data quality will be made.</li> </ul>	<ul style="list-style-type: none"> <li>• The comparative regional study encompassing regional and economy specific recommendations on Quality Management in Public Administration will be published and disseminated followed by finalization and dissemination of the feasibility study devoted to establishment of Regional Quality Management Centre.</li> <li>• Organizing 10th ReSPA Annual Conference which will consolidate and present the best practices and innovative elements in domain of PA with an emphasis on QM in public administrative expected outputs i.e. results will fine tune ReSPA action plan for 2018 and onwards in respective area.</li> </ul>
	<ul style="list-style-type: none"> <li>• NALAS elaborated Concept and Methodology for establishing a Regional Decentralization Observatory in South Eastern Europe.</li> <li>• Second edition of the NALAS Report on Solid Waste Management benchmarking in SEE for 2015.</li> <li>• NALAS Task Force on Solid Waste and Water Management developed a Methodology for Benchmarking of Good Governance in Water and Sanitation Sector for SEE.</li> <li>• Product package on Asset Management in Water and Sanitation Sector including a Toolkit for Decision Makers; E-learning Course and the web based application tool.</li> </ul>	<ul style="list-style-type: none"> <li>• Steps towards Establishing of Regional Decentralization Observatory as per the Concept and Methodology. Securing funds for Establishment and functioning of the Regional Decentralization Observatory.</li> <li>• Preparation of the third edition of the NALAS Report on Solid Waste Management benchmarking in SEE as well as development of regional policy directions.</li> <li>• Conducting of a Market Study and Business planning for the product on Asset Management in Water Sector.</li> <li>• Piloting of the developed Methodology for Benchmarking of Good Governance in Waters sector at local level in SEE.</li> <li>• Securing funds for applying the Methodology in the SEE.</li> </ul>
<p>Introduce a procedure for continuous improvement of the competence of public officials (professionalization)</p>	<ul style="list-style-type: none"> <li>• ReSPA has commissioned a Comparative Study on coaching to deliver conclusions and recommendations for the implementation of coaching in public service in the Western Balkan.</li> <li>• Enhanced regional capacities on Leadership Development System.</li> </ul>	<ul style="list-style-type: none"> <li>• Recommendations from ReSPA's comparative study on Coaching in public administrations in SEE economies will be an important guide for further national public administrations' reform processes.</li> <li>• Starting from the baseline analysis on gender equality in public administration in the SEE region, which will be developed by the European Commission, ReSPA will organize a series of national workshops in the region devoted to presentation of the results of the Analysis and promotion of the women's equal participation in public administration, their empowerment, and expanded participation in policy-making and leadership.</li> </ul>

Measures/Actions	Activities and achievements 2016/2017	Expected Results 2017/2018
	<ul style="list-style-type: none"> <li>• Local Leaders in Southeast Europe: Lead for Change (LL SEE), NALAS with partner LGAs and GIZ developed four national and joint regional training delivery schemes for leaders and managers of the local governments and public utility companies in SEE.</li> <li>• LGAs training offer is now enriched with five new training modules for leaders and managers:</li> <li>• Efficient organization and effective management of communal services,</li> <li>• Preparations for infrastructure investment projects,</li> <li>• Development of infrastructure investment projects,</li> <li>• Implementation of infrastructure investment projects, and</li> <li>• Results-based strategic program planning and management.</li> <li>• A pool of 33 trainers is created</li> <li>• In total 20 national trainings were delivered and 1 regional training in the four project economies, covering 400 leaders and managers in the water sector.</li> </ul>	<ul style="list-style-type: none"> <li>• The approach of LL SEE will be scaled up within the upcoming project, Regional Capacity Development Network (RCDN), financially supported by SECO and BMZ, implemented by GIZ, in partnership with the LGAs and APUCs from SEE.</li> </ul>
<b>Dimension O: Anti-Corruption</b>		
<ul style="list-style-type: none"> <li>• Transparent rules</li> <li>• Competitive procedures</li> <li>• Use best practice methodologies for assessing corruption risk in public institutions in SEE 2020 economies</li> <li>• Enhance ‘corruption-proofing’ of legislation in SEE 2020 economies</li> <li>• Capacity building for law enforcement agencies and judiciary</li> </ul>	<ul style="list-style-type: none"> <li>• Analysis and expert opinion for introducing the concept of corruption risk assessment / corruption proofing of legislation in the national legislative framework and/or administrative practice have been produced (3 economies).</li> <li>• Legal proposals are prepared for introducing the concept of corruption risk assessment / corruption proofing in the national legislative framework and/or administrative practice (3 economies).</li> <li>• National methodologies for corruption risk assessment / Corruption proofing have been developed/improved (4 economies).</li> <li>• Training for governments’ officials in carrying out corruption proofing of legislation was organized (1 economy).</li> <li>• Presenting the Regional Programme at several regional events and platforms.</li> </ul>	<ul style="list-style-type: none"> <li>• Development /improvement of the national methodologies on corruption risk assessment and corruption proofing for remaining targeted economies.</li> <li>• Legal proposals prepared for introducing the concept of corruption risk assessment and corruption proofing of legislation in the national legislative framework and/or administrative practice for remaining targeted economies.</li> <li>• IT tool based on national methodologies on corruption risk assessment and corruption proofing of legislation are developed and put in use by trained government officials.</li> <li>• Organization of the Regional workshop on transparent rules, aiming at building capacities of anti-corruption agencies and strengthening regional cooperation between anti-corruption professionals / sharing of expertise and experience from the region.</li> <li>• Continue to communicate the achievements of the Regional Programme to partners and stakeholders using available regional</li> </ul>

Measures/Actions	Activities and achievements 2016/2017	Expected Results 2017/2018
		platforms and ad-hoc events.
	<ul style="list-style-type: none"> <li>Continued cooperation with UNDP Istanbul Regional Hub towards development of joint interventions in the field of public procurement and/or other related areas.</li> </ul>	<ul style="list-style-type: none"> <li>Project identified and developed with partners.</li> <li>Fundraising completed with donors.</li> <li>Organization of the regional event on prevention of corruption in public procurement.</li> </ul>
Ensure greater awareness among civil society of actions to combat corruption and better cooperation across organizations	<ul style="list-style-type: none"> <li>Documentary on whistleblowing titled "Medal of the Loud" was produced and distributed region wide.</li> <li>2<sup>nd</sup> meeting of the Southeast Europe Coalition of Whistleblower Protection organized.</li> <li>Regional Workshop on Corruption Reporting and Whistleblower Protection organized, with the objective to increase capacity of relevant public institutions about protection of whistleblowers, as well as to increase awareness about needed legal solutions in SEE.</li> <li>Cooperation with the SELDI Network and using the platform for dissemination of WB work.</li> </ul>	<ul style="list-style-type: none"> <li>Continue engaging the wider public and professional community in the discussion about whistleblowers in public and private sector by promoting the results achieved so far by engaging media and social media.</li> <li>Support the work of the SEE Whistleblower Coalition.</li> <li>Cooperation between public sector and civil society enhanced and fostered by: Involving non-governmental sector and organizing joint activities; and identification of effective measures to prevent corruption - joining efforts and actions against corruption.</li> </ul>
	<ul style="list-style-type: none"> <li>Specialized training (Summer School) on financial investigations and asset recovery was organized for anti-corruption practitioners from the judiciary, prosecution bodies and law enforcement agencies.</li> <li>Organization of regional meetings of integrity experts, who developed the draft regional legal instrument on exchange of data for asset verification.</li> <li>Organization of workshops with PCC-SEE on partnership development and identification of mutual projects.</li> <li>Introduction of the new Objective into RAI Work Plan 2015-2016 titled "Building integrity capacities and strengthening regional cooperation of law enforcement agencies"</li> </ul>	<ul style="list-style-type: none"> <li>Enhancing cooperation and data exchange between integrity bodies in charge of verification of assets declarations and conflict of interest prevention.</li> <li>Building integrity capacities and strengthening regional cooperation of law enforcement agencies.</li> <li>Regional cooperation in the field of integrity and professional standards in law enforcement strengthened.</li> <li>Training to law enforcement and judiciary and further improvement of the regional cooperation in the field of law enforcement and judiciary</li> </ul>
<b>Dimension P: Justice</b>		
Improve education Improve efficiency of courts, enhance quality of justice and improve competences of judges and prosecutors	<ul style="list-style-type: none"> <li>Establishment of SEE Judicial Training Institutions Network.</li> <li>Developed Study on best practices in judicial training and approved by participants of the Network. Judicial training institutions started with implementation of recommendations in 2016.</li> <li>RCC started with partnership with GIZ ORF Legal Reform in 20 months project "Support to WB judicial training institutions".</li> <li>Preparatory activities launched, aiming to map the projects in judicial training field.</li> <li>Regular operation of the regional Working</li> </ul>	<ul style="list-style-type: none"> <li>The RCC reaffirming its role as a hub in the area of judicial training and as a link to relevant European institutions and networks.</li> <li>Experience exchange and improved regional cooperation in the field of administrative justice (RCC in cooperation with ReSPA).</li> <li>Enhanced knowledge in EU law of judges and prosecutors on cross-border cooperation</li> <li>Improved organizational structure of judicial training institutions.</li> </ul>

Measures/Actions	Activities and achievements 2016/2017	Expected Results 2017/2018
	<p>Group on Justice to ensure support of the ministries of justice. .</p> <ul style="list-style-type: none"> <li>• In cooperation with relevant European and regional institutions and networks (EIPA and SEELS) developed materials for regional seminars for judges in the field of cross-border cooperation as prerequisite for business-friendly environment.</li> <li>• Organized Regional seminar for SEE judges "Cross border cooperation in civil, commercial and family matters". Supported two regional conferences on administrative justice co-organized by ReSPA.</li> </ul>	<ul style="list-style-type: none"> <li>• Map of accurate projects in WB in area of judicial training.</li> <li>• Increased number of regional judicial training activities.</li> <li>• Improved mutual trust between judges and prosecutors from different legal systems.</li> <li>• Ministerial declaration supporting judicial training and regional cooperation in this field.</li> </ul>
<p>Improved exchange of information</p> <p>Strengthen cross-border judicial cooperation in business-related legal and judicial areas (e.g. bankruptcy, mergers and acquisitions, company registration)</p>	<ul style="list-style-type: none"> <li>• Approved recommendations of the RCC's Study on e-enforcement by Working Group on Justice.</li> <li>• Implementation of recommendation of the Study is underway at national level.</li> <li>• Regional seminar for judges in SEE "Cross-border cooperation in civil, commercial and family matters" organized in cooperation with EIPA and SEELS experts/lecturers.</li> <li>• Educational materials for training of judges in cross-border cooperation in commercial matters developed.</li> </ul>	<ul style="list-style-type: none"> <li>• Through regular meetings of WB Working Group on Justice, improved exchange of information and supported development of instruments of e-enforcement based on authentic documents as a condition for reduced court backlogs on regional level.</li> <li>• Synchronized instruments of e-enforcement based on authentic documents finalized (bilateral consultations between RCC and relevant governmental authorities needed as precondition).</li> </ul>
<p>Enhance support for Alternative Dispute Resolution mechanisms</p> <p>Introduce or improve legislation on ADR and enable proper legal and institutional cooperation with the judiciary</p>	<ul style="list-style-type: none"> <li>• Establishment of SEE Associations of Mediators Network.</li> <li>• Network serves as a platform for exchange of proposals and arguments between representatives of MoJ and associations of mediators regarding possible legal reforms and improvements in ADR field.</li> <li>• Recommendations of the RCC Study on mediation are translated in regional languages and implemented by relevant institutions and associations.</li> <li>• WB Ministerial is postponed and will be organized in cooperation with EC to support ADR and judicial training.</li> </ul>	<ul style="list-style-type: none"> <li>• RCC functioning as a hub for the regional activities in mediation and link to relevant European and regional networks of ADR bodies.</li> <li>• Improved efficiency of courts and reduced court backlog through use of ADR as tool.</li> <li>• SEE AM Network functioning as a platform for exchange of experiences and good practices and as public awareness raising tool.</li> <li>• Close cooperation of SEE JTI and SEE AM Networks in the training in mediation skills resulted with enhanced skills of judges and mediators.</li> <li>• Improved legislation on ADR.</li> <li>• Public awareness raised about the ADR as a tool for reduced court backlog in WB.</li> <li>• Ministerial conference supporting mediation as important tool to reduced court backlog.</li> <li>• Ministerial declaration supported mediation and other forms of ADR.</li> </ul>



## Conclusions and Recommendations

The performance of regional economies on governance effectiveness as measured by World Bank Worldwide Governance indicators shows 52% of progress towards the 2020 target, as compared with the 2010 baseline. The Rule of Law being one of the “fundamentals” of the EC Enlargement Strategy, EC Progress reports reveal slow progress in setting up functional, independent and accountable public institutions and judicial systems. They also emphasize the need for a sustained track record in tackling high level corruption and organized crime, as well as for implementation and long-term sustainability of public administration reform efforts.

The European perspective of the Western Balkans still remains a driving force for governance related reforms with a special focus on anti-corruption, public administration reform and independent judiciaries.

While these areas are mainly under national agenda and jurisdiction, there is agreement that activities at regional and cross-border level support and complement the efforts done at national level.

Based on the experience and mixed results achieved so far, the work at national and regional levels in the area of good governance should include:

- The establishment of a convincing and sustained track record in tackling serious and organized crime in all economies of the Western Balkans;
- Reduction of political interference on the performance of independent public institutions;
- Decreased barriers to information, including expanding online access to laws, regulations, court decisions, court procedures and fees, to empower citizens and business to know their rights and navigate the justice system;
- Sustained support to implement comprehensive judicial reforms aiming at improving efficiency, integrity, independence and accountability of the judiciaries;
- Better quality of judicial trainings in EU law and other common topics through the RCC SEE Judicial Training Institutions Network;
- Reduction of court backlog in the region by using alternative dispute resolution and accelerating procedures, including support to the SEE Association of Mediators Network;
- Strengthening of the regional structured dialogue to share results of recent reforms, analyse lessons from reform failures, and establish a core set of indicators to measure performance and enable benchmarking.

## ANNEX

**Table 19: Overview of the recommendations contained in the Joint Conclusions of the Economic and Financial Dialogue Between the EU and the Western Balkans and Turkey, May 2017**

	Integrated growth	Smart growth	Sustainable growth	Inclusive growth	Governance
Albania	<ul style="list-style-type: none"> <li>put in place a <b>functioning comprehensive cadastre and an e-cadastre</b> by 2019</li> </ul>	<ul style="list-style-type: none"> <li>Intensify <b>teacher training</b> to improve quality of teaching and support curricular reform</li> </ul>	<ul style="list-style-type: none"> <li>full <b>unbundling of transmission and distribution</b> activities in the electricity and gas sectors, and establish a power exchange</li> <li>legal provisions necessary to <b>promote and monitor energy efficiency</b> improvement measures</li> </ul>	<ul style="list-style-type: none"> <li>Enhance the <b>capacities of employment services</b> and their provision of active labour market measures</li> <li>outline concrete plans to <b>address undeclared work</b></li> </ul>	
Bosnia and Herzegovina	<ul style="list-style-type: none"> <li>mutual <b>recognition of business registration between entities</b>, including concessions, licensing and branch office registration</li> </ul>	<ul style="list-style-type: none"> <li>increase <b>enrolment in pre-school education</b></li> <li>introduce and fully implement the <b>law on electronic signature</b></li> <li>address skills mismatches by <b>increasing participation in vocational and higher education programs</b> relevant for labour market needs</li> </ul>	<ul style="list-style-type: none"> <li>economy-wide <b>energy sector reform strategy</b></li> <li><b>reduce the tax wedge</b> and reinforce delineation of employment and social policy measures</li> <li><b>e-payment services on taxation</b></li> </ul>	<ul style="list-style-type: none"> <li><b>strengthen the employment services</b> to better assist job seekers</li> </ul>	
Kosovo*		<ul style="list-style-type: none"> <li>target <b>reforms in vocational education and training and higher education</b> on business sectors with labour demand and job creation potential</li> <li>increase <b>enrolment in pre-school education</b></li> </ul>	<ul style="list-style-type: none"> <li>establish a financing mechanism to <b>support energy efficiency measures</b> and adopt energy efficiency incentives to the private sector and households.</li> <li>complete the <b>deregulation of energy generation prices</b>, gradually <b>deregulate electricity supply prices</b> and gradually <b>adjust energy tariffs</b> to reflect actual costs</li> <li>address the underlying legal and institutional factors hampering <b>access to finance for corporates</b> to improve banks' incentives to lend</li> <li>complete the risk assessments focusing on the sectors and branches <b>most vulnerable to informalities</b> and identify and apply appropriate corrective measures</li> </ul>	<ul style="list-style-type: none"> <li>adopt an <b>action plan for tackling youth unemployment</b>, based on a sound assessment of the challenges.</li> <li>Finalize the <b>operationalization of the Employment Agency</b>.</li> </ul>	

Montenegro		<ul style="list-style-type: none"> <li>• Improve school-to-work transitions through <b>work-based learning</b> and promoting the appeal of vocational professions</li> <li>• Harmonize national rules with Directive 2014/61 on cost reduction measures for the development of <b>high-speed electronic communication networks</b></li> </ul>	<ul style="list-style-type: none"> <li>• strengthen <b>financial and non-financial support services for SMEs</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>reform the law on social protection</b> to ensure cost-effectiveness, better targeting of assistance and the reduction of disincentives for women to work</li> <li>• review active <b>labour market policies</b> with a view to improving their coverage and targeting the long-term unemployed, women and youth</li> </ul>	<ul style="list-style-type: none"> <li>• adopt legislation to ensure the <b>operational independence of the state aid authority</b></li> <li>• ensure <b>effective, efficient and independent rail regulatory and safety authorities</b> to implement the full opening of the rail market</li> </ul>
Serbia	<ul style="list-style-type: none"> <li>• regulate the amount and number of <b>para-fiscal charges at state level</b></li> </ul>	<ul style="list-style-type: none"> <li>• develop <b>dual learning in vocational education and training</b> in close cooperation with social partners.</li> </ul>	<ul style="list-style-type: none"> <li>• develop the regulatory framework for <b>new financial instruments</b>, and improve the access to finance</li> <li>• put in place <b>risk management systems</b> in order to improve the functioning of the <b>Tax Administration</b> and to ensure better targeting and efficiency of inspections</li> <li>• increase labour market participation and <b>reduce the high non-wage labour cost</b> of jobs at the lower sections of the wage distribution</li> </ul>	<ul style="list-style-type: none"> <li>• target <b>active labour market measures</b> to vulnerable groups, including social assistance beneficiaries</li> </ul>	
The Former Yugoslav Republic of Macedonia		<ul style="list-style-type: none"> <li>• <b>stimulate work-based learning</b> in both initial and continuous vocational education and training</li> <li>• Improve the <b>qualifications of teachers</b> and increase <b>enrolment in pre-school education</b></li> </ul>		<ul style="list-style-type: none"> <li>• strengthen the outreach and coverage of <b>active labour market policies</b> towards the long-term unemployed, youth, and the low-skilled</li> </ul>	<ul style="list-style-type: none"> <li>• <b>reduce the use of the urgency procedure for legislation</b> and make full use of the National Electronic Registry of Regulations (ENER)</li> <li>• reinforce the <b>independence and the capacities of commercial courts</b></li> </ul>