



**SOUTH EAST EUROPE 2020:**

**ANNUAL REPORT  
ON IMPLEMENTATION  
FOR 2018**

Good.  
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Sarajevo, June 2018

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# Abbreviations and acronyms:

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

# PART 1. OVERVIEW

## 1.1. Introduction and Purpose

The South East Europe 2020 Strategy (SEE 2020) was adopted by the Ministers of Economy of seven South East European (SEE) economies<sup>1</sup> on 21 November 2013. Inspired by the European Union's (EU's) 2020 Strategy, it seeks to boost prosperity, job creation, and to underscore the importance of the EU perspective for 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 in the aftermath of the economic crises through a concerted regional approach to economic development. The Multi-annual Action Plan for the Regional Economic Area (MAP REA), endorsed by the Summit in Trieste on 12 July 2017, complemented the implementation of SEE 2020 and provided impetus for deeper integration within the region, and for the region's integration with the EU in the areas of trade, investment, smart growth, mobility and digital integration.

The Communication from the European Commission "A credible enlargement perspective for and enhanced EU engagement with the Western Balkans", launched by the EC on 6 February 2018 and the EU-Western Balkans Summit held in Sofia on 17 May 2018 contained clear messages for the European perspective of the WB economies. Both also reinforced the embedding of MAP REA within the core EU accession process. The Declaration made at the Western Balkans Summit in Sofia on 17 May 2018 called for urgent actions to implement the MAP REA and announced continued EU support to the efforts invested by the Western Balkans in deepening regional integration. It also highlighted the importance of moving faster towards a digital economy, launching the Digital Agenda for the Western Balkans and a substantial technical assistance package for the identification of potential digital projects.

These developments further strengthened the SEE 2020's mission in 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:

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

\* This designation throughout this document is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence

- ▶ 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.

A comprehensive monitoring effort was introduced to measure the progress of activities implemented and results achieved. This Annual Report on Implementation (ARI) is the main output of the SEE 2020 monitoring process. This report covers the period from June 2017 to June 2018 and is divided into two main 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 for adapting and strengthening the Strategy to meet the challenges of a dynamic political and economic environment in which it operates.
- ▶ Part II contains a detailed review per pillar, including:
  - i. (The progress made towards reaching various domestic and regional targets set for each pillar and assessment of feasibility of the targets to be met by 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.

## 1.2. SEE2020 Four Years On

Since 2013, when the SEE 2020 Strategy was endorsed by the South East European<sup>2</sup> economies, the region has witnessed considerable shifts in its political, economic and social environment.

Politically, the regional cooperation framework has been strengthened with several initiatives, including the emergence of the Berlin process, the Western Balkans Six cooperation framework

and, most recently, the adoption of MAP REA<sup>3</sup> and its ongoing implementation. The approach to enlargement has also seen an increasing focus on economic criteria, as demonstrated by the introduction of the Economic Reform Programmes (ERPs) and associating SEE economies with EU's own system of economic governance. Finally, the EU's Enlargement Strategy released earlier this year provided a credible path for EU membership of the region and outlined a comprehensive roadmap for the region's governments, economies and societies at large.

### Box 1: Joint Conclusions on the Economic Reform Programmes 2018 -2020

The Economic Reform Programmes (ERPs) outline the medium-term macroeconomic and fiscal framework as well as structural reforms (affecting areas such as labour markets and education, energy, innovation and the business environment) to enhance competitiveness and long-term growth. The aim of the dialogue is to help the economies concerned improve their macroeconomic stability, management of public finances, and to boost competitiveness and long-term growth in the region.

The Joint Conclusions on the Western Balkans and Turkey with policy guidance based on the economies' Economic Reform Programmes 2018 - 2020 were adopted on 25 May 2018 in Brussels. The joint conclusions referred to the following:

- ▶ There is a scope for the strengthening of fiscal frameworks and fiscal oversight of sound public finances. Compliance and implementation are key where frameworks are created.
- ▶ Current account deficits require consequent action.
- ▶ Strengthening of Banking Sector and Access to Finance are in need. Non-Performing Loans need to be addressed.
- ▶ The business environments need further development: Informal economy, corruption, legal uncertainty, unclear property rights are obstacles for growth.
- ▶ Liberalisation of energy and transport markets is lagging behind.
- ▶ Structural challenges in labour market persist. The markets are marked by low employment rates, notably of women, and a skills shortage and mismatch.
- ▶ Education systems are weak and as a consequence all economies face high youth unemployment.
- ▶ Further investment in vocational training necessary

<http://data.consilium.europa.eu/doc/document/ST-8884-2018-INIT/en/pdf>

<sup>2</sup> For the purposes of this report, South East Europe is used interchangeably with the term Western Balkans, and denotes Albania, Bosnia and Herzegovina, Kosovo\*, Montenegro, Serbia and The Former Yugoslav Republic of Macedonia

<sup>3</sup> Trieste, 12 July 2017

Economically, South East Europe has returned on the growth path, having added more than 600 thousand jobs to its economies since 2010 and half a million highly educated people to its workforce, while expanding trade by EUR 33 billion and decreasing the trade deficit from -23.1 to -19.7 of GDP in the previous 7 years (see Table 1). However, although encouraging, these developments will not be sufficient to lift all boats and ensure faster convergence with the EU. Sustaining growth rates at the current levels would delay prosperity for the region's citizens by decades.

Detailed discussion of the 11 targets selected by the SEE 2020 economies is presented in Part 2 of the report, including an overview of individual economy performance. However, a quick overview of the progress presented in Table 1: Progress towards meeting the SEE 2020 targets reveals the following:

Table 1: Progress towards meeting the SEE 2020 targets

SEE 2020 Headline Indicator	2010 (baseline)	2011	2012	2013	2014	2015	2016	2017	2020 (target)	achiev./target.
<b>Overall Strategic Goals</b>										
1. GDP per capita relative to the EU average (in PPS), %	33	33	34	34	34	34	n/a	n/a	40	17%
2. Total trade in goods and services (EUR million)	54,686	62,750	63,413	66,856	69,961	72,842	78,234	87,920	129,500	44%
3. Trade balance, trade in goods (% of GDP)*	-23.1	-24.2	-24.8	-20.4	-19.7	-18.9	-20.0	-19.7	-20.8	147%
<b>Integrated Growth</b>										
4. Intra-regional trade in goods (% of GDP)*	11.0	11.3	10.9	10.3	10.4	10.4	10.3	n/a	14.3	-21%
5. Overall FDI Inflows (EUR million)	3,611	5,862	3,021	3,720	3,623	4,607	4,541	5,007	7,300	38%
<b>Smart Growth</b>										
6. GDP per person employed (EUR)	27,553	30,366	30,860	30,815	31,118	31,198	30,588	30,739	36,300	36%
7. No of highly qualified persons in the workforce (mil)	1.17	1.23	1.27	1.39	1.49	1.55	1.64	n/a	1.44	146%
<b>Sustainable Growth</b>										
8. Net enterprise creation (no. of companies)	34,498	35,741	35,019	34,703	32,074	32,763	34,112	n/a	26,790	n/a
9. Share of Renewables in Gross Final Energy Consumption	27.1	20.2	21.7	25.9	30.0	25.4	26.0	n/a	31.2	-27%
<b>Inclusive Growth</b>										
10. Employment rate - age group 20-64, %*	50.3	50.4	49.5	49.8	51.6	52.9	55.5	58.9	57.9	113%
<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	2.42	n/a	2.65	46%

Source: SEE Statistical offices and administration sources, SEE Central banks, Eurostat, wiiw annual database, RCC calculations

Table 2: Target 1 - GDP per capita relative to the EU average (in PPS), %

Economy	2010 (baseline)	2011	2012	2013	2014	2015	2016	2020 (target)	target. value	achiev. so far	achiev./target.	Progre. tow. targ.
Albania	29	28	30	29	30	30	29	38	9.0	0.0	0%	79%
Bosnia and Herzegovina	30	30	31	32	31	31	32	38	8.0	2.0	25%	82%
Kosovo*	22	23	24	24	25	30	n/a	27	5.0	8.0	160%	111%
Montenegro	41	42	39	41	41	42	45	51	10.0	4.0	40%	82%
Serbia	36	37	37	38	37	36	36	41	5.0	0.0	0%	88%
The Former Yugoslav Republic of Macedonia	34	34	34	35	36	36	37	43	9.0	3.0	33%	84%
SEE6	33	33	34	34	34	34	n/a	40	6.7	1.1	17%	86%

Source: Eurostat, national statistical offices; SEE6 averages based on RCC calculation

The progress in reaching the **growth and convergence target** (Target 1 - GDP per capita relative to the EU average (in PPS)) has been sluggish, with minimal movement towards reaching the set target of 40% of EU28 average. Kosovo\* is the only regional economy to reach and exceed the target (see Table 2: Target 1 - GDP per capita relative to the EU average (in PPS), % below), although from a low baseline, while Montenegro (reaching 40% of the target), The Former Yugoslav Republic of Macedonia (33%), and Bosnia and Herzegovina (25%), have all recorded some progress in converging with the EU average. Albania and Serbia (incidentally, the

tion targeting framework) have seen no progress on this indicator during the 6 years observed. Should SEE economies maintain the current course, the region would need approximately six decades to reach the EU average, as revealed also by a recent report published by the World Bank.<sup>4</sup> Faced with adverse long-term demographic trends, the region needs decisive action for the growth rates to pick up. As concluded in last year's ARI, the improving external environment as well as rekindled domestic demand and investment create good conditions for a resolute policy action to renew convergence towards EU living standards.

Table 3: Target 2 - Total trade in goods and services (EUR billion)

Economy	2010 (baseline)	2011	2012	2013	2014	2015	2016	2017	2020 (target)	target. value	achiev. so far	achiev./target.	Progre. tow. targ.
Albania	6,89	7,53	7,34	7,29	7,52	7,37	8,03	9,05	17,5	10,6	2,2	20%	46%
Bosnia and Herzegovina	10,50	11,78	11,82	12,04	12,68	12,88	13,42	15,15	24,5	14,0	4,6	33%	55%
Kosovo*	3,31	3,93	3,90	3,81	4,10	4,20	4,53	5,08	6,0	2,7	1,8	66%	75%
Montenegro	3,09	3,46	3,45	3,46	3,46	3,75	4,09	4,50	6,0	2,9	1,4	49%	68%
Serbia	23,76	27,63	28,46	31,72	32,55	34,37	36,98	41,70	60,0	36,2	17,9	49%	62%
The Former Yugoslav Republic of Macedonia	6,86	8,43	8,45	8,55	9,65	10,32	11,19	12,45	15,5	8,6	5,6	65%	72%
SEE6	54,41	62,75	63,41	66,86	69,96	72,90	78,23	87,92	129,5	75,1	33,5	45%	60%

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

4 Western Balkans: Revving Up the Engines of Growth and Prosperity, World Bank, 2017

Table 4: Target 3 - Trade balance, trade in goods (% of GDP)

Economy	2010 (baseline)	2011	2012	2013	2014	2015	2016	2017	2020 (target)	target. value	achiev. so far	achiev./ target.	Progre. tow. targ.
Albania	-25.5	-27.1	-23.2	-20.6	-22.2	-22.4	-24.3	n/a	-25.5	0.0	1.2	120%	114%
Bosnia and Herzegovina	-28.3	-29.8	-29.7	-26.5	-28.8	-25.2	-23.5	-24.0	-20.2	8.1	4.3	53%	86%
Kosovo*	-42.3	-45.1	-44.1	-40.5	-39.8	-39.8	-40.9	-42.3	-28.8	13.5	0.0	0%	70%
Montenegro	-40.7	-39.9	-43.5	-39.5	-39.8	-40.4	-41.9	-44.3	-46.9	-6.2	-3.5	57%	112%
Serbia	-15.9	-16.4	-17.8	-12.1	-12.3	-10.9	-9.0	-10.8	-11.1	4.8	5.0	106%	123%
The Former Yugoslav Republic of Macedonia	-21.6	-25.3	-26.5	-22.9	-20.1	-18.6	-17.9	-17.9	-17.9	3.7	3.7	100%	100%
SEE6	-23.13	-24.23	-24.77	-20.42	-19.66	-18.91	-20.00	-19.71	-20.80	2.3	3.4	147%	110%

Source: SEE Central banks and Statistical Offices; SEE6 aggregates based on RCC calculation

► **The progress on expanding trade** (Table 3: Target 2 - Total trade in goods and services (EUR billion)) has been markedly better, with the region reaching 45% of the set target. Should the current rate of trade expansion persist, SEE can expect to reach roughly 70% of the set target by the end of the decade. Given the depth of the recession that the region experienced at the beginning of the decade, the progress made is still substantial and it reveals that the post-recession rebalancing of the economies has increased the competitiveness of the region which is expected to translate into even greater trade growth rates in the coming period. The trade expansion in the last year alone reached a double-digit growth figure (12%), outperforming almost all economies in the world.

Even though all economies have made progress in this area, there are some discernible differences. Looking at the domestic targets, Kosovo\* and The Former Yugoslav Republic of Macedonia seem to be closest to reaching the 2020 objectives. On the other hand, looking at the compound annual growth rate, both Serbia and The Former Yugoslav Republic of Macedonia have exceeded 8% growth of trade on average. Export performance of the region has been particularly impressive, with exports expanding at an average rate of 9.2% annually between 2010 and 2017 and outperforming every other region in the world, including South Asia.

► As noted above, the trade balance target (Table 4: Target 3 - Trade balance, trade in goods (% of GDP)) has seen substantial progress, with the re-

gion meeting and exceeding its target<sup>5</sup> for the end of the decade. Strong export performance reveals that after the initial shock of the 2009-2012, the region's economies have managed to rebalance towards more export-led growth, indicating the increasing competitiveness of its goods on external (predominantly EU) markets.

► The share of intra-regional trade in GDP, however, has continued its slow, albeit steady contraction as revealed by the negative progress on Target 4.<sup>6</sup> While in absolute terms, the intra-regional trade has increased by roughly 1 billion EUR over the past 6 years, its share in GDP has dropped by approximately 1%. Intra-regional trade will remain important for several sectors of the economy (such as agriculture and food processing), but further trade convergence with the countries outside of the region is expected to persist, particularly in respect to trade in manufacturing goods which are witnessing strong demand from the EU, driven in large part also by the EU investment inflows.

► 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 38% of the target, with the trend seen so far indicating that the region might miss the

5 This regional headline target replaced the original target 3 (Balance of trade in goods and services, % of GDP), as per decision of the SEE 2020 Governing Board given the difficulties in compiling comparable services trade statistics. The target value for 2020 was proposed by the RCC based on a forecasting exercise of trade balance, trade in goods, and intra-regional trade in goods (see Annex 1).

6 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 Annex 1).

FDI target by the end of the decade unless more decisive reforms are implemented to improve the investment climate and the overall business environment. Regional Investment Reform Agenda (RIRA), developed by the RCC's SEEIC-CEFTA Joint Working Group on Investments within the MAP REA framework, stipulates policy reforms in the areas of investor entry, protection, and promotion of the region as a unique investment destination. Implementation of RIRA is of utmost importance for improvement of investment climate and is intended to enable the environment for attracting inflow of investments into the region and throughout the region. The economy level performance in terms of FDI attraction varies dramatically, with Serbia leading the way in absolute terms with the largest overall share of FDI in the region, while Montenegro has been on the receiving end of the largest per capita FDI inflows in SEE.

► Similar to the previous year, 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 target 6 has been tempered by the increasing employment (given that employment is in the denominator of this indicator) and currently stands at 36%. Target 7 was achieved by the region already in 2014, with half a million highly qualified persons added to the workforce between 2010 and 2016. The fact that this increase did not result in a more pronounced boost to productivity (as measured by Target 6 as a proxy), is probably an indicator of a broader mismatch between educational qualifications and the actual needs of the labour market.

► The progress on Target 8 - Net enterprise creation - is not measured due to data consistency problems, given that several economies are unable to produce net enterprise creation data and have submitted data on overall new enterprise registration instead. Even with these limitations, it is still safe to conclude by observing the data that entrepreneurship in the region is stymied, most probably resulting from a complex business environment in many of the region's economies.

► The data on the share of renewables in gross final energy consumption (Target 9)<sup>7</sup> have shown

7 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 (see Annex 1).

substantial volatility over the past several years, and the progress on this target currently stands at -27%,<sup>8</sup> indicating a drop below the 2010 baseline in the last year observed.<sup>9</sup> This volatility can be attributed to the rapidly changing hydrological situation in the region given that hydropower is the one important renewable energy source, or to volatility in use of biomass which also gives significant contribution to the energy mix.

► As concluded by previous year's ARI as well, the most encouraging trend is illustrated by the employment target<sup>10</sup> (Target 10) measuring the increase of the employment rate in the 20-64 age group. The progress towards the target in 2017 stands at 113%, a significant milestone indicating that the 2020 employment target has been reached and exceeded three years earlier than expected. SEE has seen employment expand by more than 600,000 jobs since 2010, with the greatest gains being made in the previous three years. It is important to note however that performance was far from uniform across the region with the largest share of new employment (more than 500,000 jobs or 81% of overall regional job creation) generated in Serbia and The Former Yugoslav Republic of Macedonia.

► Finally, the performance on the governance target (Target 11) has levelled out and has been pretty stagnant for the past three years, with the current performance at 46% of the target. This indicates that new, fresh approaches in improving the efficiency of public administration and quality of public services are warranted.

Overall, the conclusions that can be drawn from the current performance on SEE 2020 implementation are similar to those expressed in last year's report. Rekindled demand in the main export markets, in combination with increasing domestic demand and private investment, has brought the region back onto a growth path. This has led to a much-needed rebalancing of trade, and increase of employment, with SEE reaching an important milestone - more

8 Regional shares of renewable energy in GFEC are calculated based on the most recent energy balances published by Eurostat (edition 2017 and 2018), while 2020 target is calculated based on estimation given in NREAPs.

9 The progress on this (and all other SEE 2020 targets) is presented as percentage calculated by dividing the difference between the last available data and the baseline (numerator) and the difference between the target and the baseline - 'strategic intent' (denominator).

10 The previous employment target promoting overall growth of employment in the 15+ age group has been replaced last year with the one focusing on 20-64 age groups, in accordance with the proposal by Eurostat and a 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 Annex 1).

than 6 million people employed - for the first time in this decade.

However, the regional aggregates (on employment, FDI and trade) are influenced mostly by a strong performance of few economies, which is not uniform across the region. Moreover, the GDP growth rates demonstrated by the SEE economies in the past several years fall far short of those necessary to sustain a quicker convergence process with the EU and usher prosperity and wellbeing for all its citizens. As the end of this decade draws closer, South East Europe needs to refocus its efforts on the fundamentals: governance, labour markets, business environment, and integration with the global and regional markets, while starting to address longer-term challenges brought by climate change, rapid technological progress and negative demographic trends. These efforts combined can reduce the importance of the state and harness the dynamism of the private sector to bring higher standards of living to the region.

### 1.3. Key Findings and Recommendations

The SEE 2020 growth framework was introduced to help mitigate some of the pressing challenges the region faced in the midst of the deepest economic and financial crisis seen in decades. The first regional strategy of its kind, SEE 2020 aimed to complement the domestic reform efforts with regional actions that would support emergence of more integrated, resilient and vigorous regional economies. Judging from this year's results and with two more full years of implementation to go, these ob-

jectives will be met only partially.

While some of the reasons for this mixed performance have been discussed above, Figure below illustrates the size of the challenge. The gap in living standards in respect to EU member states is immense. Looking at the regional average, GDP per capita in the Western Balkans, adjusted for purchasing power, is roughly half that of the New Member States and of the Baltic Countries and less than a third of the richest EU members in western Europe. These gaps are illustrative of the many years of political, economic and social turbulence and under-performance in South East Europe.

With two more years until the end of this decade (and of SEE 2020 strategy implementation), the SEE should consider creating a new narrative to guide its joint regional efforts in the next decade. This agenda should counter the negative image, enable completion of the medium-term reform agenda and address some of the longer-term challenges that South East Europe will be facing in the coming decades. This narrative should support the reversal needed to the role of government in the economy; it should unleash the potential of private enterprise and stimulate innovation and digital transformation; make better use of labour and human capital; and help further integration with the EU and global economy. Political stability, often cited as the main obstacle to investment and doing business in the region, should underpin this agenda as a key prerequisite for reform.

Adverse long-term challenges facing SEE should not be overlooked. Unfavourable demographic trends that threaten to transform the SEE populations into

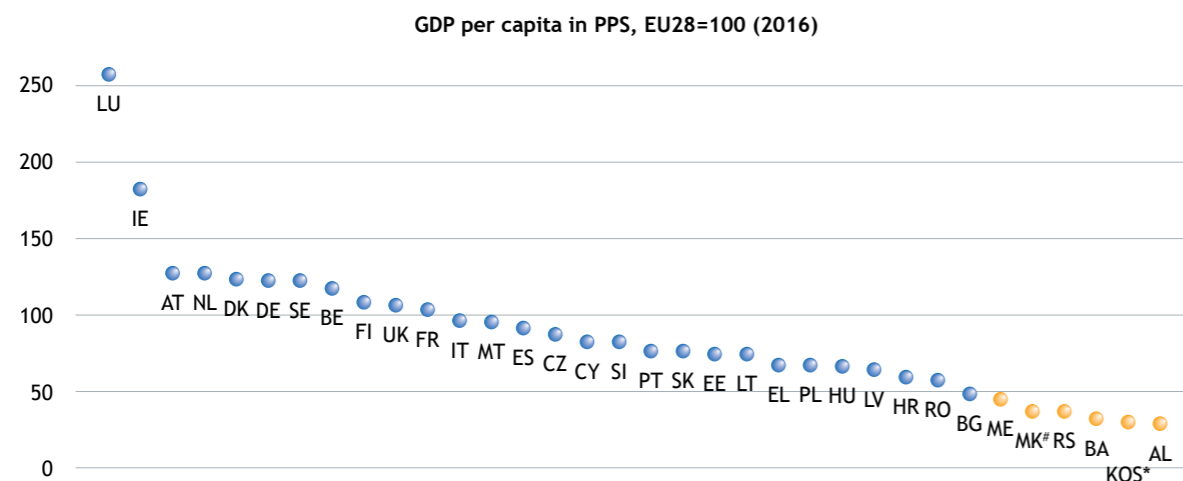
some of the oldest in the world should be met head on by designing optimal social policies, including reforms to labour markets and pension systems. Millions of SEE citizens living in diaspora should be offered a chance to take an active role in their home economies by stimulating diaspora direct and portfolio investment and creating brain circulation strategies. Climate change and global warming, often viewed as distant threats by region's policy makers, are already negatively impacting the economies, and this effect will only intensify in the coming decades.

Finally, the rapid technological change that is transforming societies and industries around the globe has been met with fearful reception in the region,

with no meaningful strategy to maximize opportunities bestowed by this rapid change. While often viewed as a threat by the developing economies, the technological transformation offers opportunities to the region to leapfrog the developed countries by choosing the right investments, particularly those in advanced digital, energy and intelligent transport infrastructures as well as in education.

As this year's Enlargement Strategy notes: "citizens yearn to live in countries that are prosperous and equal, where the rule of law is strong and corruption is rooted out". It is up to the SEE region to ensure its citizens will be able to lead such lives without moving their homes.

Figure 1: Convergence potential of SEE6



Source: Eurostat; Note: 2016 value for Kosovo\* is an RCC estimate

\* According to the RCC Statute, the full name of MK is: The Former Yugoslav Republic of Macedonia.



# 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 movements of goods, services, investments and skilled people without tariffs, quotas or other unnecessary barriers 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 cubulation zone, implementing priority reforms to improve the business environment and promoting the region as a sound investment destination, and ultimately helping integrate the region's economic operators into the global market.*

### Pillar overview

The Integrated growth pillar activities kept its focus mostly on areas improving the competitiveness of the SEE region, with the unfinished agenda of structural reforms remaining the region's key challenge. To address this challenge, the region will need to intensify efforts on designing and implementing the right economic reforms and building functional institutions to increase productivity, enhance prosperity and strengthen the resilience of its economies.

In the previous several years, the region has shown progress in expanding trade, increasing investment and improving business conditions, however, the region still has a significant gap to close when com-

paring to the EU market. As stated in the latest EU Enlargement Strategy, numerous structural shortcomings persist, notably in the key areas such as economic development and competitiveness.

Despite some progress, all economies still face major structural economic challenges, with high unemployment rates and high levels of informality, weak business environments with limited access to finance and low levels of innovation. The region has to strengthen and facilitate long-term sustainable economic growth and convergence in order to deliver on the Copenhagen economic criteria. While acknowledging the progress made, the EU noted in its previous Enlargement Strategy that all of the region's economies are only moderately prepared to cope with competitive pressures and market forces within the EU.

As noted in their Economic Reform Programs, all SEE economies are experiencing continued economic growth with efforts to ensure macroeconomic and fiscal stability in the face of current vulnerabilities, but the sound policies should be maintained and strengthened and the reforms speeded up.

It is evident that the political support and ownership from the economies are needed to implement the reforms identified, where the EU is also supporting the improvement of the investment climate in the SEE through the deepening of a Regional Economic Area that aims to remove obstacles to trade, mobility and investment across the region.

Within the Integrated growth pillar, the two targets which the economies have agreed upon are (i) increased intra-regional trade in goods as a share of GDP (Table 5) and (ii) increased FDI inflows with the aim of reducing the region's trade deficit (Table 3).

As presented in the table above, the share of intra-regional trade has been slowly, albeit steadily, contracting over the past seven years. All the economies in the region (with the exception of Albania which has had a much lower starting point) have seen their shares of intra-regional trade shrink. During the same period, however, overall trade in goods has increased by more than 60%, from EUR 54.7 billion in 2010 to EUR 87 billion in 2017.

Table 5: Target 4 - Intra-regional Trade in Goods, % of GDP

Economy	2010 (baseline)	2011	2012	2013	2014	2015	2016	2017	2020 (forecast)	target. value	achiev. so far	Progre. toward target.
Albania	4.00	4.90	5.00	4.50	5.30	5.30	4.80	5.80	4.90	0.9	1.8	200%
Bosnia and Herzegovina	12.20	12.70	11.20	11.20	11.80	11.50	11.60	13.10	11.50	-0.7	0.9	-129%
Kosovo*	18.40	18.50	17.30	14.70	15.20	15.40	14.80	16.50	12.80	-5.6	-1.9	34%
Montenegro	25.60	30.70	32.70	30.60	27.80	25.90	22.40	n/a	25.30	-0.3	-3.2	1067%
Serbia	8.90	8.30	8.30	8.10	8.30	8.60	8.90	n/a	9.60	0.7	0.0	0%
The Former Yugoslav Republic of Macedonia	15.00	16.80	15.40	13.10	12.70	11.90	11.50	12.30	19.70	4.7	-2.7	-57%
SEE6	11.00	11.30	10.90	10.30	10.40	10.40	10.30	n/a	14.30	3.3	-0.7	-21%

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

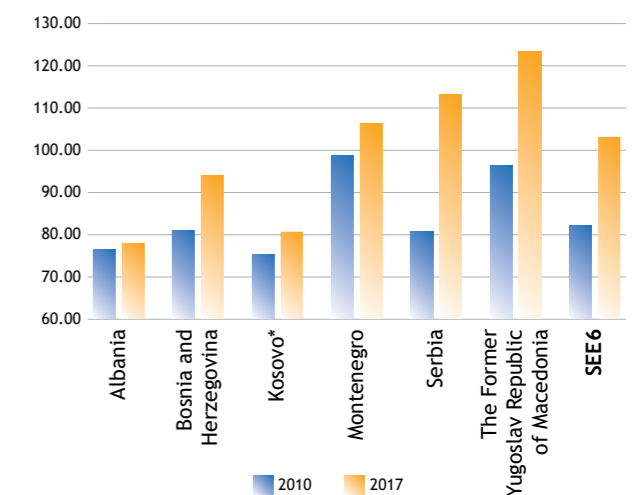
This trade divergence, from the region and mostly towards the EU, is driven in the large part by healthy demand from growing EU markets and closely follows the FDI patterns as well. The FDI stock of EU28 in the region has increased by roughly EUR 17 billion in the period between 2010 and 2016 and currently stands at roughly 67% of the total FDI stock.

Exports have been one area where the region's performance has been particularly impressive. Even in a difficult external environment, the 6 SEE economies have managed to attain a regional compound annual rate of 9% in export growth during the past 7 years, with Serbia and The Former Yugoslav Republic of Macedonia achieving double digit rates. In terms of exports, the region has outperformed almost every other economy in the world.<sup>11</sup> This performance has contributed to a significant increase in trade openness (Figure 2.).

The business and public sentiments surveyed by the latest Balkan barometer reveal a considerable discrepancy between the perceptions and realities of competitiveness in the region. While the majority of citizens think that goods produced locally can successfully compete on regional (88% of respondents, out of which 54% totally agree and 34% tend to agree) and EU markets (78% of respondents, out of which 42% totally agree and 36% tend to agree), the reality presented through the business survey results is starkly different. The vast majority of the region's companies (87%) are selling their goods and services exclusively on the local markets, while only 12% are exporting, out of which 6% export to the regional, and 6% to the EU markets. The reasons for this low level of in-

<sup>11</sup> Except China, Vietnam, Laos, Thailand and Cambodia.

Figure 2: Trade openness (sum of exports and imports divided by GDP)



Source: SEE Statistical offices

ternationalization can be either found in the lack of familiarity, interest in the export markets or in limited capacities (58% of respondents, out of which 17% do not have capacities to export and 41% have no interest to export), or doubts about competitiveness of their products and services abroad (36% of respondents). The survey results confirm that small and medium enterprises (SMEs) that dominate the region's economies lack the necessary infrastructure, knowledge or resources to break away from the domestic markets and internationalize. The SEE governments, chambers and other institutions should consider expanding support to large segments of their SME-dominated private sectors through initiatives to foster mar-

ket linkages and integrate into broader regional, European or global value chains (GVCs).

Foreign direct investment (FDI) inflows have traditionally been the most important avenue for trade integration in the region. FDI increase is also one of the two integrated growth targets under the SEE 2020 framework (Table 3).

As illustrated above, the region's performance in terms of FDI attraction has been fairly modest, especially when compared to other country groupings within the EU (such as the Central European states or the Baltics). The region currently stands at approximately 38% of the set target which is not likely to be met by 2020. The economies' individual FDI performance however reveals a remarkably diverse picture. While Serbia has received the largest share of FDI in the past 7 years, attracting 46% of overall foreign investment inflows in the region (EUR 15.7 billion), Montenegro is by far the biggest recipient in per capita terms, with an aggregate of EUR 7,763 per capita FDI since 2010, which is (again, in per capita terms) more than all other SEE economies combined.

In terms of FDI sources, the EU still dominates the investment landscape in the SEE, holding roughly 2/3 of the overall FDI stock. However, other larger investors, such as Turkey, Russia, China and the Gulf countries have been steadily increasing their FDI shares (and other capital inflows) in the region over the past seven years.

Traditional sectors such as real estate and energy are predominant, leading to limited value addition and complexity of exports. In particular the WB6 are lagging behind comparator economies in terms of attracting efficiency-seeking, export oriented FDI. The thorough investor analysis executed under the regional investment policy and promotion programme, guided by the SEEIC-CEFTA Joint Working Group on Investments, technically supported by the World Bank and financially by the EU, has identified some of the main obstacles to investments (not limited to): cumbersome and slow administrative procedures and bureaucratic hurdles, differential treatment of foreign and domestic investors and unfair competition by domestic market players, frequent regulatory changes instilling uncertainty, lack of consultations and private sector involvement in rule-making decisions, lack of clear investment strategy, poor infrastructure, absence of reliable statistics and data to conduct business, etc. Political stability or the lack thereof, is one of the most often quoted obstacles to investment in the region<sup>12</sup>.

Conversely, according to the results of the 2017/18 Global Investment Competitiveness Report, close to 90% of investors are motivated by access to new markets or new customers, which applies not only to the domestic market in which they are investing, but also to regional markets. These results imply that access to larger and more sophisticated regional markets is desirable to investors, as it allows them to benefit from economies of scale and organize their production processes more ef-

ficiently in a given region. If goods, services and investments can circulate freely in a region, investors - once established in one economy - can easily expand their businesses across the region. This is especially useful to efficiency-seeking and domestic market-seeking investors that can benefit from larger, more integrated markets.

Therefore, the SEE would benefit from a dynamic regional investment space to attract more investment flows in general, but specifically efficiency-seeking FDI. To achieve this, the WB6 economies need to work together and articulate a coherent regional strategy to facilitate investment entry, attract and retain new FDI, provide adequate protections and formulate policies to enable more linkages. A clear and articulated promotion strategy at regional level can be also beneficial for attracting more efficiency-seeking FDI going forward.

### A. Free Trade Area

In the dimension of Free Trade Area, liberalization of trade in services, together with the facilitation of free movement of skilled workers in the region, remains one of the dynamic forces under this pillar. Activities under this dimension are aimed towards establishing a regional economic area on the basis of EU compliance with an objective to support the region's efforts in attracting more investments, decreasing the cost of trade and production, and eliminating market access barriers. The legal basis is extended by Additional Protocols on Trade Facilitation and on Trade in Services and strengthened with more efficient and effective dispute settlement procedures. Regional economic area shall be part of the Pan-Euro Mediterranean Cumulation zone in equal footing as others in the Zone. The adoption of Additional Protocol 5 on Trade Facilitation will deepen the regional trade through simplifying and facilitating customs procedures and reducing the formalities imposed on trade. Efforts are continued on introducing the full cumulation and duty drawback in the regional trade as well as on elimination of non-tariff barriers (NTBs). Additional Protocol 6 on Trade in Services is still to be adopted by the SEE economies. Recognition of professional qualifications remains one of the key contributors to the freer movement of experts complementing deeper regional integration.

### B. Competitive Economic Environment

In the area of Competitive Economic Environment, 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 to explore possibilities for different forms of cooperation that could lead to removing of 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 2018.

### C. Integration into the Global Economy

Region's integration into Global Economy was steered by the SEE Investment Committee which has conducted several activities aimed at region's internal economic integration with the focus particularly on investments. Based on UNCTAD's detailed analysis on investment-related policies, a Regional Investment Reform Agenda (RIRA) was developed under the SEE Investment Committee's auspices, and in cooperation with CEFTA, so as to complement the regional trade agenda. The Regional Investment Reform agenda is formulated by prioritizing and sequencing issues in the following areas: investment entry and establishment, investment protection and retention, investment attraction and promotion. The Regional Investment Reform Agenda sets out the pathway for creating a dynamic investment space in the Western Balkans Six. It puts the priorities of the private sector centre stage while recognizing the individual development priorities of the SEE economies. In line with these twin objectives, the agenda focuses on core areas of investment policy and related policies that matter most to the private sector and the governments in the region. Individual-economy action plans will reflect on the regional investment reform agenda and streamline the individual-economy reform efforts.

Regional investment promotion commenced by supporting the development of the SEE Online Investment Platform (OIP), which was executed in cooperation with the Western Balkans Six Chamber Investment Forum (WB6 CIF). The OIP contains main information on doing business in the region, in the form of a "one-stop-shop" for investors, as well as information about ongoing reform developments working in support to business. RCC will continue working on full integration of private sector in the competitiveness-boosting efforts in SEE.

To further enhance integration of its business into the 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.

Table 6: Target 5 - FDI Inflows, in EUR mil

Economy	2010 (baseline)	2011	2012	2013	2014	2015	2016	2017	2020 (target)	target value	achiev. so far	achiev./target.	Progre. toward target.
Albania	824	755	713	945	869	890	943	908	2,200	1,376.0	84.0	6%	43%
Bosnia and Herzegovina	331	340	305	239	408	334	247	388	500	169.0	57.0	34%	49%
Kosovo*	369	384	229	280	151	309	220	288	800	431.5	-80.7	-19%	28%
Montenegro	653	495	634	479	498	757	687	649	700	47.0	-3.8	-8%	98%
Serbia	1,278	3,544	1,009	1,548	1,500	2,114	2,127	2,545	2,500	1,222.0	1,267.0	104%	85%
The Former Yugoslav Republic of Macedonia	157	344	131	229	197	203	317	229	600	443.0	72.0	16%	53%
SEE6	3,612	5,862	3,021	3,720	3,623	4,607	4,541	5,007	7,300	3,688.5	1,395.5	38%	62%

Source: SEE Central banks, 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; SEE aggregates based on RCC calculation

12 EBRD-World Bank BEEPS V, 2014; Balkan Business Barometer 2017

Table 7: Implementation of Free Trade Area actions

Measures/Action	Activities and achievements 2017/2018	Expected Results 2018/2019
Dimension A: Free Trade Area		
A.1. Addressing and eliminating non-tariff measures	<ul style="list-style-type: none"> <li>The CEFTA Market Access Barriers Database updated.</li> <li>Elimination of NTBs in CEFTA within two selected supply chains: HS 07: Edible vegetables with certain roots and tubers and HS 72: Iron and Steel.</li> <li>Regarding agricultural trade, the CEFTA Subcommittee on Agriculture and SPS agreed to deepen the scope of trade statistics in agricultural products which are collected by the CEFTA Secretariat. The CEFTA Secretariat will engage resources to analyse deeper the issues of trade in agricultural goods, and the impact of NTBs on the regional trade, and economic benefits to be gained by eliminating those NTBs.</li> <li>Agreement to launch negotiations on a trade dispute settlement mechanism (AP7)</li> </ul>	<ul style="list-style-type: none"> <li>Ministerial Decision for mutual recognition of border documents in the context of AP 5, expected to bring substantial benefits to the regional trade.</li> <li>Launching of negotiations for trade dispute settlement mechanism.</li> </ul>
A.2. Facilitation of trade	<ul style="list-style-type: none"> <li>The AP 5 was adopted in 2017 and came into force in April 2018.</li> <li>An EU-funded project provides technical assistance to start a pilot implementation of mutual recognition of AEOs. The project also provides technical assistance for preparing business processing maps for the two selected supply chains in order to identify duplicative and unnecessary documentary requirements for trade in those two sectors.</li> <li>CEFTA Secretariat prepared the concept of validation of national AEO programmes for mutual recognition.</li> <li>The project SEED + in order to offer IT tools for data exchange in the context of AP 5 is expected to start late 2018/early 2019. The EU has allocated funds for the implementation of SEED + Project.</li> <li>The CEFTA Secretariat has prepared actions that need to be taken for the implementation of AP 5. This list of actions includes both preparatory actions that need to be undertaken before the AP 5 enters into force and the ones which need to be carried out after the AP 5 enters into force.</li> </ul>	<ul style="list-style-type: none"> <li>Completed national parliamentary ratification process in the remaining economies.</li> <li>Ministerial Decision for mutual recognition of AEOs, expected to bring substantial facilitation of regional trade;</li> <li>Facilitated data exchange in regional trade through effective implementation of SEED+</li> </ul>
A.3. Liberalisation of trade in services	<ul style="list-style-type: none"> <li>The Additional Protocol 6 is pending adoption by the CEFTA Joint Committee.</li> <li>Reporting System of data on trade in service, FATS and FDI has been developed, as well as user-friendly dissemination platform to serve as a monitoring tool for the implementation of the Additional Protocol 6 as well the priorities of the Strategy SEE2020.</li> <li>Statistics portal has been developed and is up and running</li> <li>The first regional CEFTA Investment Report is published and presented during CEFTA Week.</li> <li>Exploring the possibilities of including eligible CEFTA parties into the OECD TiVa Database.</li> <li>Review of the regulatory frameworks for Professional Qualifications and mapping of the positions on MRAs for the prioritized professional qualifications.</li> </ul>	<ul style="list-style-type: none"> <li>Additional Protocol 6 on Trade in Services is adopted.</li> <li>CEFTA Statistical Portal is fully operational and regularly updated.</li> <li>Annual publication of CEFTA Investment Sheets.</li> </ul>
A.4. Liberalisation of free movement of experts, professionals and skilled labour	<ul style="list-style-type: none"> <li>Drafting of the Recommendation to open negotiations on mutual recognition of professional qualifications for doctors of medicine, dentists and civil engineers and architects.</li> <li>Increasing of transparency by setting up the regional database on movement of professionals and professional qualifications.</li> </ul>	<ul style="list-style-type: none"> <li>Negotiations on recognition of professional qualifications start in selected sectors and professions.</li> <li>Database on movement of professionals and qualifications is operational.</li> </ul>

Table 8: Implementation of Competitive Economic Area actions

Measures/Action	Activities and achievements 2017/2018	Expected Results 2018/2019
Dimension B: Competitive Economic Environment		
B.1. Implementation of provisions on competition, state aid and public procurement	<ul style="list-style-type: none"> <li>CEFTA Secretariat has completed the monitoring exercise for the implementation of CEFTA Articles on competition and on State Aid. The report was submitted to CEFTA Parties.</li> <li>In addition, the CEFTA Secretariat completed monitoring the implementation of public procurement related provisions of CEFTA by the CEFTA Parties. The outputs of the project will be available in 2018.</li> </ul>	<ul style="list-style-type: none"> <li>Completed monitoring exercise for Public Procurement.</li> </ul>

Table 9: Implementation of Integration into the Global Economy actions

Measures/Action	Activities and achievements 2017/2018	Expected Results 2018/2019
Dimension C: Integration into the Global Economy		
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>Prepared list of existing regulatory bodies in charge of services.</li> <li>Proposal on pilot service sectors potentially subject to concrete forms of cooperation amongst the respective regulatory bodies has been submitted to Parties. Identified sectors of mutual interest are: communication, road transport, tourism, construction and engineering and computer related services.</li> <li>The Parties need to agree on models for potential regional arrangements on cooperation.</li> </ul>	<ul style="list-style-type: none"> <li>Launched dialogue amongst regional regulators in order to conclude mutually agreed arrangements on cooperation.</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>The CEFTA Parties received derogation from the PEM Joint Committee to introduce full cumulation and duty drawback in intra-CEFTA trade.</li> <li>CEFTA Parties are now discussing to agree on a single date to start application of full cumulation and duty drawback, which is expected to start in 2019.</li> </ul>	<ul style="list-style-type: none"> <li>The single date of Entry of the Duty Drawback is agreed for 1.07.2019 (adopted by the Ministerial Conclusions from Pristina in April 2018).</li> </ul>
Facilitation of free flow of investment	<ul style="list-style-type: none"> <li>CEFTA Investment Report done.</li> <li>SEE Investment Policy Review conducted in cooperation with UNCTAD completed and published.</li> <li>Completed Mapping of FDI.</li> <li>Regional Investors database launched.</li> <li>Investor survey executed.</li> <li>Regional dialogue conducted on the set of policy/legislative reforms.</li> <li>Regional Investment Reform agenda adopted.</li> </ul>	<ul style="list-style-type: none"> <li>National Action plans on RIRA developed.</li> <li>Joint Investment Promotion Initiative developed and put in action through joint activities.</li> </ul>

Key findings and recommendations

The main challenge in the intra-regional trade and FDI targets still lies in the appropriate targeting of foreign direct investment where stronger emphasis needs to be put on FDI in tradeable sectors over the coming period, in addition to further trade fa-

cilitation 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 unique investment destination, 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. WB6 are committed to design and implement a regional investment reform agenda which will lead to greater harmonization of regional investment policies aligned with EU and international standards and best practices, and to promote WB as a unique investment destination to the business community. For small economies of the region, it is of utmost importance to present themselves as part of a sound investment destination, to attract large multinational companies that would accelerate industrial development, investigate inclusion of local businesses into supply chains for foreign investments, and ultimately increase the volume of internal trade and exports to the EU and third markets.

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:

Key recommendations for the Integrated Growth dimensions include:

**A. Free Trade Area:** (i) Implement Additional Protocol on Trade Facilitation including introduction of joint customs procedures and elimination of NTBs, adoption of Ministerial decisions on mutual recognition of border documents and AEO programs, preparation of time frame for the joint risk management strategy, adopt and implement Additional Protocol on Trade in Services, strengthen dispute resolution and enforcement and launch negotiations thereof, establish mutual cooperation between market surveillance authorities, maximize utilization of preferential origin arrangements (PEM, SAP+), identify e-commerce barriers and improve regular exchange of data and capacity building;

**B. Competitive Economic Environment:** 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, 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;

**C. Integration into the Global Economy:** (i) Implement Regional Investment Reform Agenda (RIRA) so as the policy reforms pertinent to investor entry, and protections, can be regionally aligned 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 by sectors and origin of investments in order to improve quality and uniformity of statistics; (ii) Conduct legal base analysis and propose the means of formatting the RIRA into a regionally acceptable instrument; (iii) Support Investment Promotion Agencies with the adequate resources and capacity to conduct key investment promotion and facilitation activities, such as investor targeting and aftercare. Sectoral competences need to be reinforced and institutional co-ordination enhanced, to avoid activities overlapping and to ensure that obstacles faced by investors are promptly removed; (iv) Conduct an in-depth gap analysis of the investment legislation and mapping of the existing Bilateral Investment Treaties (BITs) with clear recommendations for their improvement so as to ensure compliance with EU law and best practices; (v) Raise awareness and establish/improve investor state dispute settlement mechanisms addressing the new approaches to investment dispute resolution, while taking into account the EU developments and the United Nations Commission on International Trade Law (UNCITRAL) framework; (vi) Enhance public-private sector dialogue to 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; (vii) There is a further need to strengthen public finances and reduce external imbalances in order to address risk to financial stability; (viii) Reduce cumbersome and non-transparent business environments with sizeable informal sectors that distort competition and - for some - large public sectors that crowd out private sector development.

## 2.2. Smart Growth

*Promoting innovation and fostering knowledge-driven growth constitute 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 investments 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 of socio-economic development.*

### Pillar 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

SEE economies towards more value-added products and services, underpinned by an enhanced educational profile of its citizens.

Progress towards headline target 6 has been tempered by the increasing employment in the region (given that total employment is the denominator of this indicator) and currently stands at 36%. Performance on this composite indicator has tracked the external environment and has thus been fairly volatile, not surprising given the underlying indicators of GDP and employment. In terms of economy-level performance, Bosnia and Herzegovina and Montenegro have already reached their set targets, with other economies following closely behind. Serbia is the only economy in the region to record a negative result, as the 2017 data was below the original baseline, mostly due to impressive job creation over the past three years.

It is interesting to note that a considerable boost in the number of highly qualified persons recorded under headline target 7 (over half a million in a relatively small workforce) is yet to produce a more pronounced boost to productivity (as measured by Target 6 as a proxy). One possible interpretation of this is that the educational qualifications attained might be less aligned with the needs of the labour market.

Table 10: Target 6 - GDP per person employed, in PPS

Economy	2010 (baseline)	2011	2012	2013	2014	2015	2016	2020 (target)	target. value	achiev. so far	achiev./ target.	Progre. toward target.
Albania	17,839	18,280	18,573	20,938	21,771	n/a	n/a	24,000	6,161.0	3,932.0	64%	91%
Bosnia and Herzegovina	32,339	34,688	36,044	36,940	37,347	38,950	40,769	40,200	7,861.0	8,430.0	107%	97%
Kosovo*	33,642	39,778	38,776	36,040	39,165	n/a	n/a	45,417	11,774.7	5,523.0	47%	86%
Montenegro	30,321	34,025	32,271	33,181	31,091	n/a	n/a	37,000	6,679.0	770.0	12%	84%
Serbia	28,157	31,456	32,053	31,388	28,268	29,070	27,496	34,000	5,843.0	-661.0	-11%	86%
The Former Yugoslav Republic of Macedonia	25,986	26,038	26,308	25,905	36,847	27,862	28,467	35,000	9,014.0	2,481.0	28%	80%
SEE6	27,553	30,366	30,860	30,815	31,118	31,198	30,588	36,300	8,746.9	3,034.7	35%	86%

Source: National statistical offices, RCC calculations

Note: Kosovo\* baseline and target revised based on inputs from the Statistics Office. SEE6 averages based on RCC calculation; Progress indicates the level of 2020 target attainment in 2017 compared to 2010 baseline.

13 CEFTA Investment Report, wiiw, 2017 (draft)

Table 11: Target 7 - Number of highly qualified persons in the workforce (thousands)

Economy	2010 (baseline)	2011	2012	2013	2014	2015	2016	2017	2020 (target)	target. value	achiev. so far	achiev./ target.
Albania	158,000	163,972	171,819	202,991	217,407	243,197	245,536	260,385	260,000	102,000	102,385	100%
Bosnia and Herzegovina	154,000	168,000	164,000	185,000	191,000	177,000	179,000	n/a	255,000	101,000	25,000	25%
Kosovo*	82,000	87,000	92,000	99,000	104,000	104,200	125,700	237,887	n/a	n/a	155,887	n/a
Montenegro	43,000	47,200	50,500	57,800	59,500	62,500	69,600	68,600	68,000	25,000	25,600	102%
Serbia	568,446	579,951	604,316	634,684	717,851	757,226	783,004	807,651	655,000	86,554	239,205	276%
The Former Yugoslav Republic of Macedonia	164,481	182,853	191,213	183,500	183,874	204,952	235,543	n/a	204,000	39,519	71,062	180%
SEE6	1,169,927	1,228,976	1,273,848	1,362,975	1,473,632	1,549,075	1,638,383	n/a	1,442,000	272,073	468,456	172%

Source: National statistical offices

Note: Break in LFS series in 2014 in Serbia. Data are comparable for the periods 2010-2013 and 2014 - onwards. Progress indicates the level of 2020 target attainment in the last year data was available compared to 2010 baseline.

On the other hand, Target 7<sup>14</sup> - Number of highly educated persons in the workforce - has already been achieved in 2014, with close to half a million<sup>15</sup> highly educated persons added to the workforce since 2010. All the economies have seen a significant increase in the number of highly qualified people in the workforce and these numbers are expected to continue to grow until 2020. The individual economy performance on Target 7 as recorded by progress to date is quite varied, ranging from 8% for Bosnia and Herzegovina to 276% for Serbia. This is mostly attributable to different level of ambition with which the economies have set the national targets that capture the strategic intent.

Albania, Serbia, Montenegro and The Former Yugoslav Republic of Macedonia have all surpassed the domestic targets. Although Kosovo\* has not set a target, the number of the highly educated in the population has almost tripled since 2010. 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 most ambitious domestic targets compared to other economies in the region, increasing the number of highly educated by 101,000 or 66% on the baseline figure of 154 thousand. On the other hand, Serbia has set a much more conservative target of increasing this number by 87 thousand or 15.2% compared to

14 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 three years.

15 Without Kosovo\* which has not set the 2020 target.

the baseline of 568 thousand. In fact, Serbia reached this target already in 2014 and has continued to add new highly skilled persons to the workforce to the total number of almost 240 thousand new highly skilled people at the end of last year, thus effectively exceeding its set target by 2.76 times or 276%.

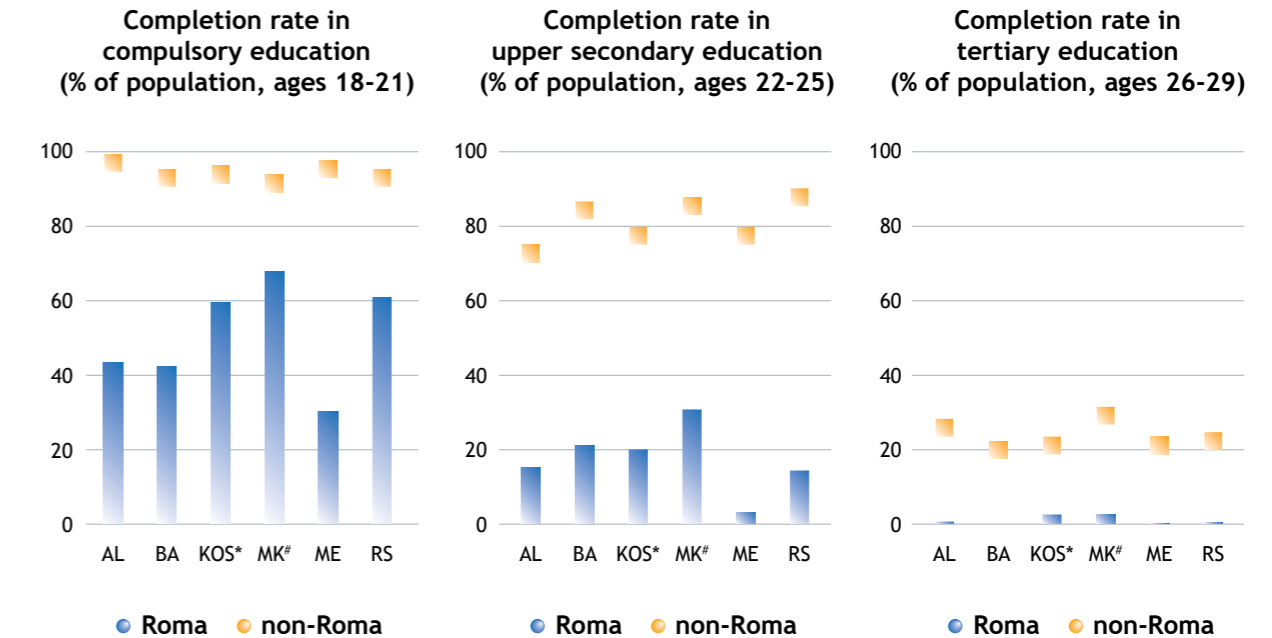
#### D. Education and Competences

The creation of human capital is essential for the development of competitive knowledge-based economies.

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%. While all economies have increased the tertiary education completion rate of Roma compared to 2011, the rates are still 0-3%, lagging far behind the general rate.<sup>16</sup>

16 Data from the 2017 Regional Roma Survey of the UNDP, World Bank and European Commission.

Figure 3: Roma vs non-Roma education completion rates



Source: National statistical offices

To achieve the Smart growth Target 7, the economies have committed to decreasing the number of 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<sup>17</sup> prior to obtaining at least an upper secondary qualification - early leavers from education and training - 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. However, the numbers differ 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>18</sup>, Albania, Bosnia and Herzegovina and Kosovo\* in particular have struggled with high rates of early leavers from education and training. The situation for Roma in this regard is precarious, with 73-86% of young Roma not in education, employment or training, unlike the domestic average across the region of 24%.<sup>19</sup>

17 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.

18 Source: EUROSTAT.

19 Data from the 2017 Regional Roma Survey of the UNDP, World Bank and European Commission.

Bearing in mind the widening of the education system in the WB6, ensuring quality of education is of the highest priority for the region. Furthermore, while access to education has been widened and almost universal access to primary education achieved in all economies (except for Roma who are enrolled with the rate of 72%), completion of education among socially vulnerable groups remains a challenge, in particular in transition phases from primary to secondary and secondary to higher education. The completion rate of Roma in all the stages in education is particularly worrisome. While the completion rate in compulsory education for the non-Roma in the region is at 95%, for Roma it is only 52%. Upper secondary education is completed by 82% of the non-Roma, and only 17% of the Roma, while tertiary education is completed by only 1% Roma, and 24% of non-Roma, which is the region's average. The graphs below show the completion gaps of Roma in the region.<sup>20</sup>

The progress reports also emphasize the need to focus on quality of education and underpin the importance of teacher education and training in ensuring and enhancing quality of education across levels. The progress reports further emphasise the need to focus on transition from education to world of work and highlight concerns regarding the mismatch between education supply and labour market demand. These concerns are shared by the governments who

20 Data from the 2017 Regional Roma Survey of the UNDP, World Bank and European Commission.

\* According to the RCC Statute, the full name of MK is: The Former Yugoslav Republic of Macedonia.

Table 12: Perceptions on readiness of employees to undertake additional education

Business opinion		Public opinion	
Over the past 12 months, has your business funded or arranged any training and development for staff in the organisation, including any informal on-the-job training, except training required by the law?(N=1203)	How would you assess the readiness of employees in your company to acquire additional qualifications in order to advance and get promoted? (N=1203)	Would you be ready to acquire additional qualifications to advance at work? (N=3032)	
No 62%	They are not interested at all	2%	I will not for sure
Yes 37%	They are not interested	9%	Probably I will not
	Neither interested nor disinterested	25%	
	They are interested	45%	Probably I will
	They are very interested	14%	I will for sure
	DK/Refuse	5%	DK/Refuse
			4%

have all prioritised structural reform measures addressing the mismatch between education, particularly of VET provision, and the labour market in their domestic Economic Reform Programmes over the past three years. While the importance of the reform of VET systems continues to be in focus of the governments, also due to the work and engagement of the European Training Foundation in the region, there is a need to pay equal attention to the quality of the general education system (from early school to high school) and the higher education, in particular in terms of enrolment policies and employability of graduates.

Furthermore, the continuing transformation of the economies will continue to impact the labour market needs. This places additional needs on the governments to develop effective Lifelong Learning Policies, but also requires businesses to match the government efforts by providing on-the-job training and support, upscaling of skills and qualifications of their employees.

According to the Balkan Barometer 2018 Business and Public Opinion Surveys, readiness of employees to pursue additional training is significantly greater than perceived by the companies. As many as 79% of the employees are ready to pursue additional training in order to advance at work - a number which the companies underestimate significantly. Only 59% of business executives estimate that their employees would be ready to take additional training in order to advance at work.

At the same time, only slightly more than one third (37%) of the companies arranged additional training for their staff over the past 12 months. The mismatch between the interest in additional training and actual training provided by employers clearly indicates a need for companies to introduce or improve skills needs assessment, as well as for increasing the number of training opportunities.

Increasingly, students go abroad for credit-mobility or degree-mobility in a rapidly internationalising higher education (HE) world. It is generally agreed that mobility improves the quality of HE systems and raises graduates' skills levels, improves their employability and contributes to filling gaps in the labour market. Mobility and internationalisation of HE are among the central objectives and main policy areas of the Bologna Process and the European Higher Education Area (EHEA)<sup>21</sup>.

<sup>21</sup> The 2009 Leuven/Louvain-la-Neuve Communiqué, declared international openness to be one of the priorities for HE over the following decade (EHEA, 2015). The Communiqué stated that: "In 2020, at least 20% of those graduating in the European Higher Education Area should have had a study or training period abroad". The Bucharest Communiqué from 2013 and the Yerevan Communiqué adopted at the last Bologna Ministerial conference in 2015 further emphasised the importance of mobility. Moreover, the Ministers went a step further and stated that they encourage automatic recognition to take place throughout the European continent by 2020 and repeated that one of the current priorities should be ensuring „that qualifications from other EHEA countries are automatically recognized at the same level as relevant domestic qualifications“.

Table 13: Implementation of Education and Competence actions

Measures/Actions	Activities and Achievements 2017/2018	Expected Results 2018/2019
Dimension D: Education and Competences		
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>Established SEE network of experts in Quality assurance in general education.</li> <li>Identified regional priorities in the field of Quality Assurance, formalised in the adopted Action plan.</li> <li>Establishment of the SEE network of experts in Teacher Trainings.</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>Increased capacities of QA agencies in general education through training on the internal quality management standards.</li> <li>Increased quality of the QA standards in the region through the training on the external assessment of education institutions.</li> <li>Increased quality of teacher trainings in the region through the definition of quality standards of trainings for the region and prioritization of training areas.</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 the joint Working Group on Recognition of Academic Qualifications (WG RAQ) which will be responsible for preparing joint regional activities to ensure the implementation of the MAP REA actions aimed at removing obstacles to the recognition of academic qualifications.</li> <li>Completed/prepared legal text of mutual recognition agreement which will serve as basis for negotiations of professional qualifications for the prioritised professions (dentists, doctors, architects and engineers).</li> </ul>	<ul style="list-style-type: none"> <li>Kicked off joint exercise on recognition of academic qualifications in order to have a statement of principles for fast-tracking recognition among the WB; established joint online system on recognition of qualifications.</li> <li>Opened negotiations on mutual recognition agreements in the prioritised professions; developed database on professional qualifications and mobility of professionals based on EU model.</li> </ul>
Ensure education better meets economic and labour market needs	<ul style="list-style-type: none"> <li>Enhanced cooperation between the VET sector and business sector through the established Western Balkans Alliance on Work-based Learning.</li> <li>Identified regionally relevant economic sectors with the growth potentials and labour mobility potentials and corresponding specific occupations.</li> <li>Workshops on the development of the methodology for the regionally-based standards of occupations</li> </ul>	<ul style="list-style-type: none"> <li>Operational joint regional on-line platform on work-based learning in the Western Balkans.</li> <li>Definition of the methodology for the regionally-based standards of occupations.</li> </ul>
Ensure development of entrepreneurship competence at all stages of education	<ul style="list-style-type: none"> <li>A series of launch events held by OECD across the WB region to present the key features of the SBA assessment methodology and process as well as to introduce the revised SME Policy Index assessment frameworks including a dimension on entrepreneurial learning.</li> </ul>	<ul style="list-style-type: none"> <li>Revised SME Index for the period 2016-19 identifying strengths and weaknesses in policy design, implementation and monitoring. The SBA Assessment contains detailed scores, qualitative analyses and tailored policy recommendations.</li> </ul>

Most progress, in terms of regional cooperation in education policy, 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.

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 Joint Working Group on Mutual Recognition of Professional Qualifications (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, Serbia and The Former Yugoslav Republic of Macedonia in May 2018 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.

While all of the economies have ratified and transposed the Lisbon Recognition Convention into a domestic legislation, challenges in recognition of academic qualifications between the WB6 remain. The Working Group on Recognition of Academic Qualifications was formalized in December 2017 with an aim of supporting removal of obstacles to recognition of academic qualifications by agreeing on a model for automatic recognition between WB6 and developing a joint information system to support information exchange and recognition of academic qualifications. Furthermore, the development of a fully functional quality assurance systems with independent quality assurance bodies fully aligned with the European Standards and Guidelines is crucial both for the smooth recognition process and for increasing the quality of higher education provision in the region. Due to the weak quality assurance and accreditation systems, there is also a lack of trust between the economies in the validity and quality of the qualifications. In particular, the information on validity of accreditation of the higher education institutions at the time of issuing a degree is often difficult to obtain. To build the effective quality assurance systems, continuous capacity building, peer learning activities and networking

with the established quality assurance agencies are of crucial importance and will be supported by RCC.

### E. 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 or slightly above 1% in all the economies in the region. An important change in this trend has happened in Montenegro where the government approved a 60% increase of the domestic budget dedicated to science for 2018.

The protracted low investment into the R&D has had a profound impact on the quality of the research production and its impact potential. All of the Western Balkan six economies, with an exception of Serbia, rank relatively low on the impact of research produced globally, as well as compared to the "Eastern European" economies. The R&D capacity of the region is reflected in the success rates of Horizon2020 research grants where only Serbia and as of recently Montenegro have been successful in competing with the EU Member States on an equal footing. The economies have particularly low success rates in competing for Marie Curie Skłodowska grants awarded to individual researchers, again with the exception of Serbia.

The Western Balkan region has significantly improved in terms of innovation performance in the last ten years. However, in catching up with other European regions, the focus of innovation efforts should be enhanced. Although some Western Balkan economies record increases in patent activity, patent intensity in the region is still low, while, on the other hand, scientific publication production displays a stable growth trend. Exports are still far more focused on medium- and low-technology products. Innovative efforts mostly accommodate traditionally strong sectors, which do not necessarily reflect the ideal competitiveness paths for economies in the region<sup>22</sup>.

According to the last Balkan Barometer Business Opinion Survey, almost every fourth company in SEE has reported introducing new products and/or

<sup>22</sup> "Supporting Innovation Agenda for the Western Balkans: Tools and Methodologies", EU (2018). Available at [http://publications.jrc.ec.europa.eu/repository/bitstream/JRC111430/2018-04-24\\_western-balkans-report\\_online.pdf](http://publications.jrc.ec.europa.eu/repository/bitstream/JRC111430/2018-04-24_western-balkans-report_online.pdf)

services and every third company has improved production and/or service delivery process in the past three years. The tendency towards product or services, as well as process or service delivery process innovation increases with company size. Companies that export also innovate more, as well as those operating with foreign assets. In terms of sectors, companies from educational-scientific sector tend to innovate more, while those in transport, trade and tourism seem to innovate the least of all compared to other sectors. Only 9% of the introduced innovation comes from cooperation between companies and the Universities in the region.

Despite low level of investments, research and innovation policy frameworks and initiatives are very dynamic in all economies of the region. All of the economies have already had in place or have recently adopted their research and development policy frameworks. The economies have also started to engage in developing policies, instruments and institutions to directly engage with innovation in the private sector, cooperation between the academia and industry, technology transfer and commercialisation of research.

Development of smart specialisation strategies has been placed on the agenda as one of the priorities for 2018 by all of the economies. While Serbia and Montenegro have already progressed in the development of the smart specialization strategies, the other four economies have initiated the process of development of the smart specialization strategies by appointing the coordinating institution and a team to coordinate the preparation of the smart specialization in early 2018. Regional Cooperation Council (RCC) and the Directorate-General Joint Research Centre (DG JRC) of the European Commission co-organised a joint Workshop on the Governance of Smart Specialisation and Training on the Entrepreneurial Discovery Process (EDP) in the Western Balkans, which was held at Technology Park in Ljubljana on 11-12 April 2018. In the course of the workshop Albania, Bosnia and Herzegovina, Kosovo\* and The Former Yugoslav Republic of Macedonia have completed the first drafts of the Roadmaps for the Development of the Smart Specialisation Strategies, while Montenegro and Serbia have started with the EDP process. Additional support will be provided through MC IPA project awarded to DG Joint Research Centre aimed at supporting the development of smart specialisation strategies in the WB6 from 2019 onwards.

The national dynamics have also been reflected at the regional level with the agreement to create a Regional Economic Area through a Multi-Annual Action Plan. The actions outlined in the MAP build on the Smart Growth Pillar of the SEE2020 Strategy and

address (1) mobility and cooperation between researchers in the WB and between the WB and the EU; (2) the importance of research infrastructure and the investment into infrastructure; (3) digital innovation; (3) smart specialisation; technology transfer; (3) commercialisation of public research and the innovation potential of small and medium enterprises. It is in fact a comprehensive agenda on research and development which is of crucial importance to truly leapfrog the economies from the current economic model to the one which can successfully compete in and integrate into the EU innovation driven economies. The region has the opportunity to seize the moment and position smart growth as a cornerstone of the region's competitiveness and economic development.

The Working Group on Open Science (WGOS) was formed under the auspices of the Regional Cooperation Council (RCC) with the aim of accelerating policy reforms in favour of Open Science in the Western Balkan economies, and in particular to ensure synergies between planned and new national e-infrastructures to support Open Access and Open Data policies in the region. The objective of this Working Group is assisting the region to move closer to adoption of the EU 2012 recommendations on Open Science in the Western Balkan economies, and in particular those on defining clear policies for the dissemination of, and open access to scientific publications resulting from publicly funded research, open access to research data resulting from publicly funded research which will further contribute to increased impact of research production in the region, visibility of WB researchers, and opening of new avenues for cooperation and integration into the existing EU academic and research networks. Furthermore, ensuring synergies among national e-infrastructures at European and global levels and designating a National Point of Reference for Open Access are essential for integration of the WB into the European Research Area.

The representatives coming from Ministries in charge of Science participating in the WGOS also agreed to prioritise the mapping of the existing research infrastructure, including the e-infrastructure, to identify further gaps in the region which could serve as a basis in developing an investment plan for the region; and supporting the development of open access policies and negotiations with publishers to ensure better access to international journals for the research community in the WB. To support the process of Opening Science in the Western Balkans, the DG R&D invited the WB6 to attend as observers the regular meetings of the network of National Points of Reference on Scientific Information (NPR) of EU

member states and included them in the upcoming cycle of regular EU reporting on Open Science.

The regional initiative, led by Montenegro, to establish a South East European International Institute for Sustainable Technologies (SEEIIST) aims to build a regional centre of excellence centred around a research nucleus with the newest technology which would offer a first-class research and have long-term effects on economic growth. The joint facilities of the SEEIIST would promote collaboration between science, technology and industry and help mitigate tensions in the region, following the European Organisation for Nuclear Research (CERN) model of ‘Science for Peace’. The SEEIIST would stimulate the education of young scientists and engineers based on knowledge and technology transfer from European laboratories such as CERN and others and would assure international competitive research in SEE. Bringing the newest technologies to the region would expedite regional transformation to ‘knowledge-based’ societies, contribute to the competitiveness of the region and improve the standard of living by creating attractive jobs (in particular important for young people), thus contributing to reverting the ‘brain drain’ phenomenon. The initiative has gained wide regional support whereby the Declaration of Intent to establish SEEIIST was signed on 25 October 2017 at CERN by Ministers of Science or other representatives of the respective economies. The first meeting of the SEEIIST Steering Committee took place on 30 January 2018 in Sofia, by virtue of Bulgarian Presidency of the Council of the EU. Officials have decided that Hadron cancer therapy will be the scientific method available to the citizens of the region once the Institute is constructed.

In addition to the regionally-owned initiatives, multi-country IPA support has been mobilised to support the R&D and innovation in the WB6.

A multi-country IPA 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. Fifteen organizations in the ecosystem for TT capacity building in the WB6 have been identified within the project, and targeted capacity building and trainings are to commence in 2018. The project also foresees the development of a Strategy and a Roadmap on Science Parks and Incubators in the

region, but as of yet there hasn’t been any progress on this component of the project.

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. Due to delays, the study has not yet been made available, but it is expected to be published later in 2018.

Investments to support innovation, as well as commercialisation of public research are of crucial importance. Serbia has set up a functional innovation fund, as did The Former Yugoslav Republic of Macedonia, while other economies started introducing different innovation voucher schemes on a smaller scale. 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.

The EU4Tech project, mentioned above, has reviewed existing available TT financial instruments in the region. Based on the identified gaps, JRC’s thematic expertise and EIB’s financial know-how will be used in a synergetic way to launch a small-scale Western Balkans 6 pilot initiative funded through the multi-country IPA, which will represent the next and first practical stage in the efforts to bridge the so called “valley of death” between research and industry.

Table 14: Implementation of R&D and Innovation actions

Measures/Actions	Activities and Achievements 2017/2018	Expected Results 2018/2019
Dimension E: R&D and Innovation		
<ul style="list-style-type: none"> <li>Strengthen research capabilities and promote research excellence</li> <li>Assess options for regional actions to promote technology transfer and develop potential measures/instruments</li> <li>Design regional program to develop ‘networks of excellence’ in selected research areas</li> <li>Stimulate collaboration between industry and science</li> <li>Support introduction of a viable innovation finance market</li> </ul>	<ul style="list-style-type: none"> <li>EU4Tech Western Balkans project funded through MB IPA implementing capacity building trainings in technology transfer.</li> <li>Working Group on Open Science implementing the agreed action plan aimed at supporting Open Science policies and measures in the region as an instrument for promoting research excellence and stimulating collaboration between industry and science.</li> <li>Established Working Group on Mobility of Researchers responsible for preparing joint regional activities to ensure the implementation of the MAP REA actions aimed at facilitating mobility of researchers within the WB6 and towards the EU.</li> <li>Established regional dialogue and knowledge exchange on developing Smart growth strategies, and engaging with EU-wide smart growth approaches, notably the smart specialisation platforms, to develop and implement smart growth development strategies with the active participation of business and research &amp; innovation communities.</li> <li>Developed study on mapping smart specialisation status of all economies in WB and conducted tailor-made training/workshop organised for WB6 participants in close collaboration with DG JRC.</li> <li>European Investment Bank TA facility conducting a study on developing centres of excellence in the WB.</li> </ul>	<ul style="list-style-type: none"> <li>Implemented trainings with TT related organizations and capacity building exercises conducted for developing TT strategies.</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>Mapping the existing e-infrastructure in the Western Balkan economies with the aim of supporting further development of the e-infrastructure and identification of funding schemes in EU and WB supporting this endeavour.</li> <li>Development of mechanisms and measures to support increased mobility of researchers from WB6 to EU within the existing mobility schemes.</li> <li>Capacity building trainings for EURAX-ESS focal points agreed and implemented.</li> </ul>

### F. Digital Society

In the area of digital society in the Western Balkans, significant progress has been made in 2017, particularly after the endorsement of MAP REA with a number of concrete priority measures identified by WB economies and the RCC. The second half of the previous year is characterised by intensifying regional cooperation in the implementation of defined measures which resulted in evident progress documented in all areas of digital transformation. Nevertheless, despite certain progress and results, the WB region is at the beginning of a digital transformation, lagging significantly behind the EU Member States. Available digital indicators depict the level of development in numerous domains, while more comprehensive indicators give a broader pic-

ture of the existing digital gap of the region. The ICT Development Index, calculated by the International Telecommunication Union<sup>23</sup> for 2017 shows that WB economies are ranked between 55<sup>th</sup> and 89<sup>th</sup> position at the global list, largely unchanged from the previous years. So far, only Serbia has calculated its Digital Economy and Society Index (DESI) comprising 31 indicators, revealing that Serbia ranks low compared to the EU 28, except in the area of integration of digital technologies, where Serbia is ranked 10th. Although other WB economies have not calculated their DESI yet, situation would most probably not differ substantially.

With the aim of identifying the state of play in digital society area of the region, and in close coopera-

<sup>23</sup> <http://www.itu.int/net4/ITU-D/idi/2017/>



tion with the WB governments, RCC has carried out a stock taking analysis and developed a report identifying needs which will guide the implementation of activities and steer strategic processes of digital transformation in the Western Balkans.

During the reporting period, the activities implemented were focusing on alignment with the EU regulatory and policy framework following the Digital Single Market principles and reduction of roaming charges through the enforcement of the Regional Roaming Agreement whose third phase of implementation started as of 1st July 2017. Also, the region continued the process of harmonization of spectrum usage, digitization of television and radio signals and creating preconditions for capturing the full benefits of digitization of industry and public services in the near future.

With the aim of supporting expansion of digital society, the RCC facilitated establishment of the Western Balkans Digital Summit (WB DS) Steering Committee as a permanent platform and co-organised the first regional Digital Summit, held in Skopje in April 2018. This resulted in establishing a structured high level regional political dialogue on digitisation which will be culminating in a form of annual Digital Summits.

RCC partnered with the industry in developing the Study on Impact of Digital Transformation of the six Western Balkan economies, plus Slovenia and Croatia, and analysing economic, social and political benefits of digitalisation of the region. The Study presented the current state of play in digital transformation in Western Balkans through calculated digitization index, and how the existing gap can be closed, enabling all mentioned benefits. The analysis included in the study also revealed that 10% increase in digitization index is associated with a 0.63% in the overall GDP growth and that relation between the two is stronger in WB than in the rest of the world.

The region's Digital Highway project, supported by the World Bank, generated a study to analyse the potential for use of excess fibre optics in the region and identify viable commercial models for decreasing costs of broadband infrastructure development and speeding-up high-capacity and reliable digital communication networks development.

Broadband infrastructure development and improving of digital literacy among citizens are the main prerequisites for reaping the full potential of digital economy. Hence, further alignment with the EU acquis and adoption of domestic strategies in WB remain priorities for integration in the pan-European digital market and bridging of the digital gap.

The SEE economies must develop future-proof broadband policies and targets and accelerate high-speed broadband roll-out 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, networks and information security as building blocks of a regional framework for deployment of interoperable cross-border e-Government and e-Business services.

In the area of reduction of roaming costs, four WB economies are already implementing the third phase of regional roaming agreement with tangible impacts in terms of reduced roaming prices and 90% of telecommunication traffic generated between four of them. Nevertheless, there is still room for implementing further legal and regulatory measures to follow the EU model. Hence, RCC has commissioned a study on domestic and roaming prices for mobile services and analysis of telecommunication market in the WB region. At the same time, the EC is working on preparation of a roadmap to facilitate lowering of roaming costs between the WBs and the EU, as part of a credible enlargement perspective and enhanced EU engagement with the SEE region. In support to this agenda, WB Leaders have agreed during the EU-WB Summit on 17 May in Sofia to continue the processes of lowering the roaming costs for the full coverage of consumers in the WB region and to support the implementation of a Roadmap to facilitate lowering the cost of roaming between the WB and the EU<sup>24</sup>.

Cybersecurity of the region is still weak, while the process of transposition and implementation of Network Information Security Directive is in initial phases. All WB economies have established national Computer Security Incident Response Teams (CSIRTs) while establishing of other CSIRTs and their networking is still pending in the region. In autumn 2017, RCC initiated regional coordination of existing national CSIRTs, while future activities will focus on building of their capacities, establishing mechanisms for information exchange and prospective opening of a centre of excellence. With regards to the cooperation with the European Union Agency for Network and Information Security (ENISA), RCC has initiated communication with ENISA to explore the prospects of participation of WB economies in the work and activities of the agency. In addition, participation of WB economies in trainings and coordination of cyber security measures that the Agency

<sup>24</sup> Statement of support "The Digital Agenda for the Western Balkans" Sofia, 17 May 2018

Table 15: Implementation of Digital Society actions

Measures/Actions	Activities and Achievements 2017/2018	Expected Results 2018/2019
Dimension F: Digital Society		
Connectivity and infrastructure development	<ul style="list-style-type: none"> <li>Study on impact of existing Regional Roaming Agreement found that roaming prices decreased by around 80% in WB.</li> <li>The World Bank assessed prospects for infrastructure sharing between energy and telecommunication operators, solution for utilizing spare fibre optics, and investigated viable financial models for commercialization in the Study on Western Balkans Digital Highway.</li> </ul>	<ul style="list-style-type: none"> <li>Study on telecommunications market in WB focusing on roaming costs and policy recommendation for further lowering of prices and completing the 'Regional Roaming Agreement' in order to provide full coverage of consumers in the region.</li> <li>Lowered roaming costs for full coverage of WB6 consumers and implementation of WB-EU Roaming Roadmap.</li> <li>Intensification of activities on digitalization of television and radio signals.</li> <li>Utilization of TA for digital connectivity projects within WBIF.</li> <li>Advanced implementation of the Digital Agenda for WB.</li> <li>Sustained annual ICT regulatory dialogue between WB-EC.</li> </ul>
Cybersecurity	<ul style="list-style-type: none"> <li>Regional networking of CSIRTs and extended capacity building CSIRTs network organized in cooperation with ITU.</li> </ul>	<ul style="list-style-type: none"> <li>Capacity building of national CSIRTs.</li> <li>Establishing a Cybersecurity Centre of Excellence in WB.</li> <li>Facilitating cooperation with ENISA providing support to the WB economies in the implementation of NIS directive.</li> </ul>
Digital transformation of WB	<ul style="list-style-type: none"> <li>Established structured High-level regional political dialogue on digital transformation of WB - based on full WB ownership and government-industry.</li> <li>Industry led Study on Potentials of Digital Transformation of WB, Slovenia and Croatia showed that closing the digital gap can produce numerous economic, social, politic and cross-border benefits and that 10% rise in digitisation index will increase overall GDP by 0.63 %.</li> </ul>	<ul style="list-style-type: none"> <li>First Western Balkans Digital Summit organized.</li> <li>Maintaining permanent regionally owned dialogue on WB digital transformation and launching preparation of the second WB Digital Summit (to be hosted by Serbia).</li> </ul>

is providing are among the RCC's priorities for the upcoming period.

The European Commission's Enlargement Strategy ("A credible enlargement perspective for and enhanced EU engagement with the Western Balkans") includes the initiative for Digital Agenda as one of the six flagship initiatives for 2018-2020. Digital issues were at the agenda of EU-Western Balkan Summit where the WB6 Leaders aligned a statement of support for the Digital Agenda of the West-

ern Balkan<sup>25</sup>. Thanks to this new commitment, WB has been increasingly integrated in EU digital processes and frameworks, such as Broadband Competence Office, Digital cross-border traineeship initiative, EU's Code week, etc. Identification of

<sup>25</sup> The Statement of support for the digital agenda highlighted the importance of a market - and investment -friendly environment in the Western Balkans to move faster towards a digital economy..."; and as part of "Sofia Priority Agenda" announced the launch of a Digital Agenda for the Western Balkans, including a roadmap to facilitate lowering the cost of roaming; and to launch a substantial technical assistance package for the identification of potential digital investments (including broadband) through Western Balkans Investment Framework/Instrument for Pre-accession Assistance".

digital connectivity as an additional eligible sector under WBIF support has been a significant achievement during this reporting period. A substantial technical assistance package for identification of potential digital projects, including broadband, is launched through WBIF/IPA. The Digital Agenda for the Western Balkans covers lowering the cost of roaming, deployment of broadband, development of e-Government, e-Procurement, e-Health and digital skills, capacity building in digital trust and security, in parallel to efforts on enhancement of the digitalisation of industries, and adoption, implementation and enforcement of the acquis.

### G. Cultural and Creative Sectors

ulture re-entered the EU's focus with the recent Enlargement Strategy published in February 2018. The Commission underlined cooperation in culture as crucial for the region's further development and a prerequisite for peaceful coexistence and reconciliation. The Strategy also stresses EU continued support towards protection of Western Balkans' cultural heritage and promotion of its cultural and creative industries.

The fourth Ministerial Conference of the Council of Ministers of Culture of South-East Europe (CoMoCoSEE) took place in April 2018 in Sarajevo. The Ministers confirmed an Enhancing Culture for Sustainable Development Declaration committing to continue to further strengthen the co-operation of CoMoCoSEE members with the aim to share knowledge and best practices in the cultural sector, and especially the experience in linking/mainstreaming culture with other sectors and sectoral policies for the purpose of achieving the goals of the 2030 Agenda for Sustainable Development.

The Ministers recognized the importance of protecting, preserving and promoting tangible and intangible cultural heritage, of the adoption of common strategies for the conservation and restoration of cultural heritage, and of the application of new technologies, digitization, and inventorying of cultural heritage in accordance with relevant international standards. In this context, the Declaration reconfirmed the commitments to continue and strengthen the cooperation in the framework of the Regional Centre for the Safeguarding of the Intangible Cultural Heritage in South-East Europe under the auspices of UNESCO established in Sofia.

Furthermore, the Ministers highlighted their continued determination to enhance cooperation on bilateral and regional levels in the fight against illicit trafficking of cultural goods by exchanging information and expertise and strengthening existing

capacities, and by developing a Red List for South East Europe.

A particular attention was given to uniting the efforts to achieve the objectives of the European Year of Cultural Heritage 2018, especially by implementing joint projects such as the European Union initiative EU-Western Balkans Cultural Heritage Route, which will further promote the rich and diverse cultural heritage of our region. Furthermore, establishment of thematic cultural routes in the area of South-East Europe and their inclusion in the Enlarged Partial Agreement on Cultural Routes of the Council of Europe, as well as a stronger connection with the tourism sector were highlighted by the Ministers.

Finally, the Ministers authorized the Committee of Officials to explore, in cooperation with UNESCO, the possibility for establishment of a Fund for implementation of the joint activities as per the Ohrid Regional Strategy and the following CoMoCoSEE Declarations.

### Key findings and recommendations

The four dimensions of the Smart growth pillar have seen varied progress during the previous year. In terms of the specific dimensions of the Smart growth pillar, the possible next steps are summarized below.

**D. Education and Competences Agenda:** (i) Develop measures to support the delivery of a better quality education including through enhanced teacher education and training; (ii) Develop and implement measures to support not only access, but completion and transition from primary to secondary and from secondary to higher education, of socially vulnerable groups, in particular Roma; (iii) 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 to science, technology, engineering and mathematics (STEM) fields over social sciences; (iv) Remove obstacles to recognition of professional qualifications through opening negotiations on, and consequently concluding mutual recognition agreements of professional qualifications for Doctors of Medicine, Dentists, Architects and Civil Engineers in a multilateral framework; (v) Remove obstacles to recognition of academic qualifications by agreeing on procedures for fast track recognition of academic qualifications.

**E. Research and Development and Innovation Agenda:** (i) Mobilise resources to develop/complete smart specialisation strategies; (ii) Enhance capac-

Table 16: Implementation of Cultural and Creative Sectors actions

Measures/Actions	Activities and Achievements 2017/2018	Expected Results 2018/2019
Dimension G: Cultural and Creative Sectors		
Strengthen institutional capacities and implement an integrated heritage rehabilitation management tool to ensure rehabilitation of selected cultural heritage sites (Ljubljana Process) Encourage active cooperation between film policy bodies, public broadcasters, production and distribution companies Implement a regional Design Incubator based on a design network composed of relevant actors from the region	<ul style="list-style-type: none"> <li>The Triple P regional tourism project that started its implementation during the reporting period links competitiveness to tourism; it also includes significant reference to cultural tourism as a way of revitalizing rich regional cultural heritage while putting it to economic development use through developing regional touristic itineraries, with special focus on historical/cultural sites, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Developing cultural tourism through joint regional tourist offers along regional touristic routes; promotion of the vast potential of the region's cultural heritage.</li> </ul>

ity for innovation and technology transfer; design and utilize instruments to finance innovation and technology transfer effectively in the region; (iii) 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; (iv) Map existing research infrastructure in the region to ensure transparent and available information to researchers interested in cooperation with and within the WB by 2019, with a view of identifying potential viable regional excellence centres; (v) Strengthen the capacity of EURAXESS offices in the region, and implement the Charter and Code principles and Seal of Excellence; (vi) Support Open Science Agenda to address the structural issues of quality of research and opening of effective avenues for use of research for innovation purposes.

**F. Digital Society:** (i) Support actions to step up the deployment of broadband infrastructure and improve digital connectivity; (ii) Facilitate further integration of WB6 in EU's current initiatives and frameworks such as the Western Balkans Investment Framework, the Broadband Competence Office Network, the Digital Opportunity Traineeship scheme, EU's Code week initiative, etc.; (iii) Capacity building in digital trust and security, in particular increasing capacities of CSIRTs and other related national structures; Facilitate cooperation with ENISA to support implementation of NIS directive; (iv) Prepare broadband connectivity projects through the allocated 30 MEUR TA within the Western Balkans Investment Framework and mainstream digitization within pre-accession projects; (v) Support the implementation of a Digital Agenda for

the Western Balkans - launched during the Digital Assembly on 25 June 2018; continue the processes of lowering the roaming costs for the full coverage of consumers in the WB region; (vi) Undertake actions toward the creation of a market and investment-friendly environment in the Western Balkans to move faster towards a digital economy; Maintain the high-level regional dialogue on digital transformation of WB and support digitisation of industries through standardisation and uptake of smart technologies; Build capacities and advance in developing e-Government, e-Procurement and e-Health.

**G. Cultural and Creative Sector:** (i) Develop cultural tourism through joint regional tourist offers along regional touristic routes and promote the vast potential of the region's cultural heritage.

### 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.

#### Pillar overview

The Sustainable Growth pillar encompasses sectors of energy, environment, transport and competitiveness. This multidimensional pillar has ambitious targets focused on improving overall connectivity in the region and is designed to facilitate achievement of sectoral objectives and spur socio-economic development following the principles of sustainability through prudent use of resources and strategic planning of infrastructure development. The energy dimension aims to support WB economies in meeting their commitments and obligations stemming from the Energy Community Treaty, ensuring further integration of energy market and security of energy supply. In line with the most recent EU policies for 2020 but also following the integrated 2030 framework targets, this dimension together with the environment dimension underpins sustainable development concentrating on energy efficiency and increasing of share of renewables in energy mix in the entire region. The environment dimension is created with the aim to coordinate environment policy harmonization, sustainable development through protection of water, air and soil, and optimization

of use of resources. This dimension is shaped to enable protection and sustainable use of biodiversity in the region, representing one of most important European biodiversity hotspots, as well as to help mitigating climate change and increase adaptive capacities of the region ensuring smooth realization of commitments under the Paris Agreement on Climate Change. The transport dimension seeks to facilitate the fulfilment of obligations stemming from the 2004 MoU on a regional transport network, and the Transport Community Treaty (TCT), to support the development of seamless core and comprehensive networks in the WB region, ensure sustainability and multimodality enabling free movement of people, goods, services and capital. Transport is at the heart of the supply chain, it drives trade and economic growth, allows goods to be delivered, allows people to travel and makes places accessible, thus this dimension seeks to support integrated transport market, well developed transport networks and less polluting, efficient, safe and secure transport. 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 headline targets have been selected to monitor the performance of the economies in the region in the Sustainable Growth pillar: (i) net enterprise creation (Target 8), and (ii) share of energy from renewable sources in gross final energy consumption (Target 9).

The progress on Target 8 - Net enterprise creation - is not measured due to data consistency problems, given that most of the economies are unable

Table 17: Target 8 - Net enterprise creation

Economy	2010	2011	2012	2013	2014	2015	2016	2017	2020	Progre. toward target.
Albania	2,088	1,849	1,886	2,114	n/a	n/a	n/a	n/a	2,500	6%
Bosnia and Herzegovina	3,598	3,849	3,688	3,500	3,710	3,772	4,294	4,040	2,300	-34%
Kosovo*	7,747	7,909	9,655	9,485	9,612	10,070	10,553	9,335	170	-21%
Montenegro	11,595	9,150	8,329	6,805	7,161	6,877	7,132	n/a	520	40%
Serbia	n/a	4,513	2,813	4,064	3,382	3,864	3,703	4,501	11,600	32%
The Former Yugoslav Republic of Macedonia	9,470	8,471	8,648	8,735	8,209	8,180	8,430	8,758	9,700	87%
SEE6	34,498	35,741	35,019	34,703	32,074	32,763	34,112	n/a	26,790	127%

Source: SEE Statistics Offices, Business Registers

Table 18: Target 9 - Share of Energy from Renewable Sources in Gross Final Energy Consumption (per cent)

Economy	2010 (baseline)	2011	2012	2013	2014	2015	2016	2020 (target)	target. value	achiev. so far	achiev./target.
Albania	43.2	27.0	30.5	37.1	28.2	34.7	41.1	38.0	-5.2	-2.1	40%
Bosnia and Herzegovina	33.1	22.5	23.9	34.2	31.2	30.2	28.9	40.0	6.9	-4.2	-62%
Kosovo*	18.6	17.6	18.4	19.8	19.6	18.0	23.7	25.0	6.4	5.1	80%
Montenegro	55.6	36.4	40.1	50.1	45.7	43.9	46.1	33.0	-22.6	-9.4	42%
Serbia	20.8	17.8	19.8	21.6	23.7	21.8	21.3	27.0	6.2	0.5	8%
The Former Yugoslav Republic of Macedonia	21.1	15.7	14.0	16.1	17.7	19.8	18.5	28.0	6.9	-2.6	-38%
SEE6	27.1	20.2	21.7	25.9	30.0	25.4	26.0	31.2	4.1	-1.1	-27%

Source: Statistics offices of Albania, Bosnia and Herzegovina, Kosovo\*, The Former Yugoslav Republic of Macedonia, Ministry of Economy of Montenegro, Ministry of Mining and Energy of Serbia; regional aggregates by Energy Community Secretariat and RCC;

to produce net enterprise creation data and that they have submitted data on overall new enterprise registration instead. Yet, the data provided are still presented in the Table above as they clearly reveal that the entrepreneurship in the region is stymied, largely due to the complex business environment in many of the region's economies.

Progress in the energy dimension of the Sustainable Growth pillar is depicted by one of the main energy indicators created to monitor upturn in replacing conventional with renewable energy sources in energy mix of the region. The indicator represents the share of energy produced from renewable, non-fossil sources (wind, solar, hydro, aero/geo/hydro-thermal, biomass, bio-and landfill gas) in the overall consumption of energy for energy purposes without losses and consumption of energy branch. Table 18: Target 9 - Share of Energy from Renewable Sources in Gross Final Energy Consumption (per cent)<sup>26</sup> shows that the region recorded progress in this area since the mandatory targets for each WB economy were imposed by the Energy Community Ministerial Council's Decision from 2012 introducing Renewable Energy Directive<sup>27</sup>

<sup>26</sup> The individual data per economy for 2010-2016 are provided by the national administrations through the online platform (data collection tool). The participants of the SEE2020 Monitoring Committee (MC) should agree on the methodology that will be used for calculation of this target in the future through formal consensus on the next MC meeting.

<sup>27</sup> DIRECTIVE 2009/28/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 23 April 2009 on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC

as a part of the Energy Community acquis. As the table below presents, due to favourable geographical position and natural advantages, WB region has notably higher renewable energy targets comparing to EU's 20%, and it should be ensured that the existing renewable energy potential of the region is properly used.

Even though the regional target shows a negative value due to the fact that the 2016 data point is below the baseline level, overall, the SEE is progressing well towards the target, with high probability for both domestic and overall regional 2020 targets to be met. However, the transport sub-sector under the energy dimension remains a weak link, where the progress is negligible and relates mainly to insignificant use of renewable electricity only, while biofuels have not been introduced to the market yet. This area requires particular attention and additional efforts in the future having in mind mandatory 10% renewable target by 2020 in transport sub-sector, imposed by Renewable Energy Directive. Still, despite significant progress achieved over the past few years, weak energy statistics and lack of data are still stumbling stones for a good quality and timely regional monitoring, especially in the area of biomass contribution, and sectoral distribution of energy consumption. This shortcoming prevents timely and reliable energy planning in the region.

### H. Energy

The implementation in the energy dimension has seen progress in ensuring security and sustainability of energy supply. The region continued its efforts focused on energy connectivity by facilitating investments and identifying priority energy projects. Continuing towards the creation of a regional electricity market, the WB economies are also progressing in the implementation of the agreed set of soft (previously, connectivity reform) measures. Energy Efficiency and renewables remained important segments of energy development in WB, supported by intense activities on transposition of 2030 energy and climate framework targets.

In relation to the energy infrastructure development process, the region continued with the implementation of the adapted Regulation 347/2013/EU on guidelines for trans-European energy infrastructure adopted by the Ministerial Council's Decision 2015/09/MC-EnC. After the two successfully finished rounds (in 2013 and 2016) of the identification of Projects of Energy Community Interest (PECIs) and Projects of Mutual Interest (PMIs), the third round was launched in July 2017. Validation and assessment of candidate projects is ongoing, which should result in a new draft list of PECIs and PMIs to be submitted for adoption at the 2018

benefit from streamlined permitting procedures as well as cross-border cost allocation.

Through the EU's Connectivity Agenda, additional EU grant of EUR 49.6 million for 2017 was provided for the development of electricity, gas and oil infrastructure in WB. Thus, in addition to EUR 57.6 million EU grant for four electricity interconnection projects pledged at the Vienna Western Balkans Summit in 2015 supplemented in 2016 with EUR 50 million for the Regional Energy Efficiency Programme and the Green for Growth Fund, it sums up to EUR 157.2 million of grant support for energy in WB, leveraged by EUR 599.5 million of IFIs' investments.

The Energy Community Secretariat established "PLIMA" Infrastructure Transparency Platform<sup>28</sup> to ensure transparency and track the implementation of infrastructure projects.

Launched in 2014 (under the Berlin Process), the Western Balkan 6 Initiative aiming to support energy infrastructure development, connectivity and energy sustainability, successfully continued the implementation of the Work Programme on Creating a Regional Electricity Market in the Western Balkans and progressing with the implementation of smart measures. The progress on establishing day-ahead markets is evident in all the WB economies

while focusing on coupling with neighbouring markets including EU Member States. Nevertheless, the power exchange SEEPEX is still the only functional day-ahead market, making Serbia a regional leader in this area. In the area of cross-border balancing, all WB economies made some progress in 2017. Nevertheless, cooperation among transmission system operators still remains on the bilateral or trilateral level and a technical assistance was launched under the WB6 regional energy market connectivity programme in December 2017 aiming to support a fully balancing regional market as a main precondition for competition in the energy sector. Regional capacity allocation process was slowed down in the previous period in the entire region, while progress between transmission system operators of Kosovo\* and Serbia is still stuck. Lack of progress characterises the implementation of cross-cutting measures and the further opening of both wholesale and retail markets. In all WB economies, small and household customers are still supplied at regulated electricity prices.

The entire region continued with the implementation of actions under the Sustainability Charter signed in July 2016 aiming at integrating energy and climate considerations. 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. Progress has been achieved by all WB economies in a number of sustainability measures. Still, additional efforts are needed to accelerate transition to clean energy and delivery on the existing climate commitments.

In the area of energy efficiency, the 3rd Energy Efficiency Action Plans (EEAPs) have been adopted by Serbia and Montenegro in 2016 followed by other four WB economies which adopted EEAPs in 2017. Progress has been made in the area of removing legal and regulatory barriers to enable and promote ESCO (Energy Service Companies) financing models as a vehicle for higher participation of private capital investments in energy efficiency. Nevertheless, the WB ESCO market is still at the early stages requiring stronger political and technical support. The transposition of Energy Performance of Buildings Directive<sup>29</sup> (EPBD) has seen significant progress

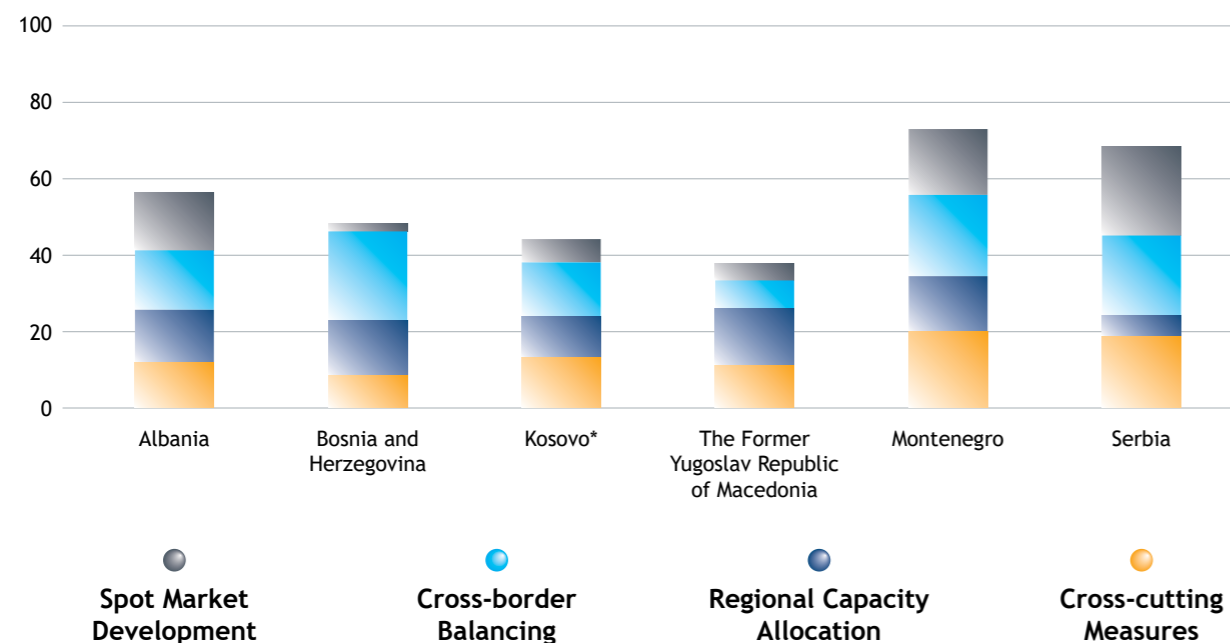
supporting the development of a more energy efficient real estate sector. Still, secondary legislation is lacking and real enforcement of the provisions related to energy certification of buildings remains a challenge in the region. The region continued progressing with transposition of the Energy Efficiency Directive<sup>30</sup> (EED) coordinated by the Energy Efficiency Coordination Group. Significant support is provided by various partners and IFIs through different programs of building rehabilitation in public and private sector aimed at reaping of estimated 40% of energy saving potential and supporting achievement of 9% of energy saving targets by 2020.

The entire region continued progress towards achieving RES 2020 targets (overall and three sectorial targets) through the implementation of National Renewable Energy Action Plans (NREAPs) adopted by all the WB economies. There is an ongoing discussion in the region on how to shift from feed-in tariffs to a more competitive market based process and ensure meeting of 2020 targets in a cost-efficient way. There is a severe delay in the adoption of sustainability criteria, implementation of a sustainability scheme and appointment of a verification body for biofuels and bio-liquids in all the WB economies, which jeopardises full implementation of NREAPs and achievement of sectorial - transport renewable energy target by 2020.

The region continued with the implementation of the Central and South-Eastern European Gas Connectivity (CESEC) Action Plan 2.0 which was adopted in September 2016 by the CESEC High Level Group in Budapest. In 2017, the Energy Community Secretariat adopted the strategy for establishing functioning gas markets in the Energy Community and fostering pan-European gas market integration as well as The Energy Community Gas Action 2020 which defines the concept of actions needed for establishing of truly functioning gas markets.

Recognizing the potential and needs, during the previous year, the RCC initiated the first regional dialogue on energy management in public sector and developed a Study analysing the legal and institutional frameworks as well as potentials for improvement of energy management in WB's public sector, supporting the achievement of energy efficiency targets, decreasing CO2 emissions and improving the effectiveness, efficiency and digitization of public sector in all the WB economies.

Figure 4: Overall implementation of Soft Measures



Source: Energy Community Secretariat's WB6 Electricity Monitoring Report, March 2018

<sup>28</sup> <https://www.energy-community.org/regionalinitiatives/infrastructure/PLIMA.html>

<sup>29</sup> DIRECTIVE 2010/31/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 19 May 2010 on the energy performance of buildings

<sup>30</sup> DIRECTIVE 2012/27/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC

Table 19: Implementation of Energy actions

Measures/Actions	Activities and Achievements 2017/2018	Expected Results 2018/2019
Dimension H: Energy		
Implementation of National Energy Efficiency Action Plans contributing to attaining EE saving targets	<ul style="list-style-type: none"> <li>3rd EEAPs adopted by all 6 WB economies.</li> <li>GIZ ORF EE provided support in development of EEAPs and use of Monitoring Verification Platform as an official tool for EEAPs implementation reporting.</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of measures to ensure achieving of 9% EE saving targets by the end of 2018.</li> <li>Organization of the Sustainability Forum 2018.</li> <li>Transposition of Energy Efficiency Directive (2012/27/EU).</li> </ul>
Implementation of National Renewable Energy Action Plans	<ul style="list-style-type: none"> <li>Significant progress achieved during 2017 with two WB economies surpassing the 2020 RES target.</li> </ul>	<ul style="list-style-type: none"> <li>Intensification of efforts to introduce biofuels in transport sector in line with 10% transport target.</li> </ul>
Support energy infrastructure development	<ul style="list-style-type: none"> <li>3rd round of identification of PECEI and PMI launched in July 2017.</li> </ul>	<ul style="list-style-type: none"> <li>Energy Community Ministerial Council to adopt list of PECEI and PMI projects by the end of 2018.</li> </ul>
Well-functioning regional electricity market	<ul style="list-style-type: none"> <li>Progress in implementation of smart measures.</li> </ul>	<ul style="list-style-type: none"> <li>Putting in place day-ahead market in all WB economies.</li> <li>Intensification of efforts in the area of regional capacity allocation.</li> </ul>
Implementation of Sustainability Charter	<ul style="list-style-type: none"> <li>The first Sustainability Forum has been organized in June 2017.</li> <li>Climate Action Group transformed into Energy and Climate Committee.</li> </ul>	<ul style="list-style-type: none"> <li>Organization of the second Sustainability Forum in June 2018 in Vienna, which will focus on the new climate and energy framework till 2030 and the ways to effectively tackle the challenges of the low-carbon energy transition.</li> </ul>

J. Environment

Regional cooperation in the environment dimension continues to be an important component of the Sustainable Growth pillar with the Regional Working Group on Environment (RWG Env) playing an important coordination role and providing steering mechanism for projects of regional importance. Under the framework of the RWG Env and in line with Podgorica Ministerial Declaration, the Western Balkans ministers in charge of environment and climate change convened in a high-level meeting organized by the RCC in November 2017, on the margins of the 23rd Conference of Parties (COP23) under the United Nations Framework Convention on Climate Change (UNFCCC). At this occasion, the Ministers and high-level representatives adopted Bonn Ministerial Declaration reconfirming their readiness and commitment to strengthen regional cooperation towards protecting and preserving the environment, mitigating negative climate impact and increasing adaptive capacities. The agreement has been reached among Ministers to coordinate important regional projects through the RWG Env, and to strengthen cross-sectorial cooperation with the aim of integrating environment into other sectorial policies. They unanimously expressed readiness for integrated climate and energy planning in line with the EU 2030 climate and energy framework targets.

The historic legally binding Paris Agreement on Climate Change ensuring the global temperature rise is maintained well below 2°C entered into force on 4th November 2016. The Western Balkan economies (with the exception of Kosovo\* not being part of the UNFCCC) have ratified the Accord (Albania in 2016, Bosnia and Herzegovina, Montenegro and Serbia in 2017, while The Former Yugoslav Republic of Macedonia in January 2018) and submitted their commitments under the UNFCCC containing National Determined Contributions for CO2 emission savings by 2030.

Two donor funded projects of regional importance in the area of environment, designed to support the implementation of the SEE 2020 Strategy, have been officially launched in June 2017. The partners continued implementing concrete activities in the area of sustainable management of natural resources through Water-Food-Energy Nexus approach and enhancing environmental performance and climate proofing of infrastructure investments. Regional initiatives (such as Standing Working Group on Regional Rural Development) focused on inter-sectorial 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 ben-

Box 2: Study on Climate Change in the Western Balkans region

Under the Environment dimension, the “Study on Climate Change in the Western Balkans region” has been developed. Overall analyses recognise the human health, safety and life quality as highly vulnerable to natural hazards and sectorial weather related losses. The risk assessment shows significant increase of such vulnerability in the future and thereby defines it as the top priority that requires immediate attention according to the following list, which is developed by prioritising optimal measures considering the urgency-cost-benefit analysis:

- Development of WB early warning system, information dissemination and preparedness of the general public, supported by readiness of governmental institutions related to disaster risk management;
- Implementation of WB seasonal forecast in decision-making, and efficient dissemination of forecast data to stakeholders;
- Adaptation of the food production by implementing WB short-term to seasonal weather forecast and climate change information in decision-making (timing of sowing, varieties and hybrid selection, adaptation of agro-technical measures, housing for livestock, etc.);
- Planning and developing sustainable irrigation systems where necessary, optimal to water availability and applying rainfall harvesting approach;
- Supressing forest degradation by immediately implementing the long-term planning;
- Optimising energy production/availability according to inter-annual consumption assessment;
- Constant re-evaluation of impacts, measures, efficiency and plans, supported by exchange of expertise, knowledge and implementation in education.

The Study shows an alarming increase of temperature over the whole territory, with observed temperature increase of 1.2°C in the near future, destined to warm further by 1.7 - 4.0°C and even exceeding 5.0°C by the end of the century, depending on the global effort in greenhouse gasses (GHG) emission reduction.

<https://www.rcc.int/pubs/62/study-on-climate-change-in-the-western-balkans-region>

efited from the implementation of the Area Based Development approach. The European Commission continued supporting regional activities in the environment and climate change areas, through regional projects designed to support regional environmental cooperation and climate action and transition towards a low emission and climate resilient economy.

Significant preparatory work on integrated energy and climate planning is underway. A draft methodology is presented to the EnC Ministerial Council (December 2017), but majority of work is still ahead of the WB region. The draft regulation for preparation of Integrated National Energy and Climate Plans is proposed for the next Ministeri-

al Council meeting. The Ministers of Environment expressed readiness for cooperation in this regard in the framework of the endorsed Bonn Ministerial Declaration.

Recognizing the significance of conservation and sustainable use of biodiversity in the WB region as a biodiversity hotspot, the RCC has partnered with GIZ ORF Biodiversity project and IUCN ECARO<sup>31</sup> in establishing a Biodiversity Task Force as experts’ advisory body under the RWG Env with the role of promoting and facilitating regional cooperation and achieving the related Sustainable Development Goals and EU 2020 Biodiversity Strategy targets.

31 International Union for Conservation of Nature, Regional Office for Eastern Europe and Central Asia

Table 20: Implementation of Environment actions

Measures/Actions	Activities and Achievements 2017/2018	Expected Results 2018/2019
Dimension J: Environment		
Regional cooperation in the area of environment and strengthening capacities of the RWG Env and partners	<ul style="list-style-type: none"> <li>Regular (5th) working meeting of the RWG Environment.</li> <li>Two projects financed by ADA officially launched in June 2017.</li> <li>Biodiversity Task Force has been established in cooperation with GIZ ORF Biodiversity and IUCN ECARO.</li> <li>Ministerial Declaration adopted at the Ministerial meeting held in Bonn in November 2017.</li> <li>Study on Climate Change in WB with policy recommendation for decision makers commissioned by the RCC.</li> </ul>	<ul style="list-style-type: none"> <li>Coordinated future implementation of regional environmental projects.</li> <li>Strengthened capacities of national authorities within the frame of the ClimaProof project.</li> <li>Regular meetings of the Biodiversity Task Force maintained.</li> <li>Maintained annual high-level structured ministerial dialogue (possibly as a joint meeting with Ministers of agriculture).</li> <li>Developed Study on Air-pollution in Western Balkans.</li> </ul>
Measures for sustainable forest management that foster economic growth, environmental protection and rural development in the Western Balkan economies.	<ul style="list-style-type: none"> <li>Evidence-based policy assessment reports on water, soil, forestry and areas with natural constrains.</li> <li>Promotion of economic diversification and proper use of natural resources through agro-biodiversity grants for SMEs in rural cross-border areas.</li> <li>Building of SMEs and small farmers' capacities on value chains and clustering.</li> <li>Support income generation of the rural businesses in the cross-border areas via promotion of socio-economic and cultural activities.</li> </ul>	<ul style="list-style-type: none"> <li>Developed and implemented evidence-based policy recommendations and measures for agriculture and rural development policy frameworks in WB.</li> <li>Strengthened local capacities and improved knowledge on agro-food and tourism value chains and increased number of jobs created in cross-border areas.</li> <li>Improved skills of stakeholders on preparation of project proposals under various grant schemes.</li> </ul>

During the previous year, the RCC commissioned and finalised a Study on Climate Change in Western Balkans and on impacts of this change on various sectors of economy by the end of the century. Preliminary results of the Study have been presented at the 2nd Ministerial Meeting in Bonn; while the final document has been widely disseminated among partners.

### 1. Transport

In the area of transport connectivity, the WB region lags significantly behind most of the EU MS. As one of the main drivers of socio economic development, transport systems require significant efforts in terms of improving existing and developing of new infrastructure as well as implementing soft measures and ensuring efficient and decarbonised transport system. In Western Balkans, the oil dependency of all transport modes makes this sector the single biggest source of greenhouse gas emissions (contributing with around 40%). Having this in mind, the priority of regional actions is not only infrastructure development (primarily Core and Comprehensive networks),

but also promotion of cleaner vehicles, improved accessibility of alternative energy sources, enhanced inter-modality and, in general, optimised functioning of the entire transport system. This will further enable addressing of congestion problems, particularly in urban areas, and increasing of safety, and it will significantly mitigate negative impacts on human health (pollution, noise, etc.).

According to the Berlin Process conclusions, the South East Europe Transport Observatory (SEETO) monitors the implementation of soft connectivity measures and facilitates the entire process. Certain progress with regards to the regional measures can be observed in the area of Intelligent Transport Systems (ITS), maintenance, road safety and border-crossing facilitation, for which CONNECTA technical assistance support has been provided and 4 respective projects are being carried out. The implementation of the remaining domestic measures is still on-going with an uneven pace, but with general remark that efforts should be intensified.

Regarding the infrastructure development and following a list of pre-identified projects on the Core

Network from the Vienna Summit, for the third year in a row (2017), the development and reconstruction of transport infrastructure in the region is supported by the EU's Connectivity Agenda with additional EU grant of € 144.5 million for six transport infrastructure projects (three road, two railway projects, and one Inland Waterway port project). The fourth Connectivity Agenda package, introduced at the EU-WB Summit in Sofia, entails more than €190 Million in EU grant for 11 transport infrastructure projects. This brings the total EU commitments under this initiative to 70% of the €1 billion pledged in 2014, while total investments leveraged reach €2.4 billion.

The Transport Community Treaty (TCT) was signed at Trieste Summit, while subsequent ratification procedure is well advanced. At the same time, the necessary regional structures have been established (the Ministerial Council, the Regional Steering Committee), while the TCT Secretariat should be formally established within 2018.

The Joint Service Provision Area (JSPA) Initiative and SEETO had a fruitful cooperation in the reporting period resulting in the update of the Regional Air transport programme - Harmonized and optimized use of regional airspace with enhanced air transport connectivity in the SEE, where they have streamlined the priorities, identified corresponding projects/actions and shared responsibilities among each other.

Transport sector policy reform is one of the most complex ones, but a dynamic positive progress was recorded in the reporting period. As a major breakthrough, for the first time in the region, a contract for usage of the railway infrastructure by a private operator was signed in Serbia. Readiness of Montenegro and Kosovo\* to open their rail markets exists, however, non-discrimination as well as willingness of private operators to access railway market should be ensured.

As per the Study on Inter-modality, supported by the RCC, some pilot measures were submitted as ADRIPASS project proposals through the ADRIION programme, which was approved and kicked off in January 2018. ADRIPASS project aims at integrating multimodal connections in the Adriatic-Ionian region, and at creation of transnational institutional cooperation platforms.

The remaining outstanding reforms and activities in the transport dimension that need to be swiftly undertaken in the region are:

Start of implementation of the Transport Community Treaty and full operation of its Secretariat; Signature of the agreement on the Transport Community Treaty Headquarters (Belgrade) and Endorsement of the Transport Ministerial Declaration from Ljubljana TEN-T Days, including the action plan for the priority

Table 21: Implementation of Transport actions

Measures/Actions	Activities and Achievements 2017/2018	Expected Results 2018/2019
Dimension I: Transport		
Remove physical and non-physical barriers to development of the SEETO Comprehensive Network	<ul style="list-style-type: none"> <li>Regional measures in the area of Intelligent Transport Systems (ITS), maintenance, road safety and border-crossing facilitation through CONNECTA support.</li> </ul>	<ul style="list-style-type: none"> <li>Secured financing for infrastructure priority projects identified in the Vienna Summit conclusions.</li> <li>Advanced implementation of regional soft measures.</li> <li>Improved legal, institutional and financial framework for maintenance, ITS and road safety.</li> </ul>
Harmonisation with the EU transport regulatory framework	<ul style="list-style-type: none"> <li>Transport Community Treaty signed in Trieste in July 2017.</li> <li>Updated Regional Air Transport Programme - Harmonized and optimized use of regional airspace.</li> </ul>	<ul style="list-style-type: none"> <li>TCT Secretariat to be formally established within 2018.</li> <li>Further regional coordination on air transport connectivity, possibly including the considerations on small scale ATM projects for the smaller airports in the region.</li> </ul>
Measures to improve the ratio of railway and waterborne transport	<ul style="list-style-type: none"> <li>The first contract with a private operator for use of railway infrastructure was signed in Serbia.</li> </ul>	<ul style="list-style-type: none"> <li>Continued railway reform process at a steady pace ensuring further streamlining through the TCT structures.</li> </ul>
Development of co-modal solutions	<ul style="list-style-type: none"> <li>Some pilot measures are integrated and approved within ADRIPASS project through the ADRIION programme.</li> </ul>	<ul style="list-style-type: none"> <li>Prepared project applications for other measures from the Study on Inter-modality and secured funds from available cooperation programmes.</li> </ul>

border crossings list. The successful implementation of the regional connectivity agenda and connectivity reform measures also requires enhanced efforts towards establishing a system for continuous road crash data collection. Securing sufficient budget resources needed for rail and road core network, finalising the rail border crossing protocols, implementing all remaining measures for opening of the rail market, and transposing the Intelligent Transport System Directive remain the main challenges to be addressed in the region.

### K. Competitiveness

SEE economies have worked towards establishing institutional and regulatory frameworks for access to finance, especially those for timely payments and insolvency. Progress is made in developing asset registers and credit information systems. Efforts have been made to improve insolvency frameworks to tackle lengthy bankruptcy procedures and reduce administrative backlogs as well as to delineate between liquidation and restructuring, and to introduce clear priority schemes. SME financing and technical support programmes, with a special emphasis on financial and technical support to micro, small and medium enterprises and entrepreneurs as the main generators of economic development are in place in all SEE economies (credit guarantee schemes and grants or loans at subsidized interest rates). Given that the service sector takes over the market, it is necessary to strengthen the production and to generate real value on the market, precisely through the activation of the sector of small and medium enterprises in this field.

However, the economic competitiveness of the region stands at the fairly modest level. The Regular Economic Report from Spring 2018 of the World Bank indicated that the GDP growth in the region slowed down from 3.1 percent in 2016 to an estimated 2.4 percent in 2017, and most of the newly created jobs are focused on services, retail and wholesale trade, without recorded significant growth in industrial production. With external vulnerabilities intensified, current account deficits were widened in several economies, with (despite growing) exports being overwhelmed by higher imports, this particularly due to higher energy imports, and large infrastructure projects that demanded higher consumption and more machinery, equipment, and goods from abroad. The latest OECD Competitiveness Outlook warns that the region's labour market will have to contend in the near future with the middle-income trap. Rising wages in the main export sectors may reduce their competitive edge - particularly in manufactured goods and textiles -

while underdeveloped skills in the labour market keep the economies from competing with more developed countries in advanced value-added services. Being just some of the challenges, these call upon relevant policy reforms but also upon a consolidated regional action to support the industrial and export oriented activities, as well as creation of regional value chains in priority sectors that would be promoted on the international market, and encourage industrial activity and higher level of exports from the region.

SEE as a bank-centric region also suffers from low diversification of financial services, with assets in non-banking financial institutions (such as leasing, factoring, insurance, microfinance institutions, etc.) typically around 10% of the overall financial sector. Equity and risk finance are almost inexistent and the capital markets have a marginal role as providers of either equity or debt financing through new securities issues. Factoring and leasing are technically developed, but the markets have shrunk since the financial crisis, and uptake by SMEs remains small. Government support for venture capital and business angel networks is limited in the region and access to stock markets for SMEs is constrained.

Industrial part of this dimension was mainly concentrating on sectoral work, particularly in tourism. When looking at the SEE region, all six SEE economies have adopted strategies for tourism development and promotion and have taken initial steps to support a more sustainable tourism industry. Offer of the region was improved by destination branding and product development, targeting specific tourism market segments, including mountain and adventure tourism. All SEE economies have agreed to strengthen their offer in culture and adventure tourism, which will be done mainly through the "Triple P" project. The accent is set on attraction of more international visitors from emerging markets and neighbouring economies.

RCC's Tourism Expert Group is in the implementation phase of "Triple P" project for a joint regional product in tourism industry, with a focus on cultural/historical, adventure/natural, and eno/gastro tourism, which will be promoted jointly to the global travellers, with funding from the European Commission.

Table 22: Implementation of Competitiveness actions

Measures/Actions	Activities and Achievements 2017/2018	Expected Results 2018/2019
Dimension K: Competitiveness		
<ul style="list-style-type: none"> <li>Develop regional value chains</li> <li>Support SME development</li> <li>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.</li> <li>Boost entrepreneurial learning and women's entrepreneurship and enterprise skills</li> </ul>	<ul style="list-style-type: none"> <li>"Triple P" project team engaged. Industry assessments for market niches - ongoing.</li> <li>Established regional dialogue and knowledge exchange on developing Smart growth strategies based on EU experience and support extended for the development of smart specialization research and innovation strategies in the WB6 to ensure strategic structural investments and build competitive advantage.</li> </ul>	<ul style="list-style-type: none"> <li>Regional value chain created in tourism industry through Joint regional culture, and adventure tourism offers developed and promoted internationally. Barriers and challenges to regional tourism development addressed through targeted policy interventions.</li> <li>Pilot projects supporting regional tourism products through small grants implemented - first public call expected in Summer 2018.</li> <li>Smart specialization introduced to the region's industrial development strategies.</li> </ul>
<ul style="list-style-type: none"> <li>Undertake joint regional activities to support greater access to finance and capital market</li> <li>Integration; facilitate regional events for early stage ventures; initiate regional investment readiness actions; regional capital market integration; develop regional cooperation, networking and good practice exchange.</li> </ul>	<ul style="list-style-type: none"> <li>Established Working Group on Capital Markets: Ministries of Finance, Central Banks, Securities Commissions, Stock Exchanges</li> <li>Agreement of the participating stakeholders on the need for regional cooperation and subsequent request to the RCC for support in development of a regional strategy for capital markets.</li> <li>Elaborated proposal for a regional programme on capital markets development, so as to diversify financial systems in the region and boost investments.</li> </ul>	<ul style="list-style-type: none"> <li>Fully operational regional "Capital Market Development Task Force" comprising of policymakers and regulators to spearhead capital market development matters and enhance coordination on regulatory and supervisory regimes in the region and beyond.</li> <li>Assessed needs for development of a regional strategy for capital markets development.</li> </ul>

### Key findings and recommendations

In the Sustainability Growth pillar, WB continued to progress well in most domains. Progress is achieved in WB economies while some of them have already surpassed their 2020 RES targets. Through the EU's Connectivity Agenda, additional grant is provided for energy infrastructure development, making the support worth EUR 157 million and leveraged by EUR 599.5 million of IFIs' contribution. The third round of selection of priority energy projects is ongoing, while the final list is expected to be adopted by the Ministerial Council in 2018. The progress on establishing day-ahead markets is evident, while activities in regional capacity allocation area have slowed down. All WB economies adopted EEAPs and they are progressing well with their implementation.

Ministers of environment expressed readiness to cooperate in the preparation of Integrated National Energy and Climate Plans in the future. Im-

plementation of two regional projects (Nexus and ClimaProof) is progressing and additional efforts have been made to support biodiversity area by establishing Task Force. RCC also commissioned the Study on Climate Change in Western Balkans.

In the area of transport, the WB economies are making strides with the support through the EU's Connectivity Agenda. With the fourth Connectivity Agenda package, introduced at the EU-WB Summit in Sofia, the total EU commitments under this initiative amount to 70% of the €1 billion pledged in 2014, while total investments leveraged reach €2.4 billion. Nevertheless, transport sector in WB is still highly (almost 100%) dependant on oil, and decarbonisation of transport remains an utmost priority. In the reporting period, Transport Community Treaty has been signed at the Trieste Summit.

Under competitiveness, in addition to sectoral work (regional value chains, tourism), the RCC, together with the regional partners, was engaged in identi-

ying alternative options to widen access to finance for the private sector. Regional efforts to link the stock exchanges together could help increase liquidity and improve access to stock markets for investors and local brokers (OECD, 2018).

In order to ensure further progressing towards the SEE 2020 Sustainable Growth objectives, the region will still need to:

**H. Energy:** (i) Pursue the development of integrated energy networks; (ii) Accompany the infrastructure developments with reinvigorated efforts to implement the regulatory and connectivity reform measures; (iii) Continue efforts aimed at creating single energy market while ensuring protection of the environment and shift to resource efficient and low-emission economy; (iv) Complete full transposition and enforcement of the Third Energy Package and full market liberalization; (v) Pursue transformation of the energy market in line with growing contribution of intermittent renewable sources together with implementation of smart measures; (iv) Exploit the huge energy efficiency potential and intensify efforts in order to ensure achievement of 9% energy saving targets by the end of 2018; (v) Make additional efforts and introduce framework for placing biofuels on the market; (vi) 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; (vii) Improve energy statistics and provide timely preparation of energy balances; (viii) Continue with implementation of infrastructure projects supported by the Connectivity Agenda;

**J. Environment:** (i) Make additional efforts and introduce framework for placing biofuels on the market; (ii) 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; (iii) Strengthen regional efforts towards prudent use of natural resources, mitigation and adaptation to inevitable climate changes, and develop integral consideration of climate and energy by adopting the Regulation on Integrated National Energy and Climate Plans; (iv) Strengthen efforts towards meeting of international commitments in the area of sustainable mobility and decarbonisation of transport; (v) Continue with implementation of environmental infrastructure projects supported by WBIF; (vi) Intensify joint activities in the area of biodiversity, cooperate in mitigating and adapting to climate change and design concrete measures to address high and dangerous air pollution in the region;

**I. Transport:** (i) Pursue the development of integrated transport networks; (ii) Accompany the infrastructure developments with reinvigorated efforts to implement the regulatory and connectivity reform measures; (iii) Implement the Transport Community Treaty and establish its Secretariat within 2018; (iv) Strengthen the relevant administrative capacities and implement and enforce relevant transport legislation on road safety and intelligent transport systems; (v) Strengthen the regulatory framework and capacities of the railway regulators, and ensure their financial and operational independence; (vi) Strengthen efforts towards meeting of international commitments in the area of sustainable mobility and decarbonisation of transport; (vii) Continue with implementation of infrastructure projects supported by the Connectivity Agenda;

**K. Competitiveness:** (i) Support the development of regional value chains in priority industries, with the aim of supporting sector competitiveness on the international markets and increasing exports; (ii) Undertake further improvements in external competitiveness through productivity-enhancing reforms and investment; (iii) Support the diversification of financial markets, particularly capital markets, and development of alternative financing instruments in all SEE economies; (iv) Create links between natural and cultural resource strategies and tourism; introduce more systematic consultations among relevant public institutions and civil society stakeholders; upgrade tourism infrastructure in line with internationally recognised standards; improve spatial policies and support for tourism clusters.

## 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 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 stimulating 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.*

### Pillar overview

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 50.3% to 57.9% (see Table 23: Target 10 - Employment rate, 20-64 age group). Western Balkan economies have achieved and exceeded the employment target of the SEE 2020 strategy, with the 2017 result at 113% of the set target. According to 2017 data, Albania, Kosovo\*, Montenegro and Serbia have already reached their targets, with other economies closely following. It is important to note that some of the economies have been more ambitious than others in setting their targets. For example, as shown in the below table, Serbia's target has been to increase the employment rate by 9.9 points and The Former Yugoslav Republic of Macedonia by 9.4, while at the other end, Albania's targeted increase is only by 3.3 percentage points (also due to relatively high baseline compared to the other economies).

As a comparison, in 2017, the employment rate of persons aged 20-64 in the EU-28 was 72.2 %, the highest rate ever recorded for the EU-28. The Europe 2020 has set out a target of increasing the employment rate of the population aged 20 to 64 to at least 75% by 2020.

Looking at the employment figures, the region has added more than 600,000 jobs to the workforce during the past seven years. Serbia has clearly been

the leader in this area, as it managed to add almost 400,000 jobs alone. Bosnia and Herzegovina is an interesting outlier in this group as it was the only economy where the overall employment rates went up, while the actual number of persons employed remained stagnant, indicating a contraction in the total active labour force.

Firm economic growth in the region, fuelled by investment and increasing consumption, has supported private sector job creation in the past 3 years. Investment that is linked to manufacturing and to integration of the region into international value chains is especially important in this respect. The cases of special economic zones in Serbia and in The Former Yugoslavia Republic of Macedonia constitute examples of measures to attract FDI, which in turn leads to job creation. Additionally, labour market reforms have reduced rigidities and contributed to an increase of labour market flexibility and employment growth.

### L. Employment

The emphasis that SEE 2020 strategy puts on job creation is echoed by the voice of the citizens in the region. For the fourth year in a row, the Public Opinion Survey of the Balkan Barometer 2018 confirms the employment as the main concern of people. When asked what they think are the two most important problems facing the economy, the vast majority of the citizens of SEE (61%) referred to unemployment as their key concern in all of the economies of the region. Along with the economic situation, these stand out as the major concern of the citizens.<sup>32</sup> The most frequently cited obstacles to employment in the SEE region are the shortage of jobs on offer (45%) and not knowing the right people (43%). On the other hand, though, one fifth of companies in the region reported hard-to-fill vacancies over the past 12 months, due to inadequate qualifications of job applicants. In order to address unemployment, citizens expect their governments to invest in industrial development, but also in transport and social infrastructure.

The Western Balkans has experienced substantial improvements in the labour market situation and a steady increase in the number of jobs that have been created in the last few years. The positive trend has been most prominent among older workers aged 55-64, as this age group has experienced considerable population growth. Employment also increased among the highly educated, indicating the importance of qualifications and skills for employment. (World Bank, 2018) Overall, the main

<sup>32</sup> Balkan Barometer Public Opinion Survey, Regional Cooperation Council, 2018



Table 23: Target 10 - Employment rate, 20-64 age group

Economy	2010 (baseline)	2011	2012	2013	2014	2015	2016	2017	2020 (target)	target. value	achiev. so far	achiev./ target.
Albania	60.3	65.0	61.4	56.7	56.6	59.3	62.1	63.9	63.6	3.3	3.6	109%
Bosnia and Herzegovina	42.8	42.5	42.5	42.8	43.2	43.2	44.2	46.6	48.8	6.0	3.8	63%
Kosovo*	n/a	n/a	29.7	33.0	31.3	29.1	32.3	36.4	35.9	6.2	6.7	108%
Montenegro	52.9	50.9	52.2	52.6	55.6	56.7	57.1	58.2	57.7	4.8	5.3	110%
Serbia	51.2	49.2	48.9	51.2	54.7	55.9	59.1	64.4	61.1	9.9	13.2	133%
The Former Yugoslav Republic of Macedonia	48.1	48.4	48.2	50.3	51.3	51.9	53.3	54.8	57.5	9.4	6.7	71%
SEE6	50.3	50.4	49.5	49.8	51.6	52.9	55.5	58.9	57.9	7.6	8.6	113%

Source: LFS, Statistical Offices; RCC calculation

Notes: 1. For Albania, quarterly LFS time series revised as a result of the Population and Household Census 2011. There is a significant change in the demographic information as regards to the structure of population and households, which in turn has had an impact on the change of the labour market indicators starting from the first quarter of 2012 until the first quarter of 2014.

2. Baseline and target for Kosovo\* revised accordingly due to LFS methodology changes in 2011; baseline from 2012.

3. Serbia's 2020 target provided by the Public Policy Secretariat of the Republic of Serbia.

sectors contributing to employment creation in the region are manufacturing, construction, education, professional and scientific activities and public administration. A considerable share of the increase in employment accounts for self-employment<sup>33</sup>.

However, the low labour market participation of women, young people and those with less education remains a concern (ibid). Labour market participation among Roma in 2017 shows worsening compared to previous years in all of the enlargement economies, ranging from 19 to 44 per cent. The unemployment rates among Roma in the region range from 23 to 56 per cent, which is 15 to 30 per cent more than the unemployment of their non-Roma neighbours. About two-thirds of total unemployment is accounted for by long-term unemployment with young people being over-represented in this category, which carries the risk of labour market "scarring" that might adversely affect their lifetime prospects for decent jobs and incomes. Informal employment is another concern that predominantly affects vulnerable groups such as Roma, young people, women and older age groups. Informal employment among Roma in the region is 60 per cent on average.

33 Labour Markets in the Western Balkans: Performance, Causes and Policy Options, Regional Cooperation Council, 2018, Sarajevo 2018

Labour supply conditions remain unfavourable throughout the Western Balkan region. Several economies face low fertility rates and negative natural growth, while in others, natural population increases have been offset by emigration. Over the past two decades, almost one quarter of the population has left the region, and as a result the population of the region is shrinking and ageing<sup>34</sup>.

The demand for labour is also problematic, as low investment rates have led to relatively low demand for labour, although in recent years increased inflows of FDI have been attracted by low labour costs. This has begun to have a positive impact on labour demand in some economies.

The national employment strategies remain sectoral with an emphasis on the supply side policies, and central measures tackling the unemployment are still 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

34 Western Balkans Labour Market Trends 2018, World Bank, 2018

### Box 3: Employment and Social Affairs Platform (ESAP)

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.

Structured regional dialogue on employment and social reforms in the Western Balkans economies has been strengthened through regular regional meetings of representatives of Ministries of Labour and Public Employment Services as well as through analytical work in the areas of employment and labour market issues. Specifically, the following reports were prepared:

- A comparative report on performance management in public employment offices in the Western Balkans, 2016,
- A regional analysis of employment and social measures in the Western Balkans, 2017,
- An analysis of employment and social data sources in the Western Balkan region, 2017,
- Forecasting employment patterns in the Western Balkans, 2017,
- Western Balkans labour market analysis, 2010 - 2016, 2017,
- Regional assessment on undeclared work, under preparation.

ESAP enhanced institutional capacity for policy reviews and outcomes related to employment, labour market and social policies by initiating regional peer reviews on selected employment policies and programmes, modelled in line with the EU mutual learning exercise. Three in-depth analyses of self-employment programmes, employment of persons with disabilities and youth employment have been completed and regional peer review workshops have been organized for the period April - May 2018.

ESAP strengthened capacities of PES and existing WB PES to PES dialogue through the bench-learning exercise. Based on a comprehensive methodology for the bench-learning, in line with the EU PES Network bench-learning model, 6 self-assessment exercises and 6 regional external assessment visits have provided a comprehensive and in-depth picture of 21 performance areas of PES work with a focus on the strengths, weaknesses, good practices and recommendations for further action.

On 7-8 June 2018, the Western Balkan PES offices are invited to participate in the meeting of EU PES offices and present their experience with the implementation of the bench-learning initiative. Given the implementation of similar initiatives, ESAP will seek to support the continuous engagement of the Western Balkan PES offices into the EU-wide regional networks and initiatives.

Finally, the ESAP technical assistance instrument aimed at providing demand driven, targeted national support has been utilized by beneficiaries through the organization of relevant national events or the deployment of short term expertise to assist national authorities in furthering their national employment and social reform agenda. These include support to public consultations on the Employment and Social Reform Programme in Skopje, the organization of a tripartite working group meeting on the labour code reform in Montenegro, supporting the establishment of an integrated information system in the Ministry of Labour and Social Welfare in Kosovo\*, a legal analysis of vocational training centres and the development of rules of procedure for the newly established Employment Agency in Kosovo\*, support to the upgrade of the IT system of the Montenegrin Employment Agency in line with EURES requirements etc.

Further information can be found on the ESAP platform: [www.esap.online](http://www.esap.online).

labour market policy creation still remains dominant in national employment strategies. 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>35</sup>.

Similarly, the emphasis on the employment measures identified in the Economic Reform Programs has also been on 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 the majority of economies.

Expenditure on the active labour market policies remains relatively low in comparison with the EU average and should be increased, especially to

address the needs of vulnerable groups that are most disadvantaged on the labour market<sup>36</sup>. Unlike funds specifically allocated for ALMPs targeting disabled persons, there are no specific funds for ALMPs targeting Roma. Annual reports on the implementation of the Roma integration strategies submitted by the governments in the region show underrepresentation of Roma in the ALMPs, particularly those more directly related to employment, which also shows lack of dedication of resources to resolve the issue of extreme unemployment among Roma.

Moreover, improvements in management practices and design of ALMPs, particularly using the results of impact evaluations, are recommended for all economies in the region. Improved ALMPs would encourage increased labour-market participation, provide short-term employment opportunities and spur entrepreneurship, but in order to be effective, they need to be financially sustainable and coordinated with policies that increase the demand for labour. RCCs' Roma Integration 2020 Action Team has observed that Roma are largely

### Box 4: Roma Integration 2020 (RI2020)

The Roma Integration 2020 (RI2020) project contributes to reducing the socio-economic gap between the Roma and non-Roma population in the Western Balkans and Turkey, and to strengthening of the institutional capacities of governments to incorporate and deliver specific Roma integration goals in mainstream policy developments. In line with this, the RI2020 assists national governments in integrating Roma specific policy measures into: (1) mainstream socio-economic policies and public service delivery; (2) national budget planning and service delivery processes.

The RI2020 Action Team regularly participates in meetings of the inter-ministerial coordination bodies on Roma integration and provides policy advices to line ministry representatives. In addition to this, the RI2020 also organizes public dialogue forums in cooperation with the government partners. At the forums, the National Roma Contact Points and inter-ministerial bodies, along with the Action Team, discuss the progress in the implementation of the Roma integration policies and the plans for the upcoming period, notably in terms of formulating, budgeting and monitoring Roma integration policies.

The RI2020 has also organized four regional workshops on various issues of interest to the enlargement region, each building upon the previous topic. The workshops have been focused on public budgeting for Roma integration policies; donor coordination; monitoring and reporting; as well as fight against discrimination of Roma. Each workshop has gathered around 60 government officials from the region, together with significant donor and international organizations as well as Roma civil society organizations.

The project has, among others, provided expert support to its government partners in preparing annual monitoring reports on the implementation of their Roma integration strategies and action plans. The support further included capacity building exercise for government representatives on the use of, and filling in the monitoring template.

<sup>36</sup> Labour Markets in the Western Balkans: Performance, Causes and Policy Options, RCC, 2018

<sup>35</sup> Aradarenko, 2017

### Box 5: Benchlearning among Public Employment Services

Benchlearning (BL) is the process of creating a systematic and integrated link between benchmarking and mutual learning activities. Its ultimate aim is to support each PES in improving its performance through comparisons and institutional learning from peers. Benchlearning is designed to launch an evidence-based self-sustaining system of continuous and measurable performance increases in PES. The fundamental idea is that this will lead to better results and contribute to the well-functioning and convergent labour markets, thus further demonstrating the added value of PES.

The EU PES network has been implementing benchlearning since 2014. Drawing on their experience, the Western Balkan PES offices embarked on a benchlearning exercise in 2017. PES performance is defined as measurable achievements that can be attributed to the efforts/activities of PES, which are called performance enablers. In order to establish a systematic link between performance enablers and performance outcomes, a double benchmarking exercise has to be implemented: a comparison of quantitative indicators reflecting PES performance, and a comparison of qualitative indicators reflecting performance enablers. The quantitative indicators look at the inflows and outflows as well as composition of the unemployment register, transition into employment and participants in active labour market measures. The qualitative assessment is composed of a self-assessment and external assessment exercise and covers 21 areas of PES work that bear relevance for its performance.

The PES in the Western Balkans operates under significant pressure caused by high numbers of (registered) unemployed persons, high share of vulnerable groups and the long-term unemployed. The workload of the counsellors is particularly high.

PES Human Resources (all data for 2015)	Total staff	No of counsellors	No of registered unemployed persons	Share of registered unemployed persons per counsellor
Albania	323	200	149.882	749
Bosnia and Herzegovina	n/a	n/a	521.357	n/a
Kosovo*	190	92	112.179	1.219
Montenegro	324	243	34.519	142
Serbia	1.818	630	743.157	1.180
The Former Yugoslav Republic of Macedonia	502	417	120.749	290

A positive trend of continued increase of share of registered unemployed persons who find jobs points to the improved quality of services provided by the PES in the Western Balkans (see table below).

Transition from unemployment into employment Western Balkans 6 (outflows into employment/stock of registered unemployed persons)	2013	2014	2015	2016
Albania	9.3	14.6	16.4	21.0
Bosnia and Herzegovina	16.4	18.8	20.6	25.3
Kosovo*	1.8	1.7	5.5	6.6
The Former Yugoslav Republic of Macedonia	28.3	41.5	44.4	47.7
Montenegro	47.7	44.8	41.0	34.2
Serbia	27.7	30.3	33.2	37.2

The main findings of the assessment in the Western Balkans have shown that PES offices have in general strong performance in sustainable activation and managing transitions between unemployment and employment, the design of operational procedures, and solid relations with employers and partnerships. However, they would need to step up efforts in strengthening evidence based design and implementation of labour market measures, enhancing strategic performance management and improving resource allocation.

Each national PES office is encouraged to transfer the findings and lessons of the benchmarking exercise into a national action plan while at the same time regional mutual learning events will ensure the sharing of the good practices among the PES offices. In this regard, Western Balkan PES offices will seek closer cooperation with the EU PES network.

Table 24: Implementation of Employment actions

Measures/Actions	Activities and achievements 2017/2018	Expected Results 2018/2019
Dimension L: Employment		
<p>M1. Enhance labour market governance for employment Improve the region's abilities to develop and implement employment policies</p> <p>M2. Create harmonized data on migration and build capacity to assess labour market development and future skill needs</p> <p>M3. Create a regional consultative process on mobility Abolish labour market restrictions in the region</p> <p>M4. Enhance capacity of labour market institutions for policy making and the promotion of partnerships</p> <p>M5. Forge innovative programs to tackle employment of vulnerable groups</p> <p>M6. Tackle informal employment through exchange of information and experience Stimulate social economy initiatives</p>	<ul style="list-style-type: none"> <li>○ Initiated mutual learning activities among Ministries of Labour and Public Employment Services in the form of regional peer reviews on priority employment policies and measures.</li> <li>○ Implemented bench-learning among Western Balkan PES: Completed 6 self-assessment reviews, focusing on 21 areas of PES work that act as performance enablers and conducted 6 external assessment PES visits in the region, producing 6 external assessment reports and a regional comparative report.</li> <li>○ Launched the Employment and Social Affairs virtual platform, that enables online access to a wide array of relevant data, information, and documents related to the project activities and provides a common virtual space for engaging beneficiaries on topics of mutual interest on a continuous basis.</li> <li>○ Implemented demand driven technical assistance to address the immediate needs of Ministries of Labour and Social Affairs and PES offices in the region.</li> <li>○ Provided technical and expert support to governments for effective and EU aligned cycle of Roma inclusion policies in employment (RI2020), particularly focusing on improved budgeting and monitoring of such policies.</li> </ul>	<ul style="list-style-type: none"> <li>○ Promoting learning and enabling transferability of good practices related to the design, implementation and monitoring of employment policies and programmes.</li> <li>○ Advanced use of mutual learning activities and technical assistance to address PES development needs identified during the bench-learning exercise.</li> <li>○ Completed analysis of information systems of Public Employment Services and development of roadmap for the system enhancement and upgrades in line with EURES requirements.</li> <li>○ Undertaken review of existing direct and indirect policy approaches to undeclared work in 6 WB economies and analysis of relevant EU policies and applicability to the region.</li> <li>○ Continued national technical assistance to support the national employment, labour market and social affairs strategies, action plans and/or measures.</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>

excluded from the ALMPs for various reasons, the two most important ones being exclusionary criteria for participation and lack of perspectives for decent and sustainable employment. Combined with the persisting discrimination against Roma, standard ALMPs, even when implemented, scarcely result in decent and sustainable employment for Roma; therefore, rethinking of the policy is needed in order to ensure employment of Roma.

According to the findings of the bench-learning exercise conducted among PES offices in the Western Balkans through the ESAP project, except for expanding and better targeting ALMPs, other important priorities include the need to enhance performance management, quality management and engagement with employers. On the other hand, main strengths of the PES lie in the process standardization and ICT system development, while profiling and automated matching are well developed.

### M. Health

Although the benefits of integrating health with economic growth for jobs and prosperity - the key targets of the South East Europe 2020 Strategy - have been acknowledged widely by policymakers in the region, the SEE economies have continued to face unique challenges in uniting diverse economic interests around this vision. Health-related spending is still not perceived by the governments as a vital investment in human and economic potential of the workforce. The public sector health expenditures as % of GDP continue to be low in all of the economies since 2010.

All economies in the SEE region share common economic, environmental, demographic, and political challenges which, when combined, diminish the universal access to healthcare services, essential quality care and healthcare protection across the region. The public health systems faced with continued significant budget constraints have a negative impact on accessibility of the wider public to the latest treatment, medicine and technology in the region.

The universal health insurance continues to remain uneven while healthcare costs continue to rise across the region. Poverty has a significant impact on ability to access healthcare in the region. Access of Roma to health services is hindered by a range of obstacles, including lack of health insurance. There are significant differences throughout the region on this issue - while in some economies as many as 93-94 per cent of Roma are covered by health insurance, in some the coverage

is as low as 27, and even 10 per cent. Only 16 to 36 per cent of Roma claim they are able to meet their needs for medical care. The impact of these trends is highlighted starkly by a gap of 10 years in life expectancy of the population in WB compared to the EU population.

For the first time, the recent Enlargement Strategy underscored the importance of investment in health, in particular towards the inclusion of socially vulnerable groups. In the Economic Reform Programs, most of the economies have identified that health care systems face the challenge of ageing populations and increasing needs, which can also result from non-demographic factors, such as the emergence of new (often expensive) treatments. Therefore, most of the economies have pinpointed specific measures in the area of health with a view of strengthening the sustainability of the health system, given the fact that it is these systems, in combination with areas of labour, social welfare and pension system, that determine the state of public finances in the region.

Based on the Balkan Barometer Public Opinion Survey, the public in the region continues to perceive medical and health services as the most corrupt ones in all economies. Medical and health services are again categorised by public opinion as the top three most corrupted sectors in the region. The vulnerability of the healthcare system to corruption is also highlighted in the Progress Reports.

### Key findings

Overall 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 circumstances 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 central measures tackling unemployment are still the active labour market policies.

The public health systems have been under significant budget constraints which had an impact on

Table 25: Implementation of Health actions

Measures/Actions	Activities and Achievements 2017/2018	Expected Results 2018/2019
Dimension M: Health		
<p>M.1. Support national efforts to improve performance of health system at all levels of care</p> <p>M.2. Increase awareness of the relevance of health policies to socio-economic policies in areas such as trade, labour mobility, investment, access to education, etc.</p> <p>M.3. Harmonise cross-border public health legislation</p> <p>M.4. Enhance cooperation between the Health dimension and other SEE 2020 dimension/pillar coordinators</p>	<ul style="list-style-type: none"> <li>○ Fourth Forum organized, under the theme “Health, well-being and prosperity in SEE by 2030 in the context of the Sustainable Development Goals of the UN”, following 15 years of SEE streamlined towards the global and European efforts for achieving improved health, equity and accountability in health, building on major European resolutions, charters, communiqués, treaties, frameworks and action plans, as well as the new European policy framework for health and well-being, Health 2020.</li> <li>○ Organized meeting of WHO Regional office for Europe and SEEHN Ministers of Health on the importance of vaccination as a critical public health intervention and a public good.</li> <li>○ A technical meeting of the Regional Health Development Centres (RHDCs), organized with an overall goal to contribute to further strengthening of the technical collaboration among SEEHN Member States within the Chisinau Pledge framework. The meeting fostered mechanisms for technical cooperation, including the financial ones and strengthening the linkages with the SEEHN Partners.</li> <li>○ Provided technical and expert support to governments for effective and EU aligned cycle of Roma inclusion policies in employment (RI2020), particularly focusing on improved budgeting and monitoring of such policies.</li> </ul>	<ul style="list-style-type: none"> <li>○ Political commitment of all SEE governments to an expanded regional cooperation for strengthening the principles, priority areas and actions towards achieving better health, well-being and prosperity in the region in the context of the SDGs, through the endorsement of the fourth political document, the Chisinau Pledge.</li> <li>○ Endorsed ‘Statement of Intent’ by SEE Ministers of Health. Initiated process of developing a regional roadmap that sets specific strategic objectives and targets to improve the impact of the immunization programme over the coming years.</li> <li>○ Agreement on the implementation of the roadmaps for technical cooperation in SEE in the framework of the Chisinau Pledge.</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>

asures should be taken into account. (ii) Carry out reviews of active labour market policies with a view of improving the design, coverage and targeting with the 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. Additionally, improvements in management practices and design of ALMPs, particularly using the results of impact evaluations, would be highly relevant to all WB6 economies. (iii) Develop policies and measures to actively address and find avenues to formalize informal and shadow labour market employment. Given the estimated size of informal employment (ranging from 20 percent in

the Former Yugoslav Republic of Macedonia and Serbia to 57 percent in Albania), a holistic approach that addresses direct and indirect policy approaches, institutional set-ups and barriers to formalization is required. (iv) 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.

**M. Health:** (i) continue to raise awareness of importance of investments in health sector in the region and strengthen efforts to build capacity to provide universal health coverage and access to quality provision of health services to all, including Roma, for which purpose the institutionalization of Roma health mediators could be considered over the next period.

the accessibility of 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 coupled 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:

**L. Employment:** (i) Develop policies towards 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 mea-

## 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 levels; 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.*

*The key measures have been grouped under three inter-linked Dimensions, all of them providing key prerequisites for achieving the Strategy's objective and effective implementation of its policy measures. Addressing reforms in the area of Effective Public Services, Anti-corruption and Justice System remains the most pressing issue for the enlargement, according to the recent Enlargement Strategy.*

### Pillar overview

Good Governance and Rule of Law are key prerequisites for functioning societies and economies and these areas lie at the core of the EU accession process. The Strategy's Dimensions in this regard have been oriented to support nationally driven reforms as cross-cutting and critical for the achievement of the Strategy's objectives, and for the effective implementation of the policy measures and instruments across all pillars. While progress on all three dimensions - Effective Public Services, Anti-corruption and Justice - rest mostly on internal drivers, it can still benefit from peer learning and momentum for improvement that is brought in by the regional context. Therefore, the regional efforts in this regard have been directed towards activities that enable mutual learning and exchange of best practices.

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 (see below). 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 target and its composites display an overall lack of progress in the region. Separate examination of each Governance Indicator points out that the only one registering progress is the Regulatory Quality Indicator. Improvements are observed in all economies, with exception of Serbia, whose score is still higher than the one of Kosovo\* and Bosnia and Herzegovina. Control of Corruption index has registered mixed progress - Albania and Kosovo\* progressing in comparison to last year, while Bosnia and Herzegovina, The Former Yugoslav Republic of Macedonia and Serbia are regressing. Even so, the Control of Corruption index of The Former Yugoslav Republic of Macedonia and Serbia is still higher than in case of those registering progress.

Voice and Accountability Indicator marks backslide in case of all Western Balkans economies, together with Political Stability and Absence of Violence/Terrorism Indicator and Government Effectiveness Indicator, where Bosnia and Herzegovina recorded modest progress, still remaining with the lowest figure in the region.

Findings on last year's implementation signalled backtracking of the region, which seems to have ceased for most economies. The overall negative trend however continued this year in respect of Montenegro for instance, thus decreasing its progress from baseline towards target. Yet, Montenegro remains, along with Serbia and The Former Yugoslav Republic of Macedonia, with the highest indicator (2.6) in Western Balkans. Overall, the regional progress towards the 2020 target scores under 50%.

The recent Enlargement Strategy marks the progress on rule of law as uneven despite the growing focus on related reforms. Reforming the judicial system requires sustained political will and much work lies ahead in all enlargement economies.

Last Balkan Opinion Barometer re-confirmed corruption amongst the three top issues people in the region quote. As many as 69% do not perceive their government efforts as effective in combating corruption, compared to significantly less respondents (24%) who do believe they are effective. This is concurrent with the European Commission's 2018 reports, which urge governments to prioritize reforms in the fundamental areas of the rule of law, democratic institutions and public administration reform.

The businesses sentiments complement the public opinion surveys in this respect, although less businesses report corruption as a problem compared to previous years. Interestingly, the businesses report a considerable improvement in their treatment by

Table 26: Target 11 - Government Effectiveness Index

Economy	2010 (baseline)	2011	2012	2013	2014	2015	2016	2020 (target)	target. value	achiev. so far	achiev./ target.
Albania	2.2	2.3	2.2	2.2	2.4	2.5	2.5	2.7	0.4	0.3	61%
Bosnia and Herzegovina	1.8	1.7	2.0	2.0	2.0	2.0	2.1	2.1	0.4	0.3	92%
Kosovo*	1.9	2.0	2.1	2.1	2.2	2.1	2.1	2.3	0.4	0.2	56%
Montenegro	2.6	2.6	2.6	2.7	2.8	2.7	2.6	3.1	0.5	0.0	2%
Serbia	2.4	2.4	2.4	2.4	2.6	2.6	2.6	2.9	0.5	0.2	31%
The Former Yugoslav Republic of Macedonia	2.3	2.4	2.4	2.4	2.7	2.6	2.6	2.8	0.5	0.3	54%
SEE6	2.2	2.2	2.3	2.3	2.4	2.4	2.4	2.7	0.4	0.2	46%

Source: Worldwide Governance Indicators (<http://info.worldbank.org/governance/wgi/index.aspx#home>)

Note: Data normalized on a 0-5 scale; SEE6 aggregates based on RCC calculation. Progress indicates the level of 2020 target attainment in 2016 (last available data) compared to 2010 baseline.

the governments. The number of companies claiming that the governments take care of their needs quite well has gone up (18% in 2017 vs. 13% in 2016), while the number of firms who feel ignored by the government is decreasing from year to year (24% in 2017 vs. 31% in 2016 vs. 40% in 2015). Findings of WeBER Project indicate that 48% of citizens across the Western Balkans think that there have been efforts or initiatives by their governments to simplify administrative procedures for citizens and businesses in the past two years<sup>37</sup>.

### N. Effective Public Services

Public administration reform is far-ranging in terms of its objectives and aspects to be dealt with. Through the envisaged measures, the Strategy emphasizes professionalization, democratization and modernization of public services. These aspects were also directly addressed in the European Commission's 2018 reports, calling for action and reform.

A moderate progress was recorded in reaching some of the dimension's objectives, particularly in the areas of introducing new legislation or strategic frameworks related to public administration reform, as well as improvements in service delivery. Yet, even stronger political commitment is needed to ensure professionalization of public administration.

<sup>37</sup> Survey Report "Putting citizens first. Exploring public perceptions of administrative services in the Western Balkans", WeBER, April 2018. Available at [https://weber-cep.s3.amazonaws.com/data/attachment\\_437/weber\\_survey\\_edited3\\_1\\_3.pdf](https://weber-cep.s3.amazonaws.com/data/attachment_437/weber_survey_edited3_1_3.pdf)

As the main regional dimension coordinator for Effective Public Services, the Regional School of Public Administration (ReSPA) assisted governments in the field of quality of public services through its Working Group on Quality in Public Administration and Services. In this framework, the Regional Baseline Analysis on Quality Management in Public Administration and Public Services in Western Balkans was prepared. Also, the Feasibility Study on the Establishment of a Regional Centre on Quality Management in ReSPA was developed. Findings of both analyses are strategically important for the continuation of regional activities in the domain of quality management in public administration and services, and will determine the efforts to be undertaken in the years to come.

The political influence on senior managerial appointments remains a matter of concern in case of all Western Balkans administrations. Strong political will is still needed to effectively address the de-politicisation of the public service, as a requirement for EU accession.

Non-merit-based recruitments affect the efficiency and professional independence of public administration. The last Balkan Barometer findings reveal that the trust in legal institutions had changed positively, but to a small extent in comparison to the previous year. The judicial system is considered to be the least independent by people in the region.

In terms of upgrading policy and regulatory capacities as foreseen by the Strategy, some progress has been made in the entire region. Howev-

Table 27: Citizen perceptions of public services in SEE

How would you rate the following (on a scale of 1 to 5, where 5 is best)?	2014	2015	2016	2017
Treatment of citizens in public sector	2.3	2.4	2.5	2.7
Time required for obtaining public services	2.4	2.5	2.6	2.8
Time required for getting information in public sector	2.4	2.4	2.6	2.7
Price of public services	2.2	2.2	2.4	2.5

Source: Balkan Barometer 2018, survey of 6,000 citizens in Albania, Bosnia and Herzegovina, Kosovo\*, Montenegro, Serbia and The Former Yugoslav Republic of Macedonia

Table 28: Implementation of Effective public Services actions

Measures/Actions	Activities and Achievements 2017/2018	Expected Results 2018/2019
Dimension N: Effective Public Services		
N.1. Upgrade policy and regulatory capacities	<ul style="list-style-type: none"> <li>Regional Meetings of Representatives of Centre of Government Institutions ensured regular exchange of experiences and new initiatives for enhancement of planning in all aspects of government performance. The main achievement is knowledge gained regarding linkage of government priority planning, sectoral policy planning and European Integration planning.</li> <li>Seminar on Better Regulation for Public Administration Reform (PAR) Legislators brought into focus better regulation trends in the context of public administration reform and taught legislators about the anti-corruption context of legislation.</li> <li>Meeting of the Coordination Structure for Effective Public Services Dimension organized in cooperation with RCC, brought to the same table the ReSPA Working Groups' representatives to discuss the main activities implemented under the Strategy's Dimension of Effective Public Services and to introduce them with horizontal activities of the SEE 2020.</li> <li>Regional Meetings on Better Regulation in Western Balkans examined challenges of public participation in Western Balkans, public - private dialogue, as well as the regulatory impact assessment status, undertaken efforts and the need for improvements.</li> <li>Built capacities of relevant public authorities in conducting public consultations on legislative drafting. The main output of the activity - Western Balkans Recommendation on Public Participation - was finalized and endorsed by the Western Balkans ministers in charge of public administration.</li> <li>Furthermore, the Methodology for Peer Reviews on Public Participation was developed, in order to practically address implementation of the Western Balkans Recommendation on Public Participation (ensuring the basis for the follow-up phase of the public participation activity)</li> </ul>	<ul style="list-style-type: none"> <li>Improved coordination of Centre of Government institutions in policy making; Strengthened regional cooperation of representatives of CoG institutions.</li> <li>Improved quality of legislation in the field of PAR.</li> <li>Improved regional cooperation among public servants in the field of Better Regulation.</li> <li>Broader involvement of PA structures from the region in programming and monitoring of activities related to implementation of EE2020.</li> <li>Improved public participation in policy-making processes in Western Balkans.</li> <li>Capacity building extended to governments to design policies and legislation in an inclusive manner through organization of peer missions to enable peer learning over the implementation of regional standards of public participation.</li> </ul>

N.2. Improve the quality of public services	<ul style="list-style-type: none"> <li>Regional Baseline Analysis completed on Quality Management in Public Administration and Public Services in Western Balkans;</li> <li>Feasibility Study on the Establishment of a Regional Centre on Quality Management in ReSPA;</li> <li>Focus Groups for development of the Regional Comparative Study on Public Services Delivery elaborated by the established focus groups.</li> </ul>	<ul style="list-style-type: none"> <li>Improved understanding of the challenges in the field of Quality Management in Public Administration and Public Services in Western Balkans.</li> <li>Common Assessment Framework (CAF) introduced in ReSPA.</li> <li>Improved understanding of the challenges in the field of Public Services in Western Balkans.</li> </ul>
N.3. Introduce a procedure for continuous improvement of competences of public officials (professionalization)	<ul style="list-style-type: none"> <li>ReSPA organised over 50 regional networking and capacity building events (seminars, workshops, conferences, study visits, trainings, meetings, mobility schemes), involving over 1,500 public servants from the Western Balkans, and more than 200 international and regional experts.</li> </ul>	<ul style="list-style-type: none"> <li>Improved competences of public officials from across the Western Balkans.</li> <li>Improved regional cooperation of public servants.</li> </ul>

er, proper evidence-based policy and an adequate legislative process are still hard to come by in the region. Public consultations on proposals are often conducted formalistically and too late in the process, not enabling all interested parties to provide timely and qualitative input. It is also true that genuine involvement is needed from both sides. The Balkan Barometer findings reveal that slightly less than a half of all respondents said they had not even discussed anything that could affect governmental decisions, while one third of them had only discussed it informally, without publicly declaring themselves. Only 11 % of those interviewed took part in public debates or participated in protests. The impression that they cannot influence government decisions along with the lack of trust in their governments were listed as the main reasons why people were not actively involved in decision-making.

To address this shortcoming, the Ministers in charge of public administration from the six economies endorsed the Western Balkans Recommendation on Public Participation in November 2017. The document was prepared by the Regional Cooperation Council in cooperation with ReSPA and with the assistance of practitioners from national administrations. The document sets up the regional practical standards on planning, conducting, monitoring and evaluation of public consultations. The RCC and ReSPA will continue supporting administrations to further strengthen their capacity for an inclusive and evidence-based policy and legislative development. Public awareness campaigns to inform people on the ways of getting involved are indispensable for tangible results of the related reforms. Additional efforts will be devoted by both ReSPA and RCC in the field of Better Regulation, with a focus to evidence-based policy-making and regulatory impact assessment.

The RCC will sustain the established cooperation with the Western Balkans Enabling Project for Civil Society Monitoring of Public Administration Reform (WeBER), whose analyses and findings on the process and quality of public administration reforms will serve as additional grounds for evaluation of the key measures carried out under Effective Public Services Dimension of the Strategy.

### O. Anti-corruption

The region has achieved some level of preparedness in the fight against corruption during the reporting period. Yet, the issue remains one of the most pressing ones for the enlargement process.

Improvement of operational capacities of anti-corruption bodies has been noticed in most of Western Balkan economies, yet a more proactive approach of these institutions is required. Investigation and conviction are only possible if respective institutions are shielded from any undue influence.

Capacities of the anti-corruption bodies have continued to be strengthened within the implementation of the Regional Programme on Strengthening the Capacity of Anti-corruption Authorities and Civil Society to Combat Corruption and Contribute to the UNCAC Review Process, funded by Austrian Development Cooperation and implemented by the Regional Anti-corruption Initiative (RAI). The measures focused primarily on prevention of corruption through risk assessment in public institutions and anti-corruption assessment of laws as foreseen in the Regional Methodologies previously developed by RCC in cooperation with RAI. The national institutions advanced their practices in both of those fields, yet the impact of their outputs, such as integrity plans, has still to be evaluated.

To advance the competences of the relevant bodies, the RCC took a focused approach towards corruption risk assessment and tailored the preventive measure to the healthcare sector. This sector has been selected as it appeared to be the most prone to bribery, according to both Balkan Barometers in 2017 and 2018 (followed by police and judiciary). For that purpose, the RCC developed a comprehensive Checklist on Corruption Risks in Healthcare Sector to assist the administrations in identifying and addressing existing risks more effectively. Technical assistance in applying the Checklist has been agreed with anti-corruption bodies in Montenegro, Bosnia and Herzegovina, and The Former Yugoslav Republic of Macedonia. Activities with the latest had to be halted due to transitions within the specialized authority.

Existing practices in declaring financial and personal interests in Western Balkans seem to be ineffective and further steps on improving their results are recommended by the European Commission. Certain economies, such as Kosovo\* and Bosnia and Herzegovina, are also recommended to revisit their legal framework in these regards. An initiative to

start exchanging data on conflict of interest and asset disclosure between the oversight bodies has been agreed at the technical level, and it needs advancement at political level. Practices on protection of whistle-blowers need further enhancement as a result of recently enacted laws and poor public attitudes in this regard.

The upcoming Interior Ministerial meeting, in the frame of the London Western Balkans Summit, is expected to endorse a joint statement on anti-corruption commitments, which will be based on following pledges: enhancing public private partnership in anti-corruption information sharing; working towards a full implementation of the principles of Open Contracting Data Standard; signing up a Common Reporting Standard initiative; establishing safe whistle blowing and oversight procedures; establishing public central register of company beneficial ownership information; create a unified license register/cadastre system and consider using it as a platform for beneficial ownership disclosure; strengthening asset recovery legislation, including through non conviction based confiscation powers etc.

Table 29: Implementation of the Anti-corruption

Measures/Actions	Activities and Achievements 2017/2018	Expected Results 2018/2019
Dimension O: Anti-Corruption		
<p>0.1. Transparent rules</p> <p>0.2. Competitive procedures</p> <p>0.3. Use best practice methodologies for assessing corruption risk in public institutions in SEE 2020 economies</p> <p>0.4. Enhance 'corruption-proofing' of legislation in SEE 2020 economies</p> <p>0.5. Capacity building for law enforcement agencies and judiciary</p>	<ul style="list-style-type: none"> <li>○ Regional Project "Combating corruption in the Western Balkans and strengthening regional cooperation in the field of asset recovery" was implemented and the regional research on existing practices was published.</li> <li>○ Technical assistance was further delivered through Regional Programme Strengthening Capacities of Anti-corruption Authorities and Civil Society to Combat Corruption and Contribute to the UNCAC Review Process, funded by Austrian Development Cooperation and implemented by the Regional Anti-corruption Initiative (RAI). Beneficiaries upgraded their methodological basis on corruption risk assessment and anti-corruption assessment of laws. Trainings were provided to conduct the preventive measures in line with the RCC/RAI Regional Methodologies on Corruption Risk Assessment in Public Institutions and on Anti-corruption Assessment of Laws.</li> <li>○ The IT Tool on Corruption Risk Assessment and IT Tool on Anti-Corruption Assessment of Legislation are under development. The IT Service will develop/upgrade national Applications for performing corruption risk assessment and corruption proofing of legislation.</li> <li>○ Regional Workshop "Integrity and Professional Standards in Law Enforcement" was organized to strengthen regional cooperation in the field of integrity and professional standards in law enforcement and enable participants to have better understanding of the modalities and mechanisms in the field of integrity and professional standards applied in the region, to increase awareness about available legal and practical solutions, but also to identify main challenges in this field.</li> <li>○ Checklist on Corruption Risks in Healthcare was developed and technical assistance for its application was delivered to requiring economies. Integrity Plans for healthcare institutions are planned to be developed based on it.</li> </ul>	<ul style="list-style-type: none"> <li>○ 0.1. - Draft International Treaty on Exchange of Data for the Verification of Asset Declarations received a direct political support at the Western Balkans Summit in Trieste in July 2017.</li> <li>○ 0.2. - Strengthened relations with the beneficiaries in Security Sector and new regional partners identified.</li> <li>○ 0.3. &amp; 0.4. - New corruption prevention tools introduced/strengthened at national level. Capacities of beneficiary institutions enhanced with training and technical solutions. Sustainability of implemented measures ensured by amendments to bylaws as well as operating procedures.</li> <li>○ 0.5. - RAI Secretariat as a partner in IISG Mechanism influenced the IISG agenda with anti-corruption measures.</li> </ul>

### P. Justice Dimension

According to the latest EU Enlargement Strategy, the rule of law in Western Balkans must be strengthened significantly, thus 'sustainable reforms in the area of rule of law, fundamental rights and good governance remain the most pressing issue for the Western Balkans<sup>38</sup>. It is also the key benchmark against which the prospects of these economies will be judged by the EU'. The independence, quality and efficiency of the judicial system must be ensured, while the independence of judges is essential to ensure fairness and to hold the executive and legislative branches of government to account. This is the most important precondition for economic development. At the same time, regional cooperation and good neighbourly relations are essential for progress on the respective European paths. EC stressed in its 2018 progress reports that successful reform of judicial systems in Western Balkan is a long-term process that requires sustained political will. Through the Flagship initiative on strengthening the rule of law<sup>39</sup>, European Commission sets out the unprecedented support to the transformation and reform process in the Western Balkans in rule of law, specifically focused on activities and measures to improve efficiency, accountability and independence of judiciaries, while supporting regional cooperation.

According to the Balkan Barometer 2017<sup>40</sup> there is a worrisome absence of confidence in the institutions and the lack of confidence in judicial system, which is remarkably higher than in EUMS, while the low level of trust in government and parliament is common to the citizens of EU and WB. It is a clear signal that the improvement of judicial systems is *conditio sine qua non* in the development process of Western Balkans. The Balkan Barometer 2017 showed that the legal system is considered by citizens in SEE region to be the least independent from undue political interference (78% of citizens disagree with the statement that it is independent)..

The RCC continued to work through the WB Working Group on Justice as the only regional initiative in the area of justice and proved its role as a hub in judicial training, judicial cross-border cooperation and alternative dispute resolution (ADR) activities in WB aiming to improve efficiency, competence and accountability of judiciaries in the region. Most

38 [https://ec.europa.eu/commission/sites/beta-political/files/communication-credible-enlargement-perspective-western-balkans\\_en.pdf](https://ec.europa.eu/commission/sites/beta-political/files/communication-credible-enlargement-perspective-western-balkans_en.pdf)

39 [https://ec.europa.eu/commission/sites/beta-political/files/six-flagship-initiatives-support-transformation-western-balkans\\_en.pdf](https://ec.europa.eu/commission/sites/beta-political/files/six-flagship-initiatives-support-transformation-western-balkans_en.pdf)

40 [www.rcc.int](http://www.rcc.int)

notably: a comparative study on the existing systems of judicial training in Western Balkans has been produced with clear recommendations aimed at improved regional cooperation in judicial training; regional capacity building has been extended in the area of cross-border cooperation in civil, commercial and family matters; work has been initiated to define the minimum common standards for all segments of regional training; etc.

#### Key findings

With the backsliding registered in the previous year ceasing for most economies in the region, the reporting period brought fairly modest progress in the field of good governance. If the related issues are not addressed urgently and credibly, the regional progress towards the 2020 target, which at the moment scores under 50%, faces serious challenges in achieving the 2020 target.

Corruption remained the third most important problem people in the region were facing in the reporting period, after unemployment and economic situation. Existing corruption prevention mechanisms, such as protection of whistle-blowers and corruption risk assessment, are still to be evaluated and adjusted in order to make sure that effects are in place.

Proper evidence-based policy and drafting of laws still face challenges. Public consultations on proposals are often conducted formalistically and too late in the process. The Ministers in charge of public administration reforms endorsed the Western Balkans Recommendations on Public Participation to address this situation.

Pursuing public administration reforms and further consolidating anti-corruption policy and interventions remain of high priority and crucial importance for progress in the region. The Enlargement Strategy urges governments to prioritize reforms in the fundamental areas of democratic institutions and public administration reform.

Sustainable reforms in the area of rule of law remain the most pressing issue for the Western Balkans. The independence, quality and efficiency of the judicial system have to be ensured and the independence, quality and efficiency of the judicial systems have to be improved as a precondition for any rule of law-based democratic society and for its economic development.

RCC continues to serve as a regional hub in the area of judicial training and alternative dispute resolution and the focal point in both areas, based on

Table 30: Implementation of Justice Actions

Measures/Actions	Activities and Achievements 2017/2018 <sup>43</sup>	Expected Results 2018/2019
Dimension P: Justice		
Associations of Mediators Network aimed to:	<ul style="list-style-type: none"> <li>Exchange of best practices, experiences and lessons learned enabled by the regular meetings of SEE JTIs Network.</li> <li>Developed Study on the existing systems of judicial training in Western Balkans containing map of past and on-going projects in judicial training in WB.</li> <li>Regular meetings of WB WGJ aiming to ensure support of the WB ministries of justice.</li> <li>Regional judicial training for judges in SEE in 'Cross-border cooperation in civil, commercial and family matters' is organised and materials are developed.</li> <li>Consultation process ensured on cooperation with EJTJN, EC and CoE in rule of law.</li> <li>Agreed topics of the future regional trainings for judges and prosecutors to be organised by the RCC in cooperation with the relevant European and regional partners.</li> <li>Preparatory activities launched, aiming to develop the Regional judicial training programme 2019-2021 and to create Study on minimum common standards in judicial training in WB.</li> </ul>	<ul style="list-style-type: none"> <li>Strengthened role of RCC as a hub in the area of regional judicial training and in ensuring a link to relevant European institutions and networks.</li> <li>Improved coordination of different projects in judicial training and the region and better use of existing results.</li> <li>Created and updated data base of legal experts in EU law and other common topics in WB, thus enabling better quality of regional trainers.</li> <li>Developed common minimum standards in judicial training process and improved organisational structure of judicial training institutions.</li> <li>Improved co-operation between councils for judiciary and judicial training institutions.</li> <li>Improved organisational structure and capacity of judicial training institutions.</li> <li>Enhanced knowledge in EU law on cross-border cooperation.</li> <li>Developed Regional judicial training programme 2019-2021.</li> <li>Improved mutual trust between judges and prosecutors from different legal systems.</li> <li>Ministerial declaration supporting reforms in Rule of Law.</li> </ul>
P 1.1. Improve efficiency of courts		
P.1.2. Enhance quality of justice		
P.1.3. Improve competences of judges and prosecutors		
P.2.1. Support alternative dispute mechanisms and tools	<ul style="list-style-type: none"> <li>Regular meetings of SEE Association of Mediators Network as a platform for exchange of experiences among mediators, representatives of chambers of commerce, ministries of justice and training institutions.</li> <li>Preparatory activities launched to develop Guidelines for mediators.</li> </ul>	<ul style="list-style-type: none"> <li>RCC's active contribution as a hub for regional activities in ADR and a link to other European and regional networks and associations active in ADR.</li> <li>Improved efficiency of judiciaries and reduced court backlog through use of ADR as a 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 co-operation between SEE JTI Network and SEE AM Network in organization of trainings in mediation skills.</li> <li>Percentage of cases resolved through mediation raised.</li> </ul>
P.2.2. Enable cooperation between judicial training institutions and mediators/arbitrators associations		
P.2.3. Establish regular co-operation between two SEE Networks		

41 Detailed information in the RCC quarterly narrative reports 2017, [www.rcc.int](http://www.rcc.int)



prior consensus of the members of WGJ on all activities. The role of hub and focal point provides opportunity to improve coordination of the various projects in aforementioned areas and to enable better use of existing tools and results at regional level.

The processes are to be continued in the same manner and in close cooperation with EC, EJTN, CoE and regional networks and institutions.

Key recommendations for the Governance for Growth Dimensions for 2018 - 2019 include:

**N. Effective Public Services:** (i) Safeguard senior managerial appointments in public administration with no political interference and put in place an effective merit-based recruitment of public officials. In parallel, (ii) Draft and adopt policies and legislation based on evidence, enabling all interested parties to provide timely and qualitative input, adequately addressing the Western Balkans Recommendation on Public Participation.

**O. Anti-corruption:** (i) Enable Anti-corruption bodies to fulfil their tasks in a pro-active way, with no undue influence over their operation; (ii) Ensure a solid track record of corruption-related offences investigation, prosecution and adjudication, making effective use of tools to recover the proceeds of

crime; (iii) Monitor, evaluate and adjust accordingly the operation and effects of existing corruption prevention mechanisms; (iv) Make operational the mechanism of declaration of personal and financial interests by public officials, including by putting in place an instrument for data exchange between the oversight bodies, as the one endorsed at Trieste Summit; (v) Provide adequate protection for those who report corruption and wrongdoing in both public and private sectors, and set up protection of whistle-blowers as an effective tool for prevention of corruption.

**P. Justice:** (i) Support cross-border cooperation and implementation of comprehensive judicial reforms aiming at improving efficiency, integrity, independence and accountability of judiciaries through Regional Working Group on Justice; (ii) Ensure better quality and organise regional judicial trainings in EU law and other common topics through RCC SEE Judicial Training Institutions Network; (iii) Develop Regional judicial training programme 2019-2021 and create a minimum set of common standards in all segments of training and integrate them into the work of WB JTI; (iv) Develop Guidelines in mediation skills; (v) Reduce court backlog in the region by using alternative dispute resolution, supported and promoted by RCC SEE Association of Mediators Network.

## Annex: Measuring SEE 2020 Progress and the Challenges of Regional Headline Targets

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 at 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, 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, after becoming the EU Member State and joining the Europe 2020 framework, Croatia has withdrawn from the SEE 2020 monitoring effort, thus impacting further the regional SEE 2020 aggregates which no longer included Croatian national targets since 2015.

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.

While challenges in regional statistical cooperation are numerous, steps were 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 during 2016 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 were introduced in the 2017 Annual Report on Implementation and have also been 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 commissioned a forecasting exercise of employment and trade patterns during 2017 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 were presented as SEE 2020 Targets 3, 4, and 9 in the Report. The proposed forecasts were adopted by the SEE2020 Governing Board on its fourth meeting held on 27 June 2017 in Dubrovnik, Croatia.

Eurostat's technical assistance for SEE 2020 headline targets has also been implemented in the national statistical systems throughout the region. This technical assistance is not limited only to the SEE 2020 targets but it has also addressed other supporting indicators selected by the SEE 2020 Monitoring Committee to help measure progress on SEE 2020.



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