

Regional Cooperation Council

South East Europe 2020:  
**2016 Annual Report on Implementation**

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June 2016

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## I Overview of SEE 2020 Implementation June 2015–May 2016

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### I.1 SEE 2020 in a Nutshell

#### A coordinated effort to drive socio-economic growth

The South East Europe 2020 Strategy (SEE 2020) was adopted by the ministers of economy of seven South East European economies<sup>1</sup> on 21 November 2013. Inspired by the EU's 2020 strategy it seeks to boost prosperity and job creation and to underscore the importance of the EU perspective to the region's future through coordinated cooperation across a number of important policy dimensions. The adoption of SEE 2020 was a clear recognition by the national governments of the need for a 'change of gear' in the region. While the region experienced a surge of economic growth during the 2000s, the global and economic crisis reversed several of the positive achievements. It also plainly revealed that many of the economic problems in the region are structural in nature. In some cases, they reflect sub-optimal growth patterns and all are exacerbated by an unfinished reform agenda.

SEE 2020 seeks to provide a pathway to accelerating socio-economic reform and speeding up measures to modernise and reindustrialise the economies, create more jobs and deliver better living standards for the population. Like the EU's 2020 strategy it is based on a set of interlinked development policy pillars that seek to stimulate long-term drivers of growth.

- Integrated growth: through the 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 regional complement to national efforts

SEE 2020 seeks to achieve its ambitions by augmenting national efforts through focused regional cooperation on specific policy areas that can benefit from a shared approach. It builds on the existing policy commitments taken by the SEE 2020 economies, reinforcing their capacity to meet them while also providing an opportunity to identify and pursue new commitments that benefit from regional cooperation. Such an approach seeks to generate efficiencies and synergies as well as to maximise the use of scarce human and financial resources throughout the region.

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

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

## Highly relevant for EU accession

Progress towards EU membership has been uneven and in general most of the SEE 2020 economies face a long and arduous path to EU accession. Both the policy areas addressed by SEE 2020 and the use of regional cooperation as a tool to expedite progress are critical elements of the EU accession process. Thus SEE 2020 provides a framework to assist national governments to implement their individual development strategies and enhance their EU integration agenda.

## Strong governance to enhance implementation of SEE 2020

A comprehensive regional governance and monitoring structure has been put in place, under the leadership of the Regional Cooperation Council (RCC), to allow the SEE 2020 economies and supporters of the process to operate, guide and review the implementation of this ambitious strategy. It includes an SEE 2020 Governing Board (composed of ministers in charge of EU integration), a Programming Committee (NIPAC offices and SEE 2020 Coordinators) and a Monitoring Committee (statistical offices and SEE 2020 National Coordinators) as well as the appointment of Regional Dimension Coordinators for each policy area under the five pillars.

## 1.2 Purpose of this Report

This Annual Implementation Report is the main output of the work of the SEE 2020 Monitoring Committee. It covers the period from June 2015 to May 2016. The report is divided into two parts:

Part I provides a summary overview of the progress achieved, issues arising and sets out some overall recommendations to adapt and strengthen the Strategy to meet the changes wrought by the dynamic political and economic environment in which it operates.

Part II contains a more detailed review, pillar by pillar, of:

- The rate of progress towards the various national and regional targets set for each pillar and an assessment of the probability of the target being met by the individual economies;
- A synopsis of the key achievements and activities under each policy dimension and an outline of specific challenges;
- Tailored conclusions and recommendations for each policy area.

## 1.3 Current Status of SEE 2020

### Progress towards SEE 2020 headline targets

The progress towards meeting the SEE 2020 headline targets set by the seven participating governments has been varied (see Table 1). The implementation of SEE 2020 started in the aftermath of the largest global economic crisis in recent history which had a particularly negative impact in the SEE. The region has seen its economies contract, with reduced employment and investment, and placed its financial sector at extreme risk. The narrowing fiscal space and limited scope for monetary policy interventions considerably reduced the policy options and instruments at the governments' disposal. It is against this backdrop that the progress made in achieving the SEE 2020 targets has to be considered.

While progress has been mixed, the headline targets can be grouped into four main categories in terms of performance:

- **Targets achieved** – In some areas, such as balancing trade and business creation (Targets 3 and 8, respectively), the targets have already been met and exceeded by the region. Stronger demand from the EU market, the region's main trading partner, has been the key driver behind this rebalancing over the past two years. On balance, the region's trade deficit narrowed from 15.7 percent of GDP in 2010 to 10.8 per cent in 2014, with the trend continuing in 2015<sup>2</sup>. It is important to note that Croatia and Serbia as the largest economies in the region have experienced the strongest rebalancing, thus leading the overall regional trend.

SEE 2020 Headline Indicator	2010 (baseline)	2011	2012	2013	2014	2020 (target)	Progress towards target at 2014
<b>Overall Strategic Goals</b>							
1. GDP per capita relative to the EU average (in PPS), % of EU-27 average	36	36	36	36	37	44	16%
2. Total trade in goods and services (EUR million)	94,413	99,061	102,578	104,662	109,100	209,500	13%
3. Trade balance (% of GDP)	-15.7	-14.3	-15.0	-11.9	-10.8	-12.3	144%
<b>Integrated Growth</b>							
4. Intra-regional trade in goods (EUR million)	16,005	18,831	17,719	18,116	18,513	30,500	17%
5. Overall FDI Inflows (EUR million)	4,527	6,680	3,929	4,285	6,578	8,800	48%
<b>Smart Growth</b>							
6. GDP per person employed (EUR)	29,770	32,079	32,441	32,845	32,210	36,300	37%
7. Number of highly qualified persons in the workforce (million)	1.33	1.38	1.52	1.53	1.69	2.05	50%
<b>Sustainable Growth</b>							
8. Business creation (no. of newly registered businesses per year)	28,105	30,753	27,045	n.a	33,806	36,090	71%
9. Exports of goods and services per capita (EUR)	1,612	1,858	1,865	2,022	2,143	4,184	21%
<b>Inclusive Growth</b>							
10. Overall employment rate - 15+ age group	39.7	38.6	38.3	38.4	40.1	44.4	8%
<b>Governance for Growth</b>							
11. Government's effectiveness, World Bank Governance Index (scale 0-5)	2.3	2.4	2.4	2.4	2.6	2.9	37%

Source: Eurostat, National statistics, World Development Indicators, Worldwide Governance Indicators  
Data for Target 8. Net enterprise creation was not available at the time the report was prepared, and was substituted by data on new businesses registered (World Bank).

- **Targets on track to be achieved** – Considerable progress has been made in attracting foreign direct investment (FDI) and enhancing the educational profile of the workforce (*Target 5 – Overall FDI inflows and Target 7 – Number of highly qualified people in the workforce*), and the region is roughly halfway towards meeting the targets in these areas.

After experiencing a decline in 2012 and 2013, FDI picked up in 2014 with the trend continuing in 2015. FDI was spread out across several sectors including infrastructure development (Albania), manufacturing (Serbia), financial sector (Montenegro, Serbia), and real estate (Montenegro). However, it is important to note that, in terms of FDI, the performance varied widely in the region – Croatia has been leading the way, exceeding the set FDI target, while other economies have experienced only moderate progress towards meeting their national targets, ranging from 5 per cent in Albania, to 48 per cent in Bosnia and Herzegovina, with Kosovo\*'s level of FDI in 2014 actually dropping below the 2010 baseline.

<sup>2</sup> Trade data for 2015 was not available for all economies at the time this report was prepared.

In terms of the education profile, the region has added more than 350,000 highly educated persons to its workforce, a considerable increase on the baseline<sup>3</sup> (1.33 million in 2010), with the trend continuing in 2015. In addition to the focus on the education profile of the active population, the quality of education provided as well as matching the skills attained with the needs of business should feature more prominently on the policy agenda. This has also been indicated in the 2016 Economic Reform Programmes (ERPs) submitted by the governments.

- **Targets broadly achievable** – Moderate progress was attained in the areas of increased productivity (using *Target 6 – GDP per person employed* as a broad proxy) and governance (*Target 11 – Government’s effectiveness*), each recording a 37 per cent advancement towards meeting the set target for 2020. However, it is worth noting that at least part of the progress on Target 6 can be attributed to reduced employment through job losses that occurred in the 2010–2013 period (around 180,000 jobs were shed). What is desired is growth of both GDP and employment, and productivity increases through product, service or process innovation. This negative boost to GDP per person employed is evident also from a slight decrease in the value of Target 6 for 2014, the year when the employment trend began reversing and the region added approximately 190,000 jobs.

The progress captured by the government effectiveness target<sup>4</sup> is encouraging and shows that the overall efforts on the governance side are yielding concrete results. The improvements measured by this indicator should not be over-interpreted however, given the relatively short period under observation.

- **Targets not achievable** – Minor progress was achieved by the targets measuring growth, convergence with the EU, trade expansion and employment, the key underlying targets of the Strategy (*Target 1 – GDP per capita relative to the EU average, Target 2 – Total trade in goods and services, Target 4 – Intra-regional trade in goods, Target 9 – Exports of goods and services per capita and Target 10 – Overall employment rate*).

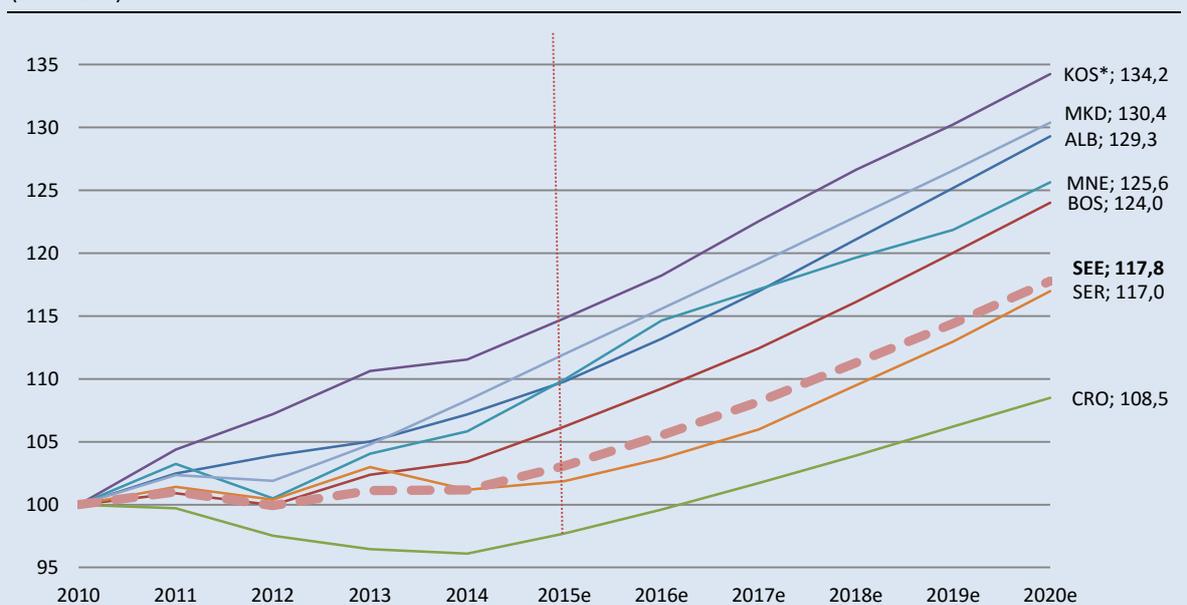
Growth in the SEE was mostly stagnant in the first four years of the decade as a result of persistent pressures of the economic crisis felt by all of the region’s economies. During 2010–15, the region’s economies expanded at an average annual rate of 0.6 per cent, insufficient to bring the SEE appreciably closer to the EU levels. The growth forecasts until the end of the decade put the regional growth rate at a healthier 2.9 per cent on average until 2020 (Figure 1), but even under this scenario, bearing in mind EU growth forecasts, the target of reaching 44 per cent of EU GDP per capita average will probably remain elusive. The performance of individual economies has been very mixed in terms of growth. While Kosovo\* and The Former Yugoslav Republic of Macedonia economies expanded by more than 18 and 15 per cent respectively over the past five years, the Croatian economy contracted by more than 4 per cent.

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<sup>3</sup> The original baseline has been revised downwards due to methodological changes implemented in several economies after the 2013 census.

<sup>4</sup> The government effectiveness indicator is a composite indicator capturing perceptions on the quality of public services, the quality of the civil service and its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to its stated policies (<http://info.worldbank.org/governance/wgi/pdf/ge.pdf>).

**Figure 1: Real GDP growth 2010–15; growth scenario until 2020**  
(2010=100)



Source: National statistics, IMF, World Bank

Lower demand from the region’s main trading partners during the economic downturn has also negatively influenced trade, with overall trade in goods and services and intra-regional trade in goods both expanding at an annual growth rate of less than 4 per cent between 2010 and 2014. Even with external demand picking up and the improved growth outlook for the rest of the decade, the region’s trade would have to expand at an unprecedented annualised rate of 11.5 per cent to reach the EUR 209.5 billion target. This is not realistic under the existing growth scenarios.

Finally, the regional employment target reveals very little progress on job creation, the central tenet of the SEE 2020 Strategy. While the negative employment trend has been reversing over the past year and a half, the number of jobs created has barely offset the jobs lost in the 2010–13 period. In order to reach the 2020 target of 44.4 per cent employment rate (15+ age group), the economies of the region would need to add between 150–170 thousand jobs annually over the next five years. Based on the current growth scenario and in the absence of large-scale investment this looks unlikely.

### Role of SEE 2020 targets

Any assessment of performance on SEE 2020 implementation would be incomplete without a closer look into the targets themselves and the role they play in the implementation of the Strategy. Since the adoption of SEE 2020, the targets have attracted considerable discussion in the region. These discussions have revealed some of their limitations, but have also pointed to the benefits of having quantified goals at both national and regional level.

In terms of the limitations inherent in the headline targets, the following can be noted:

- **Some targets might not be fit for purpose.** The indicators selected to serve as targets were originally chosen when there was much uncertainty regarding data availability, methodological consistency and comparability between the economies in the region. The compromise made in terms of selecting the targets has in some cases resulted in headline

indicators that do not adequately capture the dynamic developments in SEE 2020 implementation. This has been highlighted by the SEE 2020 Monitoring Committee which has sanctioned some changes.

- **Credibility of targets.** Some of the targets are overly ambitious. Unlike the Europe 2020 targets, set at an EU level and then transposed into a national context, the regional SEE 2020 targets were compiled based on the inputs coming from the participating governments. In that sense, the more ambitious the target and the larger the economy providing the target, the more influence it exerted on the regional aggregate indicator. Given the growth outlook, there might be a need to revisit some of the targets.
- **Exhaustiveness of targets.** The 11 targets identified by the governments to serve as headlines were selected based on a broad vision adopted by the SEE ministers. The Strategy itself was developed with the targets in mind, but the fact that SEE 2020 implementation includes interventions in 15 different policy areas makes it difficult to adequately capture performance in all SEE 2020 dimensions. Thus the performance on quantitative targets should be coupled with a qualitative assessment.

However, it is important to note that the benefits of the approach are multiple, as the targets:

- **Signal political will to work together and strengthen accountability for results.** The commitment to set joint development targets in the region plagued by strife is a welcome development, indicating the growing maturity of cooperation in the Western Balkans. Furthermore, the existence of quantifiable targets also instils greater political responsibility and accountability for the results of any reforms.
- **Act as policy anchors.** All regional headline targets are backed up by a set of national targets that inform the policy-making process in the individual economies. The targets also enable easy comparisons between different themes and economies, promoting joint action and best practice sharing. In addition, they help monitor and discuss progress in the dialogue with the EU, as has already been the case in the preparation of Economic Reform Programmes and in programming the IPA.
- **Enable easier communication.** Having a limited number of quantified regional targets allows easier communication with different audiences and can be a powerful tool to mobilise opinion, as demonstrated by the experience of other international organisations engaged in similar efforts, such as the OECD's Better Life Index and the World Bank's Doing Business.

Overall, the targets have proven to be a good tool in raising awareness and steering policy discussions at regional and national levels. Keeping in mind the limitations, certain modifications to improve the targets are already in process: acting on the guidance of the SEE 2020 Governing Board, the Monitoring Committee has agreed to replace four targets, addressing some of the shortcomings detailed below. Moreover, a core list of additional indicators has been established by the Monitoring Committee to ensure a broader scope of monitoring and easier targeting of policy interventions. This process is being supported by Eurostat's technical assistance to ensure methodological consistency and comparability between the economies involved.

## I.4 Review of Main Activities and Achievements

The second year of SEE 2020 implementation has been completed. While it is still premature to discuss the results achieved, it is evident that the implementation effort has been varied across the different pillars. In areas that have received substantial political attention and resources in the past year, a considerable number of activities were implemented that are expected to result in meaningful reforms at the national (and sub-national) level. These are focused mostly on the integrated and sustainable pillars of the Strategy. In other areas, the performance was more varied, and has depended largely on the maturity of regional cooperation, mandates and resources vested in implementing these activities.

### (i) Progress under the 5 SEE 2020 Growth Pillars

- **Integrated Growth** has seen progress in all three dimensions coordinated by the CEFTA Secretariat and the SEE Investment Committee. **Negotiations on trade facilitation and services trade** have been ongoing throughout 2015, and are expected to result in **agreement on additional protocols** to the CEFTA Agreement during 2016. Further progress has been made on mobility, with the establishment of an RCC-CEFTA-ERISEE Working Group on Mutual Recognition of Professional Qualifications and the **prioritisation of two sectors and four professions** for negotiations, expected to start in early 2017.

An agreement to monitor provisions on competition, state aid and public procurement was put in place with implementation expected during the next reporting period. Finally, a detailed **mandate for investment policy review and reform** was agreed with the economies, addressing national and regional issues across the SEE 2020 region, backed by an EU-funded technical assistance programme implemented by the World Bank.

- In the **Smart Growth** pillar, the *Education* and *R&D for Innovation* dimensions saw the **formalisation of two regional dimension coordinators**, the Education Reform Initiative (ERI SEE) and the Western Balkans Research and Innovation Centre (WISE). These are expected to become fully operational during 2016 and should contribute to more complementary regional actions in these dimensions. Preparations for **fast tracking/automatic recognition of academic qualifications** in the region have been initiated, and an ERASMUS+ application was prepared seeking support in this area. **852 entrepreneurial learning lesson plans** were implemented in schools in the region through SEECEL and capacity building provided for entrepreneurial learning at ISCED 5/6 levels (higher education).

In the area of *R&D for innovation*, DG JRC was awarded 1.5 million EUR through the regional IPA to provide **capacity building on Technology Transfer**, building on the RCC's technology transfer programme developed during early 2015.

Within the *Digital Society* dimension, the **regional agreement on reducing the prices of mobile roaming services (RRA)** has come into force. The RCC is currently developing a legal and market impact analysis to underpin further implementation of the RRA in a market-based and sustainable manner. Furthermore, targeted regional capacity-building support was extended to the e-SEE Initiative membership related to **e-IDAS Regulation** (particularly important for the interoperability and deployment of cross-border services) and a regional TAIEX-supported capacity-building programme on the **Directive on reducing the costs of deploying high-speed broadband** was implemented.

Finally, in the dimension of *Culture and Creative Industries* **two EU-funded programmes on the rehabilitation of cultural heritage in the Western Balkans were completed** by the RCC's Task Force on Culture and Society (TFCS), including the delivery of 40 training events, creation of a pool of regional experts, production of a number of feasibility studies, preliminary assessments, business plans and promotional materials, and implementation of 27 rehabilitation projects on 20 monuments/sites.

- The **Sustainable Growth** Pillar (particularly the dimensions dealing with transport and energy) received considerable political attention over the past year under the Berlin Process' "connectivity agenda" and thus some significant progress was achieved.

On the *Energy* side, under the Energy Community's auspices, legislation was improved in SEE 2020 economies and the outstanding **National Energy Efficiency Action Plans (NEEAPs) and National Renewable Energy Action Plans (NREAPs) were adopted** (with the exception of the NREAP in Bosnia and Herzegovina). **Directive 2012/27/EU on Energy Efficiency and Regulation 347/2013/EU on Trans-European Energy Infrastructure** was adopted by ECT contracting parties and the transposition of Directive 2009/28/EU has seen good progress. Several energy efficiency investment projects were implemented and a number of legislative proposals prepared under the EC/EBRD-financed Western Balkans Regional Energy Efficiency Project (REEP). **EC financing of 58 million EUR was secured** for four Projects of Energy Community Interest (PECI) on electricity interconnection. Agreement by SEE 2020 economies was brokered under the Berlin Process for the implementation of relevant reforms required for the **regional energy market**, a key result of the Regional Energy Strategy and SEE 2020 in this area.

In the *Transport* dimension, an agreement on the **Core Regional Transport Network** was secured and a number of priority infrastructure projects were identified with 148 million EUR in financing secured from the EC to expedite implementation. The preparation of a **single project pipeline** in the transport sector in each SEE 2020 economy is underway. A World Bank-led update on the **Regional Transport Study** and the report on the Flagship Axes Initiative were completed, providing clear recommendations on actions to be taken to remove barriers. Furthermore, a '**soft measures' management plan** was adopted to address non-physical barriers (part of the Berlin Process) and to coordinate and monitor the mechanism to implement soft measures. **EU TEN-T Corridor Coordinators** are now responsible for the relevant sections in SEE 2020 economies and officials from the region were involved in the overall TEN-T structures. Investor forums, focused on the core transport network, were held in London, Sarajevo and Ljubljana during the past year. The **SEETO Transport Facilitation Working Group was established** – an inter-institutional platform with public and private sector participation, focusing on transport and trade activities, and the **SEETO Multi-Annual Plan** covering transport and TEN-T policy and infrastructure project promotion was revamped and disseminated.

On the *Environmental* side, a regional **Working Group on Environment** was set up to coordinate regional actions for SEE 2020. High-level political support was secured for the SEE 2020 Environment dimension and its key objectives at the ministerial meeting on environment (March 2016). Capacity building on **climate change adaptation was delivered** via the provision of a series of training events, awareness raising, information exchange and pilot projects with local authorities of the Drina and Drin watershed communities in the six SEE economies. Implementation of the **Strategies for Low Emission Development (SLED)** has commenced in several SEE economies providing assessments and policy options as well as raising awareness. Policy recommendations on **integrated natural resource management** were approved by ministers of agriculture and a Regional Expert Advisory Working Group on agriculture, water and

forest management became operational. A regional programme on **improving regional and national capacities for rural development and sustainable management of natural resources** (LEIWW) was initiated with GIZ support and a method for assessing cross-border adverse environmental and economic impacts of solid waste mismanagement was developed.

The work in the *Competitiveness* dimension focused on identifying the main barriers to sector development in the areas of tourism and food and beverage processing and selecting the main policy responses and tools to address these barriers. The work was coordinated through two SEEIC expert groups on tourism and food and beverage processing. The region has agreed to work on the **development of a joint regional offer for international tourists** (i.e. regional cultural/adventure routes), and in the food and beverages processing to develop a joint regional supply chain to be promoted to the international chains. The **Regional Working Group on Industrial Development** was established to assist with strengthening the regional industrial base and promoting manufacturing as the backbone of sustainable growth under the SEE 2020 framework. Furthermore, a comprehensive analysis providing **recommendations on increasing the business synergies between the SEE economies and Turkey** was completed, with initial results presented during the B20 summit in Ankara at the panel co-hosted by the RCC and Union of Chambers and Commodity Exchanges of Turkey (TOBB) and dedicated to Western Balkans-Turkish cooperation. Finally, a first joint regional declaration on combating a shadow economy was adopted with the regional tax and customs authorities, in cooperation with the Foreign Investors Councils.

- The **Inclusive Growth** pillar has seen progress with the start of an **Employment and Social Affairs Platform (ESAP)**, a 3 million EUR EU-funded action to assist the labour ministries and public employment services in designing and implementing effective employment policies. The action will be delivered through an RCC, ILO and DG Employment partnership. Furthermore, proposals from an RCC **study on labour mobility** were deliberated by the governments and informed CEFTA negotiations on the liberalisation of trade in services.

Regional cooperation in the *Health* dimension was maintained through high level promotion of SEE 2020 health goals including ad hoc meetings of ministers of health and the High Level Meeting and a Plenary Meeting of the SEE Health Network. Regional projects on Universal Health Coverage, Governance for Health and Cross-Border Public Health were developed. Several workshops and events on the development of regional cross-border public health standards and procedures were implemented.

- Within the **Governance for Growth** pillar, the activities were mostly directed at capacity development, preparing various methodologies and their transposition in the national context and networking the different players in the field.

In the *Effective Public Services* dimension, 96 training events, networking and capacity-building activities in the thematic areas related to SEE 2020 were implemented. Close to 2000 civil servants participated in these activities for a total of 5311 participant days. In this regard, a significant amount of training material has been compiled and disseminated in the region. Moreover, 11 regional benchmark studies were developed, including Baseline Analysis on Better Regulation, Baseline Analysis on One Stop Shop Solutions in the Western Balkans and several others.

In the area of *Anti-corruption* **two studies relating to preventing corruption were developed and disseminated:** the Anti-corruption Assessment of Laws (the Corruption-proofing of Legislation) and Corruption Risk Assessment in Public Administration. A three-year donor-funded programme

for the implementation of corruption proofing and corruption risk assessment in national legislation and practice has been initiated to help transpose the methodologies developed into national frameworks. With regard to the efficiency and transparency of public procurement as another preventive measure against corruption, ReSPA is conducting a regional study on public procurement that is anticipated to set clear joint objectives to all regional partners. In cooperation with the NGO Blueprint for Free Speech, the first baseline **Report on whistle-blowers legislation and practice in South East Europe** was prepared. Finally, the **Summer School for Junior Anti-Corruption Practitioners from SEE** was organised on financial investigations and the recovery of crime-related proceeds. The event had the added value of strengthening regional cooperation between anti-corruption professionals and sharing expertise and experience from the region.

In the *Justice* dimension, **three studies on best practices in the area of efficiency of judiciary** were developed ('E-enforcement system on the basis of authentic documents', 'Court backlog reduction programmes in the region and some EU Member States and case weighting system', 'Report on a comparative overview and analysis of good practices with identification of elements of a court-annexed mediation programme and a comparative study on accreditation and certification systems') with recommendations for judicial authorities. The implementation of recommendations and their results are revisited at the meetings of the Working Group on Justice. **SEE networks of Judicial Training Institutions and of the Associations of Mediators** have been established as platforms for exchanging experiences and for peer-to-peer support. In the process of establishing and supporting these regional networks, the RCC has cooperated closely with the GIZ Open Regional Fund-Legal Reform team.

**(ii) Progress on SEE 2020 Governance**

Following considerable preparatory work, 2015/2016 has seen the completion of the regional governance and coordination architecture for SEE 2020 (Figure 2). The Monitoring Committee and the Programming Committee are now fully operational. In particular, this means that the SEE 2020 stakeholders have access to better quality and more relevant data as well as an analysis of the progress being made. Thus policies can be adjusted as required and assistance sought and implemented in a more timely and coordinated manner. Some of the benefits of strengthened governance structures include:



***Better data to underpin policy development and implementation***

The Monitoring Committee comprising national statistical offices and SEE 2020 Coordinators supported by the RCC and Eurostat has defined the scope of monitoring, identified the roles and responsibilities of the participating institutions and provided the final list of indicators to be used in the data collection process. The indicators are selected based on their relevance, availability of data and methodological consistency to ensure comparability of data during the analysis. This collective

and coordinated effort has improved both the relevance of the indicators for the various targets and the quality of data available. It also complements the work of the Regional Dimension Coordinators who provide (i) data from their own information-gathering operations and (ii) activity reports on their SEE 2020 related activities.

The functioning of the Monitoring Committee is an important step in ensuring that the SEE stakeholders have adequate information available to them for policy development and implementation and this Annual Report on Implementation is a key output of the Monitoring Committee. Although important progress has been made, the need for proper evidence-based policy development across the SEE 2020 region demands that further efforts are made to enhance the range, consistency and quality of data.

### ***Targeted and efficient assistance***

The Programming Committee represents a coordinated effort to ensure that relevant and timely assistance is made available in different policy dimensions and that available assistance is used in the most efficient and effective manner. Committee members are representatives of the SEE 2020 National Coordinators and the NIPAC offices. Given the significance of the EU's IPA programme in supporting the national and regional reform programmes of the various governments, this composition facilitates better coordination of the national and multi-country programmes. The valuable support available from other bilateral governments and international organisations is also taken into account by the Committee. The development of a database on donor-funded assistance programmes, including their programming cycles, and a structured dialogue with development partners introduced by the RCC in this period contribute to greater transparency and coordination of assistance.

## **I.5 Key Lessons Learnt**

Based on the implementation of SEE 2020 to date and particularly this current reporting period, some key lessons learnt suggest that the SEE region needs:

- (i) More binding agreements to underpin political commitments
- (ii) Better policy coherence and less policy fragmentation
- (iii) Clear links with high level political processes
- (iv) Greater capacity to manage the entire policy cycle
- (v) Financial resources

Looking at each of these areas one by one:

### **(i) More binding agreements to underpin political commitments**

SEE 2020 governments have made policy commitments across the different policy dimensions of the Strategy. These commitments vary widely in terms of the level of ambition, complexity and timing. However, it is clear that those commitments that are underpinned by a legally binding agreement are those with a better chance of being successfully implemented. CEFTA and the Energy Community Treaty are very good examples of this. Government commitments taken at the political level are translated quickly into national and regional work programmes and implemented with the support of

dedicated secretariats and the provision of targeted assistance. Progress in policy areas that lack such firm foundations is more likely to be slow and/or patchy. Binding agreements command political attention and tend to attract technical and financial assistance which in turn increases the likelihood that commitments made will be delivered on.

**(ii) Better policy coherence and less policy fragmentation**

Several policy dimensions lack a comprehensive, overarching vision for that particular policy area at regional and often national level. In addition, policy development at both regional and national levels is sometimes influenced by a specific need at a point in time rather than a long-term development objective. Such needs may be domestically driven, e.g. an election, or externally driven, e.g. a donor request or condition for granting the assistance/funding. Hence in some SEE 2020 dimensions the available policies: (i) cover only particular aspects of a policy field; (ii) focus on the development aspects of the cycle; (iii) are presented with incomplete budgets or lack secured financing; and (iv) pay little attention to the need for monitoring and evaluation.

The absence of a predominant purpose for certain policy areas combined with a tendency for fragmented policy development can lead to a large number of individual policies that are (i) narrowly focused rather than comprehensive and (ii) sub-optimal instead of maximising synergies. There are also variances in terms of content, duration and quality across policies in related fields. All of this creates challenges to ensure that related policies form a coherent whole. This is particularly relevant for SEE 2020 which spans approximately 15 policy dimensions – many of them interlinking.

In addition, such fragmentation of policies decreases the efficiency of small administrations in the region and risks squandering the limited resources available for development and implementation.

**(iii) Clear links with high level political processes**

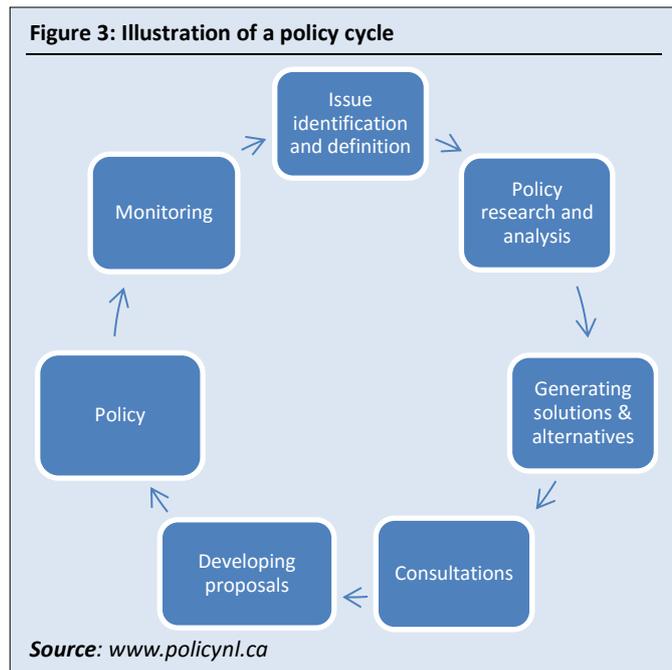
Over the period 2014-2016, the establishment and advancement of the Berlin Process bringing together the heads of state from the Western Balkans along with heads of state of several EU Member States and senior members of the EC and EEAS has acted as a catalyst for prioritisation and implementation in selected policy areas. Most notably it has focused attention on the huge need for greater connectivity both within the region and between the region and the EU. It complements the Western Balkan 6 initiative which brings the SEE 2020 economies together to discuss priority policies.

Regional policies related to transport, energy and trade have benefited greatly from the high level political commitment engendered by these two processes. The cross-coordination and the regular meetings associated with them have facilitated greater policy coherence in these policy areas and focused political attention on the need to meet commitments. They have also channelled national and international resources to jointly agreed high priority investments.

#### (iv) Greater capacity to manage the entire policy cycle

In general, the SEE 2020 economies and regional initiatives they have created, including those that comprise the different pillars of SEE 2020, face substantial challenges in managing the entire policy cycle as outlined in Figure 3. Common challenges across several policy dimensions include:

- Lack of a systematic approach in medium-term policy planning;
- Limited coherence between budgeting and policy development;
- Small size of ministries and other relevant organisations compared to their function;
- Lack of analytical and legal capacity and coordination mechanisms at individual ministry level, government level and regional level;
- Where coordination networks exist, they often lack technical, managerial and administrative resources;
- Reliance on external technical assistance to develop and manage key elements of the policy cycle, often on an ad hoc basis, and limited development of internal/local capacity.



#### (v) Financial resources

SEE 2020 is being implemented in the context of severe constraints on the necessary resources – particularly financial resources. National budgets in the region are under huge strain as the economies struggle to shake off the effects of the global economic crisis. External resources from the EU and other bilateral sources are also coming under pressure as the extent of the refugee and migration crisis that is affecting both the Western Balkans and the EU becomes clearer. In several cases available funds earmarked for SEE 2020 related actions have been relocated to finance urgently needed activities on migration issues. The scale of future funds that will be made available is unclear as the EC and the EU Member States review the aims and focus of their development assistance budgets. Therefore, it is difficult to plan actions in the medium term.

SEE 2020 was devised on the assumption that both the SEE 2020 economies and external stakeholders would have the capacity to finance a specific range of policy initiatives at national and regional level. Three years on, the reality is that budgets are even more restricted than in 2013. The SEE 2020 stakeholders will have to make some critical decisions on the level of funding available and how this will be allocated across policy dimensions. The impact of these decisions will be wide-ranging and will determine if some targets, measures and actions have to be revised and/or postponed.

## I.6 Recommendations to address current challenges

### Facilitating consequential commitments and monitoring progress

The Western Balkan 6 Initiative in conjunction with the Berlin Process provide powerful mechanisms for the SEE 2020 economies and key external stakeholders to identify and agree on priority reforms and investments and, importantly, to channel the necessary political and financial support to implement these. The sheer scale of the challenge facing the region and the limited resources – both in terms of administrative capacity and financial means – indicates that these high level processes should focus on a very short list of top priorities, e.g. connectivity, mobility and investment policies and monitor progress made in meeting commitments.

### Ensuring policy coherence and coordination

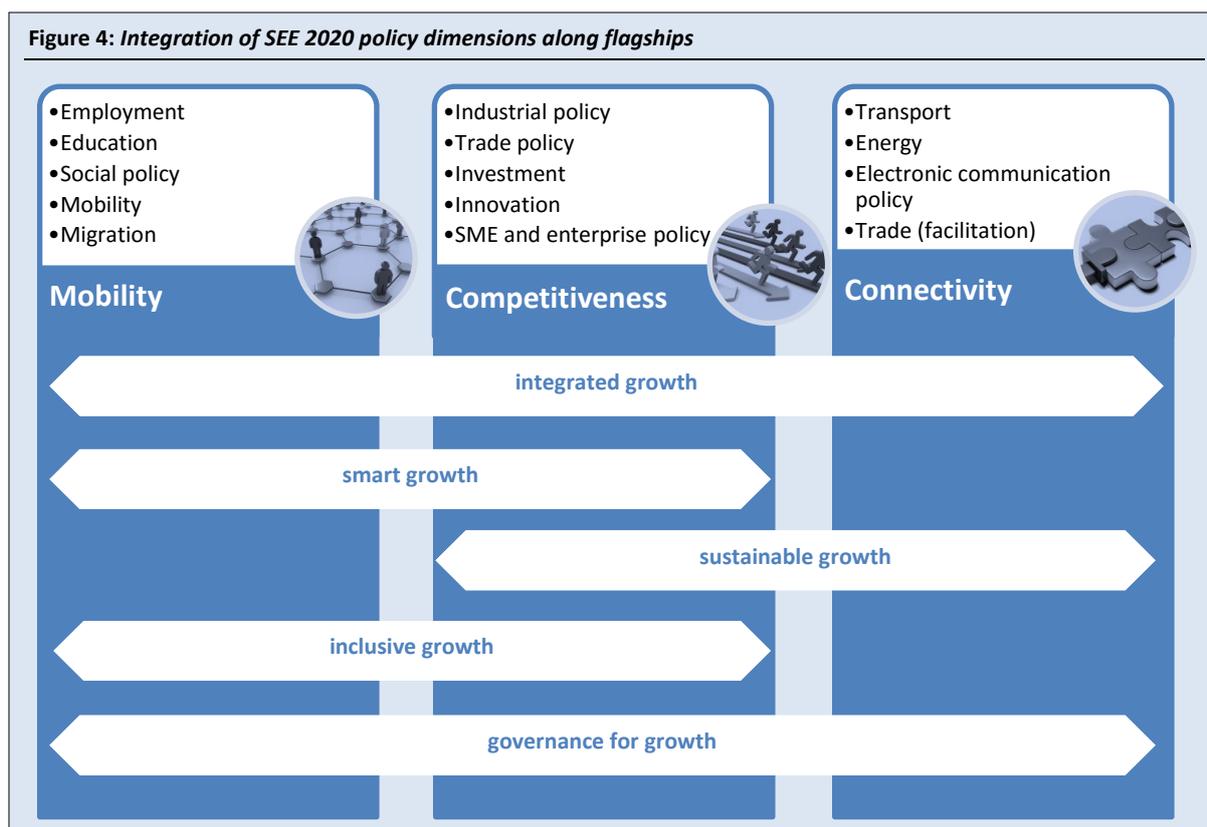
Two complementary processes can assist SEE 2020 government and regional initiatives to improve policy coherence and greater coordination both within individual policy dimensions and across related dimensions. The first process, the preparation of the annual Economic Reform Programmes by each SEE 2020 government, has been a critical component of the EU's Enlargement Strategy since 2014. The second process is the RCC's proposal to use thematically organised objectives, e.g. mobility, competitiveness and connectivity to develop the necessary cooperation and communication across stakeholders through flagship initiatives.

The EU's requirement for annual **Economic Reform Programme** submissions from the SEE 2020 economies provides a good framework to develop greater policy coherence and coordination primarily at national level. The latest Guidelines for the ERP call for a more focused prioritised and coordinated approach to identify the main economic reforms to be implemented. Governments have been asked to demonstrate greater coherence and consistency in their annual submissions; to provide a more detailed analysis of the prioritised policy proposals and reform plans; and to include comprehensive information on the costs of and sources of finance for different reforms. The Guidelines also explicitly request that the different policy proposals are linked to the economy's commitments under SEE 2020, thus facilitating greater coherence between national and regional actions.

At the regional level, the use of thematically organised objectives or **flagship initiatives** under SEE 2020 should also reduce policy fragmentation and inconsistency. As set out in Figure 4 below, these flagships represent joint endeavours by several regional organisations, implementing partners and beneficiaries, executing mutually reinforcing activities towards the same goals.

The focus is on those fields where considerable progress can be made in the next three years. The flagship initiatives will enable and incentivise different regional structures and national institutions to design interventions in a coherent and consistent fashion and thereby achieve a broader impact across several growth pillars and policy areas.

**Figure 4: Integration of SEE 2020 policy dimensions along flagships**



Key actions under these flagships have already been identified and will be implemented through the existing structured programming, coordinating and monitoring processes with the governments of the region and in close cooperation with the respective Regional Dimension Coordinators and other stakeholders – particularly the private sector. From the conceptual stage through to their implementation and monitoring, these regional processes are run by the SEE 2020 Governing Board, the SEE 2020 Programming Committee, the SEE 2020 Monitoring Committee and the SEE 2020 Coordination Board, which includes the Regional Dimension Coordinators and the RCC Secretariat.

### Targeted resource identification and mobilisation

Given the limited financial resources available at national, regional and international level for SEE 2020 related actions, the role of the SEE 2020 Programming Committee assumes even greater importance. It can serve to better align the use of both national and external resources. This is particularly relevant in the case of funds under the EU's IPA as the European integration agenda has a substantial impact on the allocation of domestic and external financial and human resources across the different ministries and institutions. The presence of NIPAC officials on the Committee can help avoid duplication and ensure that regional funds complement national efforts. The analysis of ERP funding allocations carried out by the RCC for the SEE 2020 Monitoring Committee will contribute to this improved alignment as it will highlight complementary actions as well as gaps and inconsistencies.

The RCC's efforts to build a comprehensive database on externally financed assistance will also support better resource identification and its judicious mobilisation by both the SEE 2020 economies and the international community. Assuming that the RCC is able to access the relevant information, all SEE 2020 stakeholders will have access to more relevant and timely information on which to take decisions regarding what needs to be funded, what funding is available and how it can be accessed.

However, various efforts to streamline the implementation of SEE 2020, prioritise specific policy areas and improve coherence, coordination and efficiency will not be sufficient to fully overcome the funding gap that exists in terms of supporting agreed policy reforms: additional financial resources are required.

## I.7 In conclusion

The overall conclusions are that:

- SEE 2020 is a valid and valuable tool for the SEE governments to drive economic growth and complement their individual national efforts with regional actions.
- Strategic political processes now have SEE 2020 issues at their centre and this is generating reform momentum and delivering results.
- There has been mixed progress on attaining targets but progress is evident and implementation experience to date indicates that while some targets may need to be adapted or replaced, quantified targets provide a supportive framework within which to deliver on political commitments.
- The dynamic and challenging operational environment demands flexibility including a streamlined and well-coordinated approach to implementing actions under different pillars.
- SEE 2020 must deliver clear results for the SEE citizens if it is to maintain support.

### Validity of SEE 2020

The reasons for having a regional SEE 2020 Strategy are just as pressing in 2016 as they were when the Strategy was adopted. Over the past several years, the economic crisis has had a profound negative effect on the economies of SEE, with decreasing employment, investment and the overall fiscal space making it difficult for governments to design and implement more comprehensive policies to reverse the negative trend. Although the region has experienced a slowdown and a partial reversal of this negative trend in the past two years, the economies remain fragile.

### SEE 2020 now a key element in strategic political processes

The potential of the SEE 2020 Strategy to advance socio-economic development in the region and further its EU accession objectives has been amplified by the fact that SEE 2020 is seen as a crucial element in several major strategic processes ongoing in the region. These include:

The **Berlin Process** which brings together heads of state from the Western Balkans with heads of state from interested EU Member States, senior members of the European Commission and the External Action Services to advance the region's development and its EU accession agenda. It focuses on priority policy areas including energy, transport and trade.

The EU's **Enlargement strategy** which has reinforced its shift away from a focus on harmonisation with the EU acquis towards a focus on economic governance, rule of law and public administration to secure economic viability and long-term socio-economic growth. The 2015 Strategy highlights the importance of policy dimensions covered by SEE 2020 and notes the relevance of the Strategy itself to the region's EU aspirations. Even at an operational level, when preparing different measures

included in the Economic Reform Programmes, the economies are invited to indicate the SEE 2020 targets affected by the given measure (see Table 2 below).

**Table 2: ERP 2016 measures allocated by SEE 2020 Dimensions and Pillars**

Pillar/dimension	Montenegro	The Former Yugoslav Republic of Macedonia	Albania	Kosovo*	Serbia	SEE Total	SEE Total
	(in EUR)	(in EUR)	(in EUR)	(in EUR)	(in EUR)	(in EUR)	% of total
<b>Integrated growth</b>	<b>620,000</b>	<b>4,600,000</b>	<b>1,687,000</b>	<b>15,683,333</b>	<b>2,522,000</b>	<b>25,112,333</b>	<b>0.34%</b>
A: Free Trade Area	0	3,600,000	549,000	15,683,333	0	19,832,333	0.27%
C: Integration into Global Economy	620,000	1,000,000	1,138,000		2,522,000	5,280,000	0.07%
<b>Smart Growth</b>	<b>7,969,609</b>	<b>209,200,000</b>	<b>3,361,079</b>	<b>45,658,202</b>	<b>165,208,780</b>	<b>431,397,670</b>	<b>5.88%</b>
D: Education and Competences	6,094,609	193,400,000	2,847,523	6,538,202	30,548,780	239,429,114	3.26%
E: R&D and Innovation	1,875,000	15,800,000	6,000	2,120,000	129,960,000	149,761,000	2.04%
F: Digital Society	0	0	507,556	37,000,000	4,700,000	42,207,556	0.58%
<b>Sustainable Growth</b>	<b>1,941,456,500</b>	<b>573,500,000</b>	<b>119,142,000</b>	<b>1,109,971,030</b>	<b>2,204,757,068</b>	<b>5,948,826,598</b>	<b>81.07%</b>
H: Energy	927,000,000	71,500,000	106,600,000	659,185,000	862,000,000	2,626,285,000	35.79%
I: Transport	809,900,000	447,200,000	10,660,000	422,168,750	1,131,319,340	2,821,248,090	38.45%
J: Environment	27,307,000	49,300,000	962,000	500,000	0	78,069,000	1.06%
K: Competitiveness	177,249,500	5,500,000	920,000	28,117,280	211,437,728	423,224,508	5.77%
<b>Inclusive Growth</b>	<b>3,612,531</b>	<b>4,300,000</b>	<b>11,079,339</b>	<b>19,239,998</b>	<b>868,191,041</b>	<b>906,422,909</b>	<b>12.35%</b>
L: Employment	3,612,531	4,300,000	11,079,339	19,239,998	868,191,041	906,422,909	12.35%
<b>Governance for Growth</b>	<b>1,860,000</b>	<b>0</b>	<b>0</b>	<b>21,543,152</b>	<b>2,697,813</b>	<b>26,100,965</b>	<b>0.36%</b>
N: Effective public services	150,000	0	0	9,843,152	2,697,813	12,690,965	0.17%
O: Anti-corruption	1,710,000	0	0	0	0	1,710,000	0.02%
P: Justice		0	0	11,700,000	0	11,700,000	0.16%
<b>Total</b>	<b>1,955,518,640</b>	<b>791,600,000</b>	<b>135,269,418</b>	<b>1,212,095,715</b>	<b>3,243,376,702</b>	<b>7,337,860,475</b>	<b>100.0%</b>

Source: Economic Reform Programmes 2016, RCC calculations

### Mixed Progress on Attaining Targets

The analysis set out in this report shows that experience with the targets and pillars of the SEE 2020 has been mixed. The region is on course to meet or come close to its targets on trade balance, FDI, education, productivity and governance, but not on growth and convergence with the EU, trade expansion and employment, the key underlying tenets of the Strategy. However, having regional targets has helped focus on longer-term, underlying features which are crucial to the future of the SEE's society and economy. Having corresponding targets at national level has also helped highlight several uncomfortable trends – such as the growing gap between the best and least well performing economies.

### Flexible approach required

The SEE 2020 Strategy framework needs to be flexible to adapt to the changing circumstances. The challenges faced in its implementation, ranging from the complex political situation to the modest financial resources available, imply that the SEE 2020 framework needs to change with the region. The introduction of the flagship approach, focusing on skills and mobility, connectivity and competitiveness, is one of the ways in which the RCC and its partners are reacting to these changes, by targeting fewer areas where more profound interventions can be implemented.

## **SEE 2020 can now focus on demonstrating results**

The preparatory work involving setting up the different structures and processes necessary to implement, monitor and programme SEE 2020 activities is over and the focus is now on demonstrating results. The next year of implementation should provide a good indication whether the increased focus on fewer areas can have a meaningful impact over the next five years and improve the lives of our citizens.

# Part II Review of SEE 2020 Growth Pillars

## II.1 Integrated Growth

### Overview

The Integrated Growth pillar's main objective is to promote trade and investment, through greater regional integration based on policies that are non-discriminatory, transparent, predictable, and that enhance the flow of goods, investments, services and labour throughout the region. This pillar comprises three interlinked dimensions: A) Free Trade Area, where the emphasis is on trade facilitation and further trade liberalisation in services given the progress achieved on trade in goods; B) A 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 market integration and market access through a number of initiatives including completion of a single diagonal accumulation zone, implementing priority reforms to improve the business and promoting the region as an investment zone, thereby integrating regional supply chains into the global market. This work will move the region towards a more harmonised trade and investment space and better prepare the SEE 2020 economies for the pressures of the EU's single market.

**Regional market integration is a key underlying assumption to achieve more competitive economies that are attractive for inbound investment.** By removing internal barriers to trade, a free trade area gives businesses the opportunity to serve an integrated market from one or several production sites, and thereby reap the benefits of economies of scale. A more integrated regional market can further stimulate substantial investment activity, both within the region and into the region from other countries. Finally, it can also pave the way for improved economic cooperation with the rest of the world by enabling the creation of regional value chains and their inclusion in the global chains.

**The Integrated Growth pillar targets: (i) an increase in intra-regional trade in goods by more than 140%, and (ii) a surge of annual FDI inflows by at least 160% by 2020.** These targets feed into the overall trade-related key headline targets of boosting total SEE trade in goods and services from 94.4 billion EUR to 209.5 billion EUR and reducing the region's trade deficit from -15.7% (the average in 2008–2010) to -12.3% of GDP by the end of 2020. These are important building blocks of a vision founded on the integration and promotion of regional trade and investment to support economic growth and job creation in the region.

**Investment has increased, with some of the region's economies well on track to meet or exceed the 2020 target.** Analysis of statistical data shows an uptick in FDI inflows into the region, although these vary across the region. In some of the economies (i.e. Kosovo\*, Montenegro and Serbia) the FDI has doubled over

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

Economy	2010 (baseline)	2015	2020 (target)	Progress towards target
ALB	793	881.8	2,200	40%
BOS	174	473	500	95%
CRO+	326	1,586.2	1,500	106%
KOS*	366	324.4	800	41%
MNE	574	757	700	108%
SER	1,003	1,500	2,500	60%
MKD**	160	157.02	600	26%
<b>SEE</b>	<b>3,236</b>	<b>5,522</b>	<b>8,200</b>	<b>67%</b>

Source: South East Europe Development Scoreboard ([www.rcc.int/seeds](http://www.rcc.int/seeds))

†Data from 2014

the course of the past year, with Bosnia and Herzegovina almost reaching the 2020 target and Montenegro exceeding it in 2015 (see Table 3). Several economies are still falling short of the agreed targets, however, with the reversal of this trend most notable in The Former Yugoslav Republic of Macedonia. Political instability and the complex and unpredictable environment for doing business are viewed as major deterrents for investment, and the structure of FDI reveals a slight decrease in the share of investment in the manufacturing sector. An improved environment for doing business and better targeting of FDI policies could both put the region firmly on the path of reaching the 2020 target, and ensure that investment occurs in sectors with the strongest growth and export potential, thus further reducing external imbalances.

**However, intra-regional trade has been mostly stagnant, demonstrating persistently low levels of market integration** (Table 4). Both the structure of intra-regional trade (dominated by agricultural products) and its share in overall trade has remained largely unchanged compared to previous years.

**Table 4: SEE 2020 Target 4 – Intra-regional Trade in Goods (EUR million)**

Economy	2010 (baseline)	2011	2012	2013	2014	2015 (Jan-Nov)	2020 (target)	Progress towards target at 2014
ALB	425	508	533	492	526	597	1.150	14%
BOS	3.100	3.298	3.325	3.341	3.264	3.087	7.100	4%
CRO	2.474	2.810	2.986	2.843	3.025	2.839	6.200	15%
KOS*	657	687	737	645	687	861	2.000	2%
MNE	800	998	1.036	1.029	958	1.566	1.200	39%
SER	3.544	3.659	3.567	3.647	3.755	3.808	10.150	3%
MKD	1.243	1.560	1.598	1.640	1.715	1.763	2.700	32%
<b>SEE</b>	<b>12.243</b>	<b>13.521</b>	<b>13.782</b>	<b>13.637</b>	<b>13.928</b>	<b>14.521</b>	<b>30.500</b>	9%

*Source: National Statistics, IMF data*

**Intra-regional trade barriers, while considered a problem, do not appear to be a critical obstacle to trade.** According to the Balkan Barometer survey, regional exporters agree that it is easier to export to the SEE (defined as those economies that are part of CEFTA) than it is to the EU (with the exception of Croatia), not perceiving the technical and non-tariff barriers existing in intra-regional trade as a crucial hurdle, if compared with the EU trade (see Figure 5). Furthermore, almost all of the region's economies feature very high on the World Bank's ranking of trading across borders (Table 5), indicating that costs of trading and border and documentary compliance are comparable to that in most EU Member States.

**Table 5: Trading Across Borders, 2015 ranking**

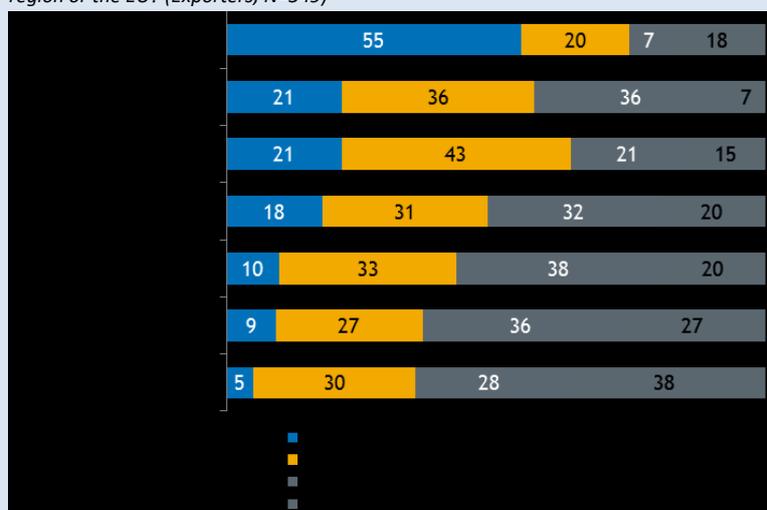
Economy	Rank (out of 189 economies)
ALB	37
BOS	28
CRO	1
KOS*	71
MNE	42
SER	23
MKD	26
<b>SEE avg</b>	<b>33</b>

Source: World Bank Doing Business Report

<http://www.doingbusiness.org/data/exploretopics/trading-across-borders>

**Figure 5: Ease of Trade – SEE vs. EU**

If your company is an exporter, can you tell us whether it is easier to export to the CEFTA region or the EU? (Exporters, N=549)



Source: Balkan Barometer 2016, Regional Cooperation Council

**The economic structure and lower level of regional demand continue to negatively affect regional trade and investment integration.** Possible reasons for the stagnating trade integration in the region can be found in the combination of a protracted low demand within the region and the economic structure where non-tradeable dominate in all of the region's markets. The low level of exports as a percentage of GDP, ranging from 28.2% in Albania to 47.9% in The Former Yugoslav Republic of Macedonia<sup>5</sup>, indicate that the large majority of economic activity happens in very small domestic markets. The companies surveyed in the 2016 Balkan Barometer report that 86% of their total revenues were generated on the domestic market, with 84% per cent of firms indicating that they either produce non-tradeable (36%), have no plans or interest to export (30%), or have no capacity to export (18%). The economic structure, combined with sluggish regional demand and consumption in the past several years have reinforced the focus of regional exporters towards the EU. The opportunities afforded by the Stabilisation and Association Agreements (SAA) have provided a strong impetus for the region's economies to divert trade flows to the EU, where demand has also been picking up over the past year. The exceptions are sectors struggling to compete in the EU markets due to costs or higher compliance standards, agribusiness being a good example with its large share of intra-regional trade.

**Strengthened business links are needed to stimulate intra-regional economic activity and generate increased trade.** Business links between the manufacturing companies in the region are still fledgling with little discernible formation of regional value chains, as evidenced also by the volume and type of intermediate goods being traded within the region. More targeted approaches to FDI which could integrate different regional suppliers would be welcome, as this would greatly improve the outlook for linking the more integrated region into European and global value chains.

<sup>5</sup> World Bank, World Development Indicators, 2014 (data on Kosovo\* not available)

**Foreign direct investment remains the most effective channel to integrate the region’s economies into European and global value chains.** The transformative effect of FDI is also evident in some of the economies in the region, where targeted investment in tradeable sectors is having a profound impact on exports, employment and the overall economic activity. The automotive sector is a particularly good example, as illustrated in Box 1.

**Box 1: Transformative effect of automotive FDI on exports in Serbia and The Former Yugoslav Republic of Macedonia**

The US\$2.7 billion investment in the Serbian automotive sector since 2010 has increased exports of motor vehicles from virtually zero in 2010 to US\$1.95 billion in 2013 and US\$1.78 billion in 2014 (see chart below), and has generated a vibrant supplier industry that has employed around 3,000 people in addition to those employed by FIAT Automobiles Serbia.

A similar development is evident in the case of The Former Yugoslav Republic of Macedonia’s automotive sector. Johnson Matthey invested €80 million to build an emission-control catalyst manufacturing plant in Skopje TIDZ in 2010. In 2012 the company further invested €60 million to expand their production capacity. This plant currently supplies auto catalysts to various brands, mostly located in Germany. Similar to the FIAT case, the growth of the economy’s exports in the specific product that this plant manufactures is easily traced: following Johnson Matthey’s investment, the economy’s exports of automobile reaction initiators and catalysts catapulted from US\$22million in 2010 to US\$860 million in 2014 (see chart below). As a result, The Former Yugoslav Republic of Macedonia is the only Western Balkan economy with a positive trade balance with Germany.

Year	Exports (Billions USD)
2005	0.0
2006	0.0
2007	0.0
2008	0.0
2009	0.0
2010	0.0
2011	0.0
2012	0.2
2013	2.0
2014	1.8

Year	Exports (Billions USD)
2008	0.0
2009	0.0
2010	0.2
2011	0.55
2012	0.5
2013	0.6
2014	0.85

*Source: National Statistics, UN Comtrade*

**The Economic Reform Programmes reflect a common understanding that the business environment needs a substantial upgrade.** Acting on the ECOFIN Council recommendations<sup>6</sup> for improving business environment, each of the region’s economies has prioritised various business-enabling environment measures that could have a positive impact on and contribute to achieving the SEE 2020 trade and investment targets. All of the economies put forward various measures directed at reducing the regulatory burden, decreasing the cost of doing business and streamlining licencing procedures, while some took an even broader view planning measures to address the institutional shortcomings of the business environment.

<sup>6</sup> Joint Statement, ECOFIN Council of May 2015

**Trade and investment related measures feature in the ERPs, but the interventions proposed could benefit from a broader view on regional and European trade and investment integration.** While all governments are taking an active part in intra-regional trade integration through CEFTA structures, some have made those activities explicit in their ERPs. Albania and Bosnia and Herzegovina have prioritised measures directly aimed at trade facilitation and/or liberalisation of trade in services, as well as measures to increase transparency in trade. Kosovo\*, Montenegro and Serbia have focused their attention in their ERPs solely on developing the quality of infrastructure as a way of expanding market access, while The Former Yugoslav Republic of Macedonia has prioritised in its ERP the measures on trade facilitation and liberalisation, customs interconnectivity and rules of origin/diagonal cumulation (see Table 6).

**Table 6: Overview of ERP measures corresponding to the SEE 2020 Dimensions of Integrated Growth**

SEE 2020 Dimensions of Integrated Growth	ALB	BOS	KOS*	MNE	SER	MKD
A. Free trade area (trade facilitation and liberalisation; movement of professionals)						
B. Competitive economic environment (competition policy, IPR and public procurement)						
C. Integration into the global economy (market access and investment integration)						

Source: Economic Reform Programmes, 2016

## Implementation of SEE 2020 activities during the reporting period

Notable progress has been made in most areas of the Integrated Growth pillar. In the dimension of Free Trade Area, five rounds of negotiations on Additional Protocol on Trade in Services were conducted with 13 service sub-sectors covered; the Joint RCC-CEFTA-ERISEE Working Group on Mutual Recognition of Professional Qualifications was established and two priority sectors and four professions were identified to start the process of liberalisation of free movement of experts, professionals and skilled labour. Within the Competitive Economic Environment dimension, the agreement to monitor provisions on competition, state aid and public procurement was put in place with implementation expected during the next reporting period. The Integration into the Global Economy dimension has seen progress with a detailed mandate for a review of the investment policy, addressing national and regional issues across all SEE 2020 economies. A full overview of developments in the Integrated Growth pillar of the SEE 2020 Strategy is presented in the table below.

**Table 7: Implementation of Integrated Growth actions during 2015/2016**

Measures/Action	Achievements 2015/2016	Expected Results 2016/2017
<b>Dimension A: Free Trade Area</b>		
Addressing and eliminating non-tariff measures	<ul style="list-style-type: none"> <li>Establishment of appropriate structures under CEFTA to recommend and monitor elimination of non-tariff measures</li> <li>Identification of most trade distortive non-tariff measures in two selected</li> </ul>	<ul style="list-style-type: none"> <li>Process of developing recommendations for NTMs for elimination and subsequent monitoring of progress underway</li> <li>Specific recommendations for elimination of main NTMs in</li> </ul>

Measures/Action	Achievements 2015/2016	Expected Results 2016/2017
	product sectors (beverages and automotive parts) and validation by private and public sector	beverages and automotive components sectors under implementation
Facilitation of trade	<ul style="list-style-type: none"> <li>• Negotiations on Additional Protocol 5 on Trade Facilitation continued and priority actions identified</li> <li>• Agreement on consolidation and enhancement of CEFTA Management Information System to improve availability of trade-related information for public and private sector</li> <li>• Improvement of specific border procedures and processes via CEFTA-related TA projects</li> </ul>	<ul style="list-style-type: none"> <li>• Negotiations on Additional Protocol on Trade Facilitation to be concluded in mid-2016 (in line with commitments under the Berlin Process) and agreement to enter into force by end 2016</li> <li>• Enhanced and expanded trade-related information available to public and private sector</li> <li>• Further savings for private and public sector through better risk management and improved procedures at border crossings</li> </ul>
Liberalisation of trade in services	<ul style="list-style-type: none"> <li>• Five further rounds of negotiations on Additional Protocol on Trade in Services completed – 13 service sub-sectors now covered</li> <li>• Overall text of Additional Protocol and relevant annexes finalised</li> <li>• Establishment of Working Group on Trade in Services Statistics, FATS and FDI Statistics</li> </ul>	<ul style="list-style-type: none"> <li>• Conclusion of Additional Protocol on Trade in Services and agreement to enter into force in 2017</li> <li>• Instigation of a sustainable and reliable reporting system on trade in services and FDI flows to support policy-makers</li> </ul>
Liberalisation of free movement of experts, professionals and skilled labour	<ul style="list-style-type: none"> <li>• Preparation of detailed mandate and formal establishment of Joint RCC-CEFTA-ERISEE Working Group on Mutual Recognition of Professional Qualifications to progress free movement of professionals in key sectors</li> <li>• Identification of the most relevant sectors and professions for development of agreements on mutual recognition of professional qualifications</li> <li>• Agreement reached on two sectors (health and construction) and four professions (medical doctors, dentists, civil engineers, architects) for prioritisation for Mutual Recognition Agreements</li> </ul>	<ul style="list-style-type: none"> <li>• Assessment of current legislative and institutional framework for recognition of professional qualifications</li> <li>• Formal start of negotiations on mutual recognition agreements</li> </ul>
<b>Dimension B: Competitive Economic Environment</b>		
Implementation of provisions on	• Agreement on a process to monitor	• Initial reports on implementation of

Measures/Action	Achievements 2015/2016	Expected Results 2016/2017
competition, state aid and public procurement	implementation of relevant provisions	provisions available by end 2016
<b>Dimension C: Integration into the Global Economy</b>		
Facilitation of free flow of investment	<ul style="list-style-type: none"> <li>• Development of detailed mandate for Investment Policy Review addressing national and regional issues across all SEE 2020 economies</li> </ul>	<ul style="list-style-type: none"> <li>• Detailed analysis of investment policies in the SEE region, benchmarking among SEE peers and recommendations for investment policy improvement and reform on an individual economy level but also through synergies of regional cooperation mechanisms to be developed in cooperation with UNCTAD</li> <li>• Assessment of possible legal basis for a regional investment instrument.</li> <li>• Launch of an investment policy review project with the World Bank to provide SEE 2020 economies, investment partners and wider business audiences with relevant information on current and projected regional investment trends and promoting the region as an attractive destination for foreign direct investment</li> </ul>
Integration of regional supply chains into the global market (for selected priority sectors, currently food and beverage processing and tourism).	<ul style="list-style-type: none"> <li>• Produced assessment of major obstacles to regional sector development with a focus on skills gaps and mismatches in food and beverage processing, and developed recommendations for regional and national activities in collaboration with the OECD (SEEIC Food and Beverage Processing Expert Group)</li> <li>• Developed policy handbook on fostering tourism competitiveness in SEE with an overview of policy options at the regional and national level in collaboration with the OECD (SEEIC Tourism Expert Group)</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of recommendations through the two Expert Groups (tourism and food and beverage processing)</li> <li>• Development of joint tourism promotion tools focusing on specific sub-sectors, such as cultural, adventure and gastro tourism directed at overseas markets</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>• Ministerial decision November 2015 to apply full cumulation and duty drawback among CEFTA parties</li> <li>• Initial implementation of diagonal cumulation among SEE 2020 economies and selected PEM partners</li> </ul>	<ul style="list-style-type: none"> <li>• Improved access of the SEE 2020 economies to the markets of leading trading partners, i.e. the EU, EFTA, Turkey and others</li> </ul>

## Key findings and recommendations

Further facilitating trade in the region and with the EU, and liberalising services trade will yield benefits in the medium term, but this work should be coupled with more intensive focus on investment-related reforms where SEE economies can create an even bigger impact in rebalancing the economies and putting them on a more sustainable growth path. Better targeting of FDI policies and incentives towards the productive, tradeable sectors coupled with a common approach to investment entry and protections (see Box 2) can make the region more attractive to international investors – by presenting SEE as a common investment space – and direct the investors’ attention towards industries that hold the most development potential in terms of employment, exports and SME-to-FDI linkages, tying the local economy to the FDI.

### Box 2: Investment reform agenda

Pursuant to the decision made by its Ministers of Economy in December 2015, the region will, through the SEE Investment Committee, facilitate a regional dialogue on the establishment of a joint investment reform agenda. The SEEIC Joint Working Group on Investment comprised of regional government representatives in charge of investment policies and promotion, in cooperation with CEFTA, will commence implementation of the regional programme on policy reform in three broad areas important for the investment environment: investor entry, investor protection and investment incentives.

More specifically, detailed policies under these three broad areas will be prioritised (i.e. tax policies, fiscal and financial incentives, intellectual property rights, property ownership, etc.) and be subject to reform proposals in the next three-year period, while taking due account of the ongoing individual economy reform priorities stipulated under the Economic Reform Programmes. Furthermore, a sectoral approach will be undertaken to focus investment-related policy reforms on SEE priority sectors deemed to hold the most potential for FDI and intra-regional investment (i.e. food and beverages industry, infrastructure investment, etc.). These regional efforts are anticipated to result not only in the horizontal and sectoral reforms in specific investment-related policies in each of the SEE economies individually, but could constitute the building blocks of future deliberations on the prospective regional investment instrument and/or additional protocols to existing agreements (CEFTA 2006). This work would aim for greater regional economic consolidation, particularly in the areas of trade and investment, moving the region closer to a single investment space in preparation for EU accession. This programme will be supported by the World Bank Group’s technical assistance funded through the European Commission’s regional IPA 2016 programme.

The significant momentum made by the implementation of the CEFTA Agreement and the removal of tariffs on trade in goods should be maintained with further efforts to facilitate and liberalise regional trade; the successful conclusion of negotiations on additional protocols on trade facilitation and trade in services expected during 2016 should provide an additional boost to regional trade integration in the medium-term.

Combining more targeted investment-related efforts with broader reforms of business environment remains crucial, and the current set of reform measures put forward in the ERPs provide some good examples of this approach.

Key recommendations for the Integrated Growth dimensions during the 2016–17 period include:

- **A. Free Trade Area:** (i) Facilitate intra-regional trade through the conclusion of the Additional Protocol on Trade Facilitation under the CEFTA framework during 2016. (ii) Conclude negotiations on the Additional Protocol on Trade in Services during 2016, with implementation

beginning in the course of 2017. (iii) Initiate negotiations on the mutual recognition of professional qualifications for the four priority professions in two sectors in early 2017.

- **B. Competitive Economic Environment:** Implement a monitoring system to track the implementation of provisions on competition, state aid and public procurement.
- **C. Integration into the Global Economy:** (i) commence a regional investment policy review (see Box 1) during 2016, with a view of policy coordination and joint investment promotion in select sectors. (ii) Identify one additional sector during 2016/17 for prioritisation of SEE 2020 actions. (iii) Scale up certain business-enabling environment interventions to a regional level, including those relating to the competitiveness-proofing of legislation, e-services, electronic licensing and permits and one-stop-shops on mobility.

## II.2 Smart Growth

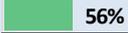
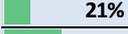
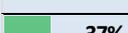
### Overview

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

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

**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.** These targets attempt to capture the dynamic of the transformation of Western Balkan economies towards more value-added products and services, underpinned by an enhanced educational profile of its citizens.

**Table 8: GDP per person employed in EUR**

Economy	2010 (baseline)	2011	2012	2013	2014	2020 (target)	Progress towards target at 2014
ALB	17,839	18,280	18,573	20,938	21,771	24,000	 64%
BOS	29,183	33,409	33,934	34,027	35,340	40,200	 56%
CRO	40,990	44,464	43,617	44,946	43,280	52,000	 21%
KOS*†	33,642	39,778	38,767	36,040	39,165	45,417	 47%
MNE	30,321	34,025	32,271	33,181	31,091	37,000	 12%
SER	25,864	30,514	31,353	30,390	28,280	34,000	 30%
MKD**	28,029	28,085	28,810	28,878	29,963	35,000	 28%
<b>SEE†</b>	<b>29,770</b>	<b>32,079</b>	<b>32,441</b>	<b>32,845</b>	<b>32,210</b>	<b>36,300</b>	 37%

Source: National Statistics, LFS

**SEE has made good progress on Target 7 – GDP per person employed – and the target seems broadly achievable by 2020.** However, caution should be applied when interpreting the results, due to the composition of the indicator – any decrease in employment positively influences the target, which was the case during the 2010–13 period when employment was contracting throughout most of the region. With the rebound of employment in 2014, the performance on this target exhibited a marked slowdown.

**Table 9: Number of highly educated persons in the workforce**

Economy	2010 (baseline)	2011	2012	2013	2014	2020 (target)	Progress towards target
ALB	158,000	163,972	171,819	202,991	217,407	260,000	58%
BOS	154,000	168,000	164,000	185,000	191,000	255,000	37%
CRO†	451,800	439,800	448,200	481,000	522,700	605,000	46%
KOS*	n.a.	n.a.	92,000	n.a.	n.a.	n.a.	n.a.
MNE	43,000	47,200	50,500	57,800	59,500	68,000	66%
SER	381,873	389,504	411,207	431,245	533,453	655,000	55%
MKD**	145,369	168,729	178,596	172,099	165,622	204,000	35%
<b>SEE</b>	<b>1,334,042</b>	<b>1,377,205</b>	<b>1,516,322</b>	<b>1,530,135</b>	<b>1,689,682</b>	<b>2,047,000</b>	83%

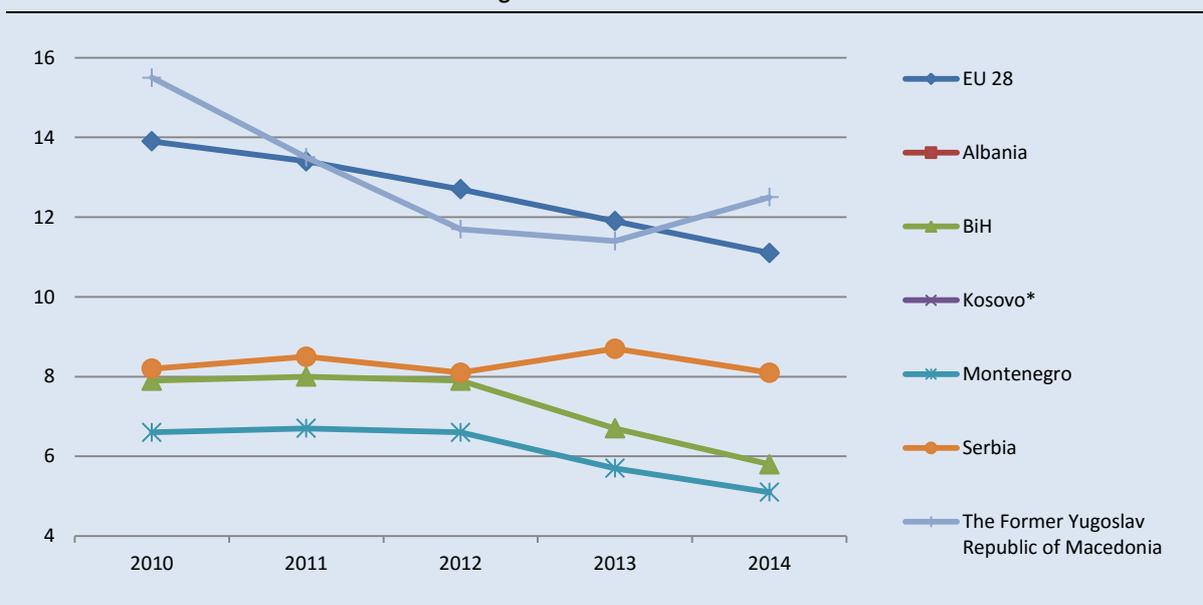
Source: National Statistics, LFS

**Over 350,000 highly qualified people have already been added to the workforce in SEE.** SEE has already met and exceeded the set regional target of adding 300,000 highly qualified people by 2020. All of the economies have seen a steady increase in the number of highly qualified people in the workforce and the number continues to grow. 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 five years. All of the economies are on their way to reach, and in some cases are expected to exceed, the targets they have set for themselves by 2020. However, high outward migration rates threaten to diminish the skills base of the region.

**Low rates of early leavers from education and training is a key strength of most Western Balkans education systems.** With the exception of The Former Yugoslav Republic of Macedonia, Albania and Kosovo\*, the rates of early leavers from education and training are significantly lower in the economies of the WB compared to the EU, as reported by governments (see Figure 6). The Former Yugoslav Republic of Macedonia has significantly decreased the percentage of early leavers from education and training between 2010 and 2014, albeit with a slight increase in 2014. Other economies demonstrate stable rates of early school leavers with a slight downward trend taking effect from 2012 onwards. The low rates of early leavers from education and training coupled with high secondary education attainment and continuing trend of high enrolment rates to secondary education<sup>7</sup> create a sound and long-term base to continue widening the highly skilled workforce in the Western Balkans.

<sup>7</sup> Further education statistics available at <http://www.rcc.int/seeds>

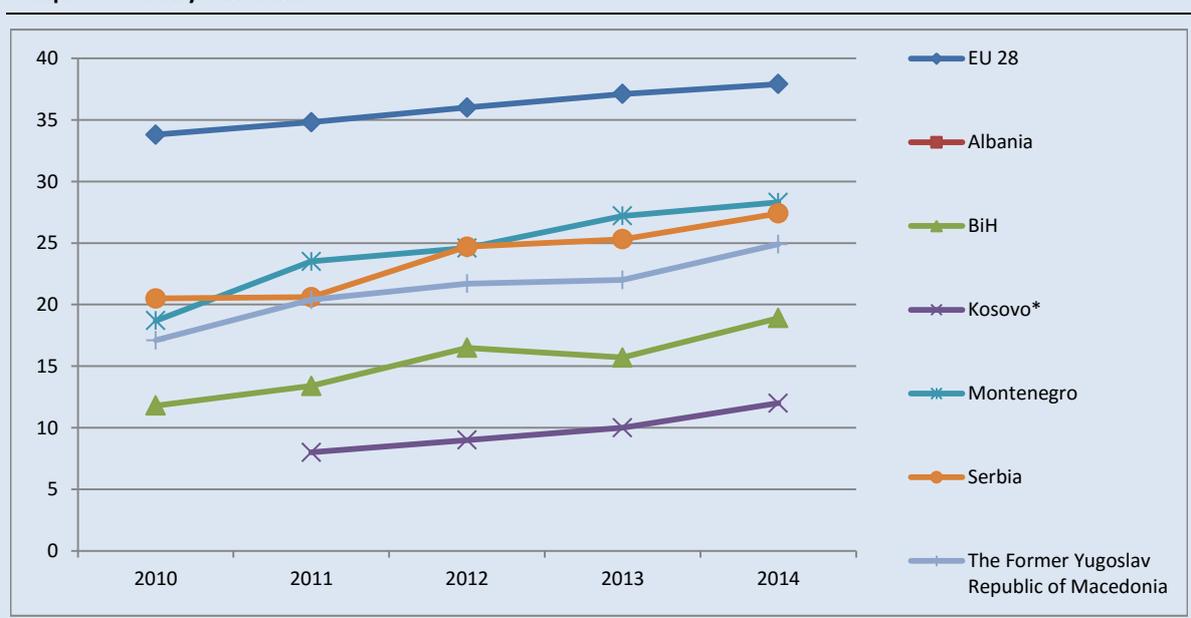
**Figure 6: Early leavers from education and training – % of population age 18–24 with at most lower secondary education and not in further education or training**



Source: National Statistics

However, despite widening the access to higher education, Western Balkans still lags behind the EU in tertiary education attainment of the 30–34 age group. All of the economies have continuously and rapidly expanded access to tertiary education, however tertiary education attainment of the 30–34 age group is still well below the EU average. High enrolment rates to higher education institutions in the Western Balkans and a low rate of tertiary education attainment compared to the EU for the same age group suggest high drop-out rates from higher education.

**Figure 7: Tertiary education attainment, 30–34 age group – % of population aged 30–34 who have successfully completed tertiary education**



Source: National Statistics

Businesses report varying levels of satisfaction with skills taught in their respective education systems. At the regional level, more than half of businesses (53%) are satisfied with the education

system with regard to meeting the needs of their enterprise<sup>8</sup>. In contrast, 31% consider the present education system as unsatisfactory. However, companies that export their products or services, mature companies (established before 2004) and those in the manufacturing sectors are significantly less satisfied with the knowledge and skills acquired in their respective education systems. Both employees and employers in the WB report a high readiness to invest in developing additional skills, with almost half of the regional businesses (46%) claiming to have organised additional training for their employees in the past year. Developing knowledge and skills is far more important to the larger, internationally active firms and more mature companies – as much as 90% of employers who hire more than 250 workers have provided extra training for their staff. The vast majority of employed persons (81%) in the SEE region are ready to pursue additional training in order to advance at work. Those with higher education are most open to continue acquiring new skills through training (89%).

**Low investment in research and development continues, both on the private and public side.**

Investment in R&D across the Western Balkans trails far behind that in the EU, with public investment in R&D well below one per cent of GDP, and far less than the Europe 2020 target of 3 per cent (see Table 10).

**Table 10: GERD by government, % of GDP**

SEE Economy	2010	2011	2012	2013	2014
Albania	0.54	0.30	1.30	1.10	0.43
Bosnia and Herzegovina	n.a.	n.a.	0.40	0.20	0.50
Kosovo*	n.a.	n.a.	n.a.	n.a.	0.10
Montenegro	n.a.	0.15	gap	0.12	0.17
Serbia	0.27	0.24	0.26	0.24	0.19
The Former Yugoslav Republic of Macedonia	0.09	0.05	0.07	0.08	0.08

*Source: National Statistics, LFS*

**In addition, the impact of research produced in the Western Balkans is low.** All of the economies rank low across all indicators in the international databases on research impact<sup>9</sup>, including the number of citable documents produced and the low citation rates in internationally referenced journals of conducted research.

**About half of all businesses in SEE reported innovation in the production or delivery of goods and services in the past year** but the links between the private sector and research institutions remains weak. Bearing in mind the dominant share of small and medium enterprises in the region, it is not surprising that approximately only every sixth SEE company (16%) has established cooperation with a university over the past three years in order to help develop new products or services. The percentage of those that collaborate with scientific institutions is significantly higher in Bosnia and Herzegovina (27%) than in the other economies. The data confirms that cooperation with universities is proportional to company size, i.e. the largest firms cooperate with universities more often than average. A similar conclusion is valid for export-oriented firms and mature companies (established before 2004).

<sup>8</sup> Balkan Barometer 2016

<sup>9</sup> SCimago Journal and Country Rank

**Progress has been made in terms of an information society strategic, institutional and regulatory framework.** Yet even though alignment levels with the 2009 regulatory framework for electronic communications have been improved, the full alignment remains to be achieved by all economies, along with demonstrating a solid implementation track record. Some of the key challenges for the SEE 2020 region, particularly highlighted in the EU Progress Reports, concern the switchover from analogue to digital broadcasting (in the economies in which this has not yet taken place); the need to ensure appropriate capacity, resources and independence of telecoms and media regulators and public broadcasters; and the need to enhance the administrative capacities of line ministries to ensure proper implementation of e-commerce and e-signature laws and to address barriers to e-commerce.

**The prevalence of new information and communication technologies in all activities means that all economies, regardless of the level of development, have to create capabilities to use these technologies.** All Western Balkans economies have made progress regarding the ITU's ICT development index, but the fact that they still populate the lowest part of the ranking table for Europe confirms the wide digital divide and the urgent need for more resolute actions, reforms and investments in the ICT sphere. Particular gaps are observed regarding the penetration for fixed broadband. The statistical data gathered from the statistical offices of the SEE region likewise confirm low e-commerce usage<sup>10</sup>.

**The Economic and Reform Programmes 2016–2018 show a growing prioritisation of ICT structural reforms and an acknowledgment of significant growth potential of the ICT sector.** In this respect, an increasing number of ERPs prominently prioritise broadband development, in particular the ERPs of Albania (focus on legislative alignment with the Cost Reduction Directive and a coordinated spectrum policy), Kosovo\* (focus on the deployment of a high speed broadband infrastructure/expanding ICT infrastructure through the existing dark fibre infrastructure of the energy company currently not in use, ICT skills development and support to digital businesses) and Serbia (focus on legislative alignment with the Cost Reduction Directive, consolidation of the broadband network owned by the public sector, connection of public institutions to the national network, development of programmes to stimulate and support investments in a broadband communications infrastructure with access networks in settlements, particularly in less populated areas).

**Box 3: Regional agreement on reducing prices of mobile roaming services**

The Western Balkans has had some of the most prohibitive mobile roaming charges in Europe, with roaming costs 5–7 times higher compared to the EU. To counter this, the region's digital communications regulators came together to devise possible joint actions and in the process developed a Regional Agreement on reducing the prices of mobile roaming services.

The Agreement, signed by The Former Yugoslav Republic of Macedonia, Bosnia and Herzegovina, Montenegro and Serbia, came into force in July 2015. The Agreement envisioned a phased reduction of mobile roaming charges to be implemented over the 2016/17 period. The initial results have been overwhelmingly positive and the RCC is currently working with the regulators to develop a market impact analysis and to look into strengthening the legal base and potentially extending the geographic scope of the Agreement. The Regional Roaming Agreement has already served as a best-practice example, on the basis of which the Eastern Neighbourhood countries are currently preparing and negotiating an agreement on the reduction of roaming costs in their respective regions.

<sup>10</sup> <http://www.rcc.int/seeds>

## Implementation of SEE 2020 activities during the reporting period

The four dimensions of Smart Growth pillar demonstrated varied progress during the past year. In the Education and Skills dimension most progress was made on the recognition of qualifications. Western Balkan economies have agreed to prioritise health and construction as sectors of mutual interest in which to explore possibilities for mutual recognition agreements. Discussions on developing a system for the automatic/fast track recognition of academic qualifications in the region have begun. SEECEL has contributed significantly to building entrepreneurial competences by developing entrepreneurial learning outcomes for ISCED 1 and 3, resulting in 852 entrepreneurial learning lesson plans being implemented in schools and teacher-training modules on teaching entrepreneurial competences being developed for teachers in the region.

Likewise, significant progress has been made with regard to the Digital Society agenda. A regional agreement on reducing the prices of mobile roaming services (RRA) came into force in 2015 with groundwork prepared to explore the potential widening of its geographical scope. Furthermore, preparations for legislative alignment with the Broadband Cost Reduction Directive are underway which should enable a more investment-friendly environment and new business models in infrastructure-sharing. Actions supporting the integration of broadband connectivity as part of the regional connectivity agenda have also commenced.

Little progress has been made in Research and Development and Innovation as the establishment of regional mechanism for cooperation in this field has been further delayed to the end of 2016. With regard to Culture and Creative Sectors, 2015 marked a shift towards approaching cultural heritage as a strategic economic resource and a driver of sustainable development, in particular through the development of an enhanced regional tourism offer built on the common cultural heritage of the region.

**Table 11: Implementation of Smart Growth actions during 2015/2016**

Measures/Actions	Achievements 2015/2016	Expected Results 2016/2017
<i>Dimension D: Education and Competences</i>		
Strengthen institutional capacity of ERI SEE	<ul style="list-style-type: none"> <li>• Director of ERI SEE Secretariat appointed by ERI SEE Governing Board; premises for Secretariat provided by the Government of Serbia; handover from interim Secretariat underway</li> <li>• Analysis of capacities and needs with respect to data collection in the field of education and competence, based on which training was provided to the ministries of education by the Centre for Education Policy acting as the interim Secretariat of ERI SEE</li> </ul>	<ul style="list-style-type: none"> <li>• ERI SEE Secretariat fully operational and supporting implementation of Dimension D of the SEE 2020 Strategy</li> <li>• Improved quality of education-related data and analysis</li> </ul>
Introduce policies to improve access to and quality of education	<ul style="list-style-type: none"> <li>• No activities related to the specific measures were developed at the regional level during the reporting period<sup>11</sup>, however numerous policies,</li> </ul>	

<sup>11</sup> During the previous reporting period the RCC did not develop the two regional programmes for which no funding or partnerships were secured. On the other hand, the work on flagships was commenced which streamlined the area of education and competences to focus its work on the standardisation and recognition of qualifications, both professional and academic.

Measures/Actions	Achievements 2015/2016	Expected Results 2016/2017
<p>Identify and agree on programmes of specific measures to be undertaken at regional level to:</p> <ul style="list-style-type: none"> <li>(i) improve access to education</li> <li>(ii) increase quality of education through teacher training</li> <li>(iii) prevent drop-out from education system</li> </ul>	<p>measures and instruments were developed and implemented at the national level</p>	
<p>Identify measures to assist SEE economies in removing obstacles to recognition of qualifications</p>	<ul style="list-style-type: none"> <li>• Preparation of detailed mandate and formal establishment of Joint RCC-CEFTA-ERISEE Working Group on Mutual Recognition of Professional Qualifications to progress free movement of professionals in key sectors</li> <li>• Preparations for developing fast track or automatic recognition of academic qualifications in the region based on the commitments made by Ministers of Higher Education within the framework of Bologna Process have started</li> </ul>	<ul style="list-style-type: none"> <li>• Identification of the most relevant sectors and professions for development of agreements on mutual recognition of professional qualifications</li> <li>• Assessment of current legislative and institutional framework for recognition of professional qualifications in preparation for liberalisation of trade in services</li> <li>• Establishment of an international expert working group on automatic / fast track recognition of academic qualifications in the region completed</li> </ul>
<p>Ensure education better meets economic and labour market needs</p>	<ul style="list-style-type: none"> <li>• ERI SEE Interim Secretariat provided support to regional cooperation in Vocational Education and Training (VET) and identification of regional priorities</li> <li>• Promotion of cooperation between the Cluster of Knowledge (CoK) on VET and the SEE VET network to benefit from synergies and avoid duplication</li> </ul>	
<p>Ensure development of entrepreneurship competence at all stages of education</p>	<ul style="list-style-type: none"> <li>• SEECEL Regional Working Groups agreed on strategic outcomes for specific levels of education (ISCED 1 and 3) resulting in 852 entrepreneurial learning lesson plans implemented in the schools in the region</li> <li>• Mentoring scheme for diffusion of entrepreneurial learning and peer learning visits between SEECEL entrepreneurial schools introduced</li> <li>• Provision of capacity-building activities for entrepreneurial learning at ISCED 5/6 levels (higher education)</li> <li>• Establishment of regional working group for development of teacher training modules on teaching entrepreneurial competences – modules have been taken up and offered to teachers by the national</li> </ul>	<ul style="list-style-type: none"> <li>• Publication of results of pilot programmes and lesson plans at ISCED levels 1 and 3</li> <li>• Publication of entrepreneurial learning at non-business faculties</li> <li>• Continued mentoring scheme, peer learning visits between SEECEL entrepreneurial schools and training modules for teachers on teaching entrepreneurial competences</li> </ul>

Measures/Actions	Achievements 2015/2016	Expected Results 2016/2017
	teacher training authorities	
<b>Dimension E: R&amp;D and Innovation</b>		
Ratify headquarters agreement for seat of the Western Balkans Research and Innovation Exercise (WISE)	<ul style="list-style-type: none"> <li>Split Ministerial Conference (September 2015) agreement on the WISE Secretariat was signed by Albania, Bosnia and Herzegovina, Croatia, Kosovo*, Montenegro, Serbia and The Former Yugoslav Republic of Macedonia</li> </ul>	<ul style="list-style-type: none"> <li>The finalisation of the ratification process and formal establishment of WISE is expected by the end of 2016</li> </ul>
<p>Strengthen research capabilities and promote research excellence</p> <p>Assess options for regional actions to promote technology transfer and develop potential measures/instruments</p> <p>Design regional programme to develop 'networks of excellence' in selected research areas</p> <p>Stimulate collaboration between industry and science</p> <p>Support introduction of a viable innovation finance market</p>	<ul style="list-style-type: none"> <li>The RCC developed two regional programmes in the previous and current reporting period. The technology transfer regional programme was finalised in 2014 and the regional programme on Networks of Excellence was finalised in April 2015</li> <li>DG JRC has been awarded 1.5 million EUR through multi-beneficiary IPA for a project on technology transfer capacity building in the Western Balkans. The project is to a substantial degree based on the Western Balkan Research Development and Investment Strategy and in particular the technology transfer regional programme coordinated and supported by the RCC as an integral part of the Smart Growth Pillar of the SEE 2020 Strategy</li> </ul>	<ul style="list-style-type: none"> <li>DG JRC project on capacity building in technology transfer is expected to commence end of 2016/beginning of 2017</li> </ul>
<b>Dimension F: Digital Society</b>		
<p>Develop regional broadband infrastructure to provide high speed internet access</p> <p>Develop cross-border e-services</p> <p>Provide access to IT training to expand employment opportunities</p>	<ul style="list-style-type: none"> <li>Organisation of the first regional exchange on the current situation, challenges and future prospects related to broadband development</li> <li>Regional TAIEX-supported capacity-building on the Directive on reducing the costs of deploying high-speed broadband implemented</li> <li>Promotion of an integrated approach to infrastructure development and early integration of broadband connectivity within the regional connectivity agenda</li> <li>Entry into force of a regional agreement on reducing the prices of mobile roaming services (RRA)</li> <li>Development of legal and market impact analysis to aid the market-</li> </ul>	<ul style="list-style-type: none"> <li>Legislative alignment with the Broadband Cost Reduction Directive (towards a more investment-friendly environment and new business models in infrastructure sharing)</li> <li>Integrating broadband connectivity as part of the regional connectivity agenda</li> <li>Prospective regional programme on broadband infrastructure development (optic fibre and use of excess infrastructure)</li> <li>Further market-based roaming costs reduction in line with EU-level advancements, as well as potential geographic extension of the RRA</li> <li>Targeted capacity building and</li> </ul>

Measures/Actions	Achievements 2015/2016	Expected Results 2016/2017
	<p>based, sustainable and further implementation of the RRA</p> <ul style="list-style-type: none"> <li>• Supported structured regional policy exchange and dialogue frameworks through the Regional Roaming Platform</li> <li>• Intensification of regional policy dialogue in the frames of the e-SEE Initiative</li> <li>• Highest political commitment to regional cooperation in the digital society and ICT reaffirmed at the e-SEE Ministerial Meeting (30 Sep. 2015)</li> <li>• Extended targeted regional capacity-building support to the e-SEE Initiative membership related to e-IDAS Regulation (particularly important for the interoperability and deployment of cross-border services)</li> </ul>	<p>maintaining regional dialogue and exchange frameworks (e-SEE Initiative, Regional Roaming Platform, etc.)</p>
<b>Dimension G: Cultural and Creative Sectors</b>		
<p>Strengthen institutional capacities and implement an integrated heritage rehabilitation management tool to ensure rehabilitation of selected cultural heritage sites (Ljubljana Process)</p>	<ul style="list-style-type: none"> <li>• Completion of two EU-funded programmes on the rehabilitation of cultural heritage in the Western Balkans</li> <li>• The final results included: <ul style="list-style-type: none"> <li>○ Delivery of 40 training events</li> <li>○ Creation of a pool of regional experts</li> <li>○ Production of a range of feasibility studies, preliminary assessments, business plans and promotional material</li> <li>○ Implementation of 27 rehabilitation projects on 20 monuments/sites</li> <li>○ Development of stronger institutional links with EU cultural heritage organisations</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Continue institutional capacity building on an integrated approach to the management of cultural heritage and fundraising for cultural heritage rehabilitation</li> <li>• Proposing three cultural routes to stimulate the development of cultural tourism along the existing tourist routes in the region based on valorisation, and adequate promotion of the vast potential of the region's cultural heritage</li> </ul>
<p>Encourage cooperation in the audio-visual industry</p> <p>Identify the current situation in the audio-visual industry</p> <p>Determine the feasibility of a regional film fund</p> <p>Determine the feasibility of a regional design incubator</p>	<ul style="list-style-type: none"> <li>• No new activities related to the specific measures were developed during the reporting period<sup>12</sup> at the regional level</li> </ul>	

<sup>12</sup> During the previous reporting period RCC did not develop the two regional programmes on a film fund and a design incubator as no additional funding or new partnerships were secured for the activity.

## Key recommendations

The high secondary education attainment in the region coupled with the continuing expansion of higher education attainment provides the basis to move towards a highly qualified workforce able to compete globally. However, the global ranking based on the PISA test suggests that pupils in the region lag behind in key functional literacy and mathematics competences. Therefore, the quality of education provided needs to be prioritised. Furthermore, it is important to note that the share of highly qualified people with an education background in mathematics, science and technology are low across the region. The expansion of the higher education system in the region, both in terms of the number of higher education institutions and the number of higher education programmes, has primarily been in the fields of social sciences and humanities. Moreover, for over a decade enrolment rates in social sciences and humanities have been significantly higher compared to the enrolment rates in mathematics, science and technology in the region. While a highly qualified workforce is a prerequisite for moving towards a knowledge-based model of growth, addressing the quality of education provided and the structure of the highly qualified workforce is a necessary next step for the region to develop a more competitive skills base.

Research and development systems in the region have been underfunded for a protracted period of time and the persistently low investments, both public and private, continue to exacerbate the gap between research production and the impact of research produced in the region and the EU. If the production structure is to shift to more complex, value-adding, technology-intensive activities, investment into building a strong research base is essential. It is important to note that with the lines between production and services continuously blurred, service-based economies require strong research and development systems able to transfer technology and innovate production and delivery of services as much as those based on production of goods. Therefore, increased investment in research and development coupled with incentives to develop research skills in innovative ways, which open not only institutional cooperation channels between universities and businesses, but also research career movement between business and universities, is necessary for the region to recover and grow.

The development of information and communication technologies, ICT infrastructure and skills are a prerequisite to the development of technology-intensive industries and new service sectors and to making the region attractive to foreign direct investments. Therefore, a growing prioritisation of ICT structural reforms and the acknowledgment of significant growth potential of the ICT sector in the Economic Reform Programmes 2016–19 by all economies is a welcome development.

Bearing in mind the large number of small and medium enterprises and the strategic choice to prioritise the development of tourism sector in the region, providing incentives for the development of cultural and creative sectors as drivers of socio-economic development may open up avenues for innovation and production of value-added globally competitive products and services.

The challenges posed by the transition to a knowledge-driven economy and globalisation have been particularly severe in the transition economies of the Western Balkans. Severe de-industrialisation coupled with the recent economic crisis led to the large-scale loss of jobs in traditional industries and created more extreme market changes in the region compared to other parts of Europe. Enhanced labour force skills combined with innovation-oriented and globally competitive research systems are

needed to support investment in high technology industries and new service sectors which ensure a greater return on the value chain, increase competitiveness and enable the economies to expand their exports base, including exports to the EU. In the absence of an improved skills base along with competitive research and innovation systems underpinned by strong information and communication technologies and infrastructure, economic convergence to EU living standards is unlikely to happen for decades to come.

Key recommendations for the Smart Growth dimensions during the 2016–17 period include:

- **D. Education:** (i) Develop measures to support the delivery of a better quality education and strengthen the link with needs of the private sector. (ii) Continue to support the widening access to higher education to ensure the gap with the EU is closed, although incentives should be devised to increase enrolment in science, technology, engineering and mathematics (STEM) over social sciences. (iii) Establish policies on the recognition of further education and qualifications as a prerequisite for mobility and regional integration.
- **E. Research and Development:** (i) launch of activities under WISE structures during 2017. (ii) Prioritise investment into research systems and building research skills, with a particular emphasis on STEM. (iii) Enhance the regional mobility of researchers and work on establishing links with global research networks to increase the impact of research results.
- **F. Digital Society:** (i) Ensure a more prominent inclusion of ICT connectivity aspects into the regional connectivity agenda. (ii) Closely integrate and align the broadband infrastructure development with the regional connectivity agenda and the priority transport projects that are/to be implemented along the core and comprehensive network, as well as with the key Projects of Energy Community Interest (PECI). (iii) Pursue full legislative alignment with the EU acquis, especially in relation to the Cost Reduction Directive. (iv) Address the low fixed broadband penetration levels and promote cooperation with the private sector on broadband roll-out; (v) Build on the findings of the World Bank study on using excess infrastructure in the Western Balkans with respect to broadband development. (vi) Further support the roaming cost reduction in the Western Balkans in a market-based and sustainable manner.
- **G. Cultural and Creative Sectors:** Utilise cultural heritage as a driver for furthering the tourism offer through the creation of a joint regional cultural heritage offer.

## II.3 Sustainable Growth

### Overview

*The actions under the Sustainable Growth pillar seek to improve efficiencies in the use of resources, upgrade infrastructure 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.*

**Ambitious objectives and close political scrutiny are features of most dimensions of the Sustainable Growth pillar.** The pillar has a truly multi-dimensional scope, encompassing the sectors of transport, energy, environment and competitiveness. The Transport dimension seeks to facilitate the fulfilment of obligations given in the context of the 2004 MoU on a regional transport network and the likely obligations under the forthcoming Transport Community Treaty, as well as the Single European Sky (SES) and the Joint Service Provision Area (JSPA) initiative. The Energy dimension contributes to meeting the obligations deriving from the Energy Community Treaty (related to energy efficiency and renewable), supporting a well-functioning SEE regional energy market and greater energy security. The Environment dimension places the focus on adapting to climate change; advancing the water, energy and food nexus approach; managing trans-boundary water resources; forestation and increasing the share of irrigated agricultural land. 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.

**Table 12: Number of new enterprises registered in SEE**

Economy	2010	2011	2012	2013	2014
ALB	2,088	1,849	1,886	2,114	n/a
BOS	1,939	1,897	1,828	n/a	2,192
CRO	7,128	7,145	8,068	n/a	13,073
KOS*	962	1,095	1,449	n/a	2,100
MNE	n/a	4,513	n/a	n/a	2,901
SER	9,259	8,239	8,420	n/a	8,021
MKD	6,729	6,015	5,394	n/a	5,519
<b>SEE</b>	<b>28,105.00</b>	<b>30,753.00</b>	<b>27,045.00</b>	<b>n.a</b>	<b>33,806.00</b>

Source: World Bank Entrepreneurship Survey

**The two headline targets for 2020 under this pillar are: (i) to increase net enterprise creation (Target 8); and (ii) to increase exports of goods and services per capita from the region (Target 9).** However, the data on Target 8 was not available from the participating economies at the time of the report preparation. Instead, data from the World Bank's Entrepreneurship Survey on new enterprises registered was used to provide an indication of trends in this area. The assessment of the Monitoring Committee noted that the two targets selected for the Sustainable Growth pillar were inadequate to

describe the dynamic developments in the different sectors. The Monitoring Committee further concluded that Target 9 (on increasing exports of goods and services per capita) be replaced with a target dealing with the share of energy from renewable sources in the gross final energy consumption. These changes should better reflect the activities and results expected in this pillar.

**There was a mediocre performance on the export per capita target in the past four years** in line with other trade-related targets of the Strategy. At the end of 2014, the region had reached approximately 21% of the 2020 target and it is not expected that the target will be achieved by 2020 under the current growth scenarios.

**Table 13: Exports of goods and services per capita, in EUR**

Economy	2010 (baseline)	2011	2012	2013	2014	2020 (target)	Progress towards target
ALB	884	958	955	955	970	2,900	4%
BOS	998	1,117	1,121	1,198	1,232	2,600	15%
CRO	3,912	4,245	4,255	4,392	4,714	9,000	16%
KOS*	375	534	511	505	597	1,200	27%
MNE	1,829	2,236	2,144	2,234	2,229	3,950	19%
SER	1,299	1,536	1,588	1,942	2,019	3,850	28%
MKD**	1,324	1,673	1,636	1,712	1,958	3,300	32%
<b>SEE</b>	<b>1,612</b>	<b>1,858</b>	<b>1,865</b>	<b>2,022</b>	<b>2,143</b>	<b>4,184</b>	21%

Source: National Statistics

**Intensive regional cooperation has been shaped by regional agreements and political commitments.** The Energy and Transport dimensions are underpinned by the existing political commitments, namely the Energy Community Treaty, the MoU on the regional transport network and the region’s adherence to the EU’s Single European Sky (SES) legislative framework. Therefore, objectives in these areas focus on expediting and enhancing the capacity of national administrations to meet their commitments through regional cooperation. Given the close integration of these two dimensions within the high profile regional connectivity agenda, the focus has been on advancing the selected infrastructure projects and furthering the “soft” policy reforms required by the connectivity agenda. In the environment sector the initial objectives are focused on introducing new approaches towards sustainable development – namely the Nexus Approach and developing a regional approach to support this.

**Substantial progress has been registered under the Transport dimension.** As part of the regional connectivity agenda, cooperation on transport has seen considerable progress due to the intensified regional cooperation dynamics brought about by the political frameworks of the Berlin Process and the Western Balkans Six (WB6) initiative that have mobilised a significant reform impetus among the Western Balkan governments. The support for the connectivity agenda has thus not only focused on building new infrastructure, but also on broader market integration: widening access to and integrating with markets to ensure better use of existing networks and infrastructure.

**Considerable investment is needed, but the benefits are clear.** SEETO has estimated that it would cost 7.7 billion EUR to implement the priority transport projects in the region. Findings of a study by

the Vienna Institute for International Economic Studies (wiiw) show that such a comprehensive infrastructure investment package could lead to an additional growth push of up to one percentage point per year for the economies of the region over a period of 15 years and some 200,000 new jobs could be created in the region. The EU has committed to providing up to 1 billion EUR to co-finance the connectivity agenda over the period 2014–2020. (In 2015 205 million EUR was allocated for 10 priority projects valued at 600 million EUR, while in 2016 the EC aims to allocate an amount of approximately 150 million EUR, leveraging a far more substantial investment.) The Western Balkans Investment Framework (WBIF), which is now adapted to provide connectivity co-financing also, is the key platform to ensure close cooperation on the appropriate prioritisation of regional projects and the blending of funding from all stakeholders.

**Political momentum for the connectivity agenda has had a profound effect on the Transport dimension.** Significant progress has been achieved during 2015, with the key milestones including: the agreement by the six Western Balkan Prime Ministers in Brussels in April 2015 on the regional core transport network; further agreement (in Riga in June 2015) on the core network corridors (the Mediterranean, Orient/East-Med and Rhine/Danube corridors were extended to the Western Balkans); and a priority list of infrastructure projects and soft measures to be implemented by 2020, as well as the appointment of corridor coordinators (Vienna Summit in August 2015). The Vienna Summit Conclusions confirmed 10 transport and energy infrastructure investment projects for EU co-financing under the 2015 IPA programme. It also saw the modification of the Comprehensive Network; the adoption of a soft measures management plan to address specific non-physical barriers affecting cross-border transport flows on the Core Network and to complement the infrastructure development; and the establishment of a structured coordination and monitoring mechanism on the soft measures. Some progress has been recorded regarding the level of implementation of transport policies (transport infrastructure policies, transport governance and regulations policies), but it has not been uniform across the region. Finally, a major development concerns the advancement of the Transport Community Treaty, with expectations that the Treaty will be initialled before the 2016 July Summit in Paris (an especially significant advance, as it will promote the integration of land transport markets and infrastructure while helping the Western Balkan economies implement the EU land transport standards).

**The Core Transport Network was agreed based on the Comprehensive Network established under SEETO and TEN-T methodology.** Use of these established methodologies is expected to speed up policy and regulatory reforms and concentrate investments on key corridors and interconnectors. To ensure sustainability and to generate short-term results, the Vienna Summit Conclusions outlined a comprehensive ‘soft measures’ agenda in transport and energy, such as aligning and simplifying border crossing procedures, road safety and maintenance schemes, ensuring full compliance with the existing legal requirements under the Energy Community Treaty, etc. As confirmed by the REBIS Study<sup>13</sup> (World Bank, 2015), addressing the non-physical barriers is critical to enhancing connectivity

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<sup>13</sup>The study proposed key areas of intervention necessary to alleviate non-physical barriers in customs and transport policy, mainly focusing on the administrative and institutional capacity in the regulatory and implementing agencies; the implementation of interoperable Information Technology (IT) systems in trade and transport; inter-agency cooperation both in trade and transport operations; safety regulation and enforcement in all modes of transport, especially in road transport; access to markets, especially in rail but also in air transport; risk management systems and simplified customs procedures; and implementation of the New

in South East Europe and to better integrate SEETO Regional Participants into the EU. In addition to requiring significantly lower financial resources, the economic returns to removing non-physical obstacles are relatively high. To this end, SEETO and ECT Secretariats were tasked to follow up and monitor the implementation of policy reform goals in the transport and energy sectors, outlined in the Addendum of the Vienna Conclusions as Western Balkans Core Transport Network Soft Measures. Focusing on the monitoring system of the soft measures on transport and energy, the Secretary General of the RCC hosted the Informal Meeting of the WB6 MFAs with the EU Commissioner for the European Neighbourhood Policy and Enlargement Negotiations on the margins of the UN's General Assembly in September.

**The regional connectivity agenda has been combined with a strong push to streamline infrastructure investment in the national context.** Noteworthy advances in the sectors can also be reported with regard to domestic infrastructure planning and prioritisation mechanisms and institutional frameworks. The development of sector specific single project pipelines, endorsed by National Investment Committees, now constitutes a common feature across the Western Balkans. The challenge remains, though, to keep the single project pipelines up to date and credible, as they have become explicit preconditions for receiving IPA II support for investment co-financing under the Western Balkan Investment Framework.

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Computerised Transport System (NCTS) in transit operations. Overall, by the year 2020, the costs for the proposed actions to alleviate non-physical barriers would amount to approximately 300-350 million EUR in the SEETO Regional Participants, when implemented appropriately, whereas the total accumulated benefits from addressing non-physical barriers would amount to 800-900 million EUR by year 2020; hence, the analysis yielded high estimates of economic efficiency ratios.

#### Box 4: Economic corridors – connectivity in a wider economic development context

Within the overall objective of contributing to making the SEE region better connected, integrated and competitive and to facilitate the seamless flow of goods, people, services and investments in the region, the RCC, in close cooperation with CEFTA and SEETO, has been developing the concept of economic corridors in SEE and helping bring it into operation.

The rationale for developing economic corridors in SEE is to complement the ongoing infrastructure development and trade and transport facilitation processes, brought forward by the Berlin and WB6 processes in particular, and to add economic value. Efforts by the RCC to develop the concept also directly respond to the Final Declaration by the Chair of the Vienna Western Balkans Summit. The regional trade and investment linkages, similar industrial backgrounds, along with the liberalisation of trade in services and trade facilitation agendas taking place in the CEFTA region, as well as the coordination of the regional transport policies in the SEETO framework and the TEN-T Core Network extended in the Western Balkans, all highlight the need for comprehensive regional interventions.

The aim is thus for the corridors to be transformed into coherent and well-functioning spaces of economic activity and the networks transformed into dimensions for regional economic cooperation and integration, connecting the Western Balkans to core EU networks and enhancing value chain integration.

The RCC's approach to developing and implementing the economic corridors follows two phases:

- i) Diagnostics: A spatial and economic assessment of the region's potential and bottlenecks along core corridors was launched (mapping and surveying industries, industrial linkages, agglomerations, intra-trade linkages, service integration, logistics efficiency, urban nodes and functions of cities) in order to identify bottlenecks and opportunities for improved cross-border links and economic activity.
- ii) Operational: Structured work with participating governments to identify pilot actions and policy measures to address the bottlenecks. The Vienna Summit Conclusions already pinpoint a number of potential instruments, such as special economic zones, cross-border economic zones, export processing zones, industrial parks, etc., in addition to the prospective instruments related to the policy areas of transport, energy, trade, ICT, industry, access to finance and mobility of professionals. The mechanisms employed will include: RCC/SEEIC, CEFTA & SEETO structures, participating governments.

**Progress on transport infrastructure policies, governance and regulations at the national level has been varied.** The Western Balkan economies have made efforts in the area of transport infrastructure policies, transport governance and regulation policies. In particular, The Former Yugoslav Republic of Macedonia, Montenegro and Serbia have adopted the necessary policy measures and taken steps to implement them. Kosovo\*, Bosnia and Herzegovina and Albania have made progress in adopting certain transport-related policies, but implementation procedures need to be reinforced.<sup>14</sup> Road safety strategies have been adopted in all of the economies and efforts have been noteworthy, especially in Albania, Montenegro and The Former Yugoslav Republic of Macedonia. Although railway liberalisation reform continues to move slowly across the region, in The Former Yugoslav Republic of Macedonia, Montenegro and Kosovo\*, as well as in Serbia, efforts have been made to develop and adopt the necessary legislation and to establish the required bodies under the EU railway acquis. However, the railway market in the region is still closed compared to the EU and further actions towards railway liberalisation are necessary.

**Together with transport, energy is at the core of the connectivity agenda for the Western Balkans.** The implementation of SEE 2020 in the Energy dimension marks considerable progress, partly as a result of the high political commitment attached to the regional connectivity agenda, both on the side of Western Balkan economies, as well as the EC and key Member States. The ECS continuously monitors the energy infrastructure development, relating to both the Western Balkans 6 Energy

<sup>14</sup> OECD Competitiveness Outlook, July 2015

Connectivity Initiative and the Action Plan under the Central and South-Eastern European Gas Connectivity (CESEC) MoU.

**Energy cooperation has reached some key milestones during the previous year.** The main achievements relate to: the selection of four priority projects among the already agreed 35 Projects of Energy Community Interest (PECI) at the Vienna Summit (notably power interconnectors); the steps undertaken to establish a regional electricity market<sup>15</sup> (the Declaration on establishing a regional electricity market is expected to be adopted at the Paris Summit, with an envisaged timespan of 2–3 years for its finalisation); the adoption of a comprehensive soft measures agenda, aimed at developing a regional energy market, to ensure sustainability and to generate short-term results. In addition, significant strides made include: improved legislation frameworks in Western Balkan economies and adoption of National Energy Efficiency Plans; the establishment of a monitoring and verification platform in Western Balkan economies; the adoption of Directive 2012/27/EU on Energy Efficiency; the adoption of the National Renewable Energy Action Plan (NREAP) in Western Balkan economies (except Bosnia and Herzegovina); the progressing transposition of Directive 2009/28/EU; a grant of 58 million EUR in EU financial support for four PECI electricity interconnection projects; the launch of the second round of PECI selection process; the adoption of Regulation 347/2013/EU.

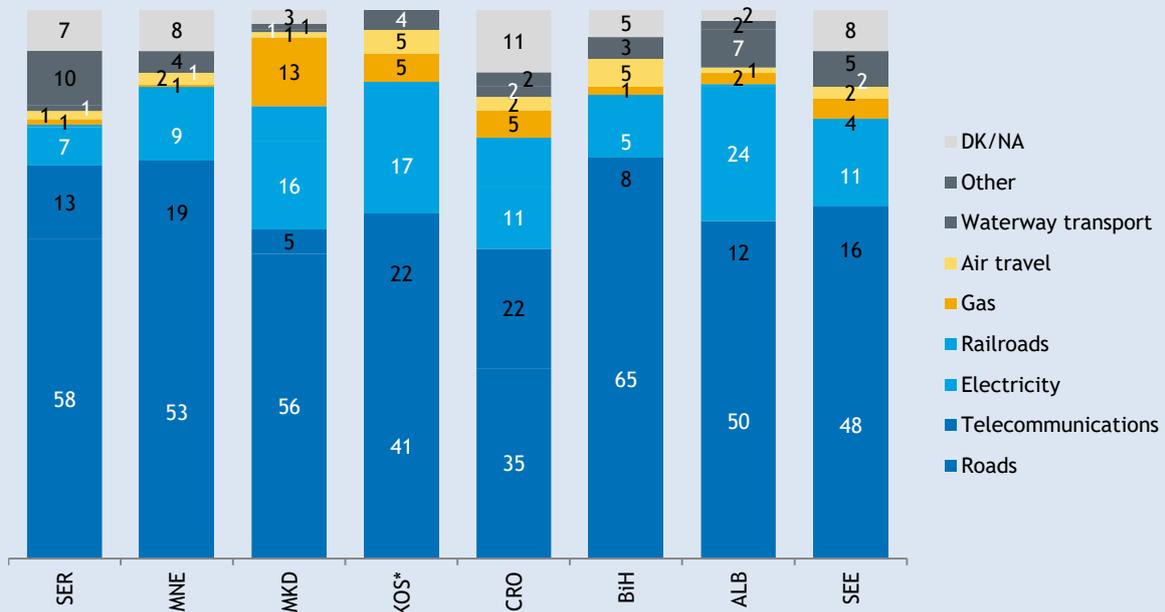
**The connectivity agenda is fully reflected in the ERPs.** The ERPs particularly demonstrate the strong prevalence of connectivity-related structural priorities (transport and energy), which seem to assume the large majority of fiscal space. The significant ‘connectivity-inclination’ as demonstrated by the ERPs seems not to fully correspond to public and business sentiments as denoted in the Balkan Barometer, which also highlight the importance of investments and support to SMEs, industrial sectors, tourism, agriculture, etc.

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<sup>15</sup> The creation of a genuine regional market will enable a far easier integration with the Energy Union. Further, combining a regional electricity market with targeted investments will reduce the need for new generation plants by ensuring efficient use of the existing capacity and will also help integrate renewable energy production across the region (to this end, preparations are under way for a regional hydro-power master plan).

**Figure 8: Businesses have a strong bias towards road infrastructure**

According to your opinion, which infrastructure upgrades would have the highest positive impact on your business? (all respondents, N=1404)



Source: Balkan Barometer 2016

In terms of necessary infrastructure upgrades, SEE businesses have a strong bias for roads. The Balkan Barometer survey relating to transport and infrastructure points to the centrality of roads in this region – businesses continue to rely largely on roads and strongly favour (48%) additional investments in this transport mode (Figure 8). Bearing in mind SEETO’s assessment of the quality of infrastructure in the region in 2014, where 51% of road infrastructure was assessed as either very good or good, compared to only 25% of railway infrastructure fitting the same description, this perception is indicative of the significant transport mode imbalance. Weak inter-modal prospects indicate the need for more balanced inter-modal transport solutions in support of growth and competitiveness. The public opinion responses similarly state that road improvements (75%) would have the most beneficial impact on citizen’s lives. It is within this context that the RCC-supported study on Intermodal Transport in the Western Balkans has been undertaken and will be followed up during the next year.

### Implementation of SEE 2020 activities during the reporting period

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

**Table 14: Implementation of Smart Growth actions during 2015/2016**

Measures/Actions	Achievements 2015/2016	Expected Results 2016/2017
<i>Dimension H: Energy</i>		

Measures/Actions	Achievements 2015/2016	Expected Results 2016/2017
Implementation of national plans for energy efficiency (NEEAPs), contributing to attaining EE savings targets	<ul style="list-style-type: none"> <li>• Improved legislation in SEE 2020 economies and outstanding NEEAPs adopted</li> <li>• Implementation of a monitoring and verification platform across the region</li> <li>• Adoption of Directive 2012/27/EU on Energy Efficiency by ECT contracting parties</li> <li>• Ongoing sharing of best practice and capacity development via ECS EE Coordination Group meetings</li> <li>• Several EE investment projects implemented and a number of legislative bills prepared under the EC/EBRD-financed REEP</li> </ul>	<ul style="list-style-type: none"> <li>• Further legislative harmonisation in SEE 2020 economies</li> <li>• Adoption of third NEEAPs (taking into account new commitments under the 2012 Directive)</li> <li>• Enhanced monitoring of energy savings in all SEE 2020 economies</li> </ul>
Support adoption of National Renewable Energy Action Plans (NREAP) and increase incentive for renewable energy	<ul style="list-style-type: none"> <li>• NREAPs adopted in all SEE 2020 economies with the exception of Bosnia and Herzegovina</li> <li>• Technical assistance on sustainable biofuels in the transport sector delivered</li> <li>• Transposition of Directive 2009/28/EU progressing</li> <li>• Capacity-building support to national authorities provided via meetings of the Renewable Energy Coordination Group and publication of assessments and guidelines for renewable energy support schemes</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of NREAPs in all SEE 2020 economies and increasing support for broader use of renewable energy</li> <li>• Further legislative harmonisation and development of national legal frameworks contributing to greater use of renewable energy across all sectors</li> </ul>
Support implementation of key energy infrastructure projects (Projects of Energy Community Interest – PEI)	<ul style="list-style-type: none"> <li>• EC financing of 58 million EUR secured for four PEI electricity interconnection projects</li> <li>• Second round of PEI selection process launched (to update list)</li> <li>• Adoption of Regulation 347/2013/EU on Trans-European Energy Infrastructure by ECT contracting parties</li> <li>• Assessments of relevant liberalisation activities and investments in electricity and gas networks prepared and circulated</li> </ul>	<ul style="list-style-type: none"> <li>• Further integration of the regional energy market</li> <li>• New PEI list adopted by end 2016-04-06</li> <li>• Regulations on Guidelines for Trans-European Energy Infrastructure transposed by all Western Balkan economies by end of 2016</li> </ul>
Create functioning regional energy market	<ul style="list-style-type: none"> <li>• Agreement by SEE 2020 economies under the Berlin Process to develop and implement relevant reforms required for regional energy market</li> <li>• Provision of technical assistance (studies, training, guidelines, assessment tools) by ECS to support development of the regional energy market</li> </ul>	<ul style="list-style-type: none"> <li>• Tailored programme of EC-financed technical assistance put in place</li> <li>• Greater alignment between legislative frameworks of SEE 2020 economies with regard to a regional energy market</li> <li>• Appropriate corporate structures and technical infrastructure required for implementation designed</li> <li>• Regional agreements to allow for cross-border trade concluded/under formal negotiation</li> </ul>

Measures/Actions	Achievements 2015/2016	Expected Results 2016/2017
<b>Dimension I: Transport</b>		
<p>Increase use of transport network</p> <p>Remove physical and non-physical barriers to development of the SEETO Comprehensive Network</p>	<ul style="list-style-type: none"> <li>• Agreement under the Western Balkan 6 Initiative on the Core Regional Transport Network and further high level support secured under the Berlin Process (Vienna Summit August 2015)</li> <li>• Identification of priority infrastructure projects and financing secured from EC to expedite implementation</li> <li>• Preparation of a single project pipeline in the transport sector in all SEE 2020 economies</li> <li>• Completion of a World Bank-led update on the Regional Transport Study and the Flagship Axes Initiative providing clear recommendations on actions to be taken to remove barriers</li> <li>• Adoption of soft measures management plan to address non-physical barriers (part of Berlin Process)</li> <li>• Establishment of coordination and monitoring mechanism for soft measures implementation</li> <li>• EU TEN-T Corridor Coordinators now responsible for those sections in SEE 2020 economies and relevant officials from the region involved in overall TEN-T structures</li> <li>• Investor forums focused on core transport network held in London, Sarajevo and Ljubljana</li> <li>• RCC-commissioned development of a Registry of ancillary infrastructure and interoperability and signalling aspects on the Road Core Network</li> <li>• Concept on economic corridors launched to aid the integration of infrastructural improvements with economic opportunities, such as trade and investments</li> </ul>	<ul style="list-style-type: none"> <li>• Commencement of selected priority transport infrastructure projects</li> <li>• Implementation of soft measures management plan including adoption of policies, legislation, institutional development, inter-agency coordination and capacity building (progress to be reviewed at Paris Summit in July 2016 as part of Berlin Process)</li> <li>• Additional priority infrastructure projects agreed and financial support secured</li> <li>• Identification of gaps in asset management and agreement on measures to improve maintenance systems and schemes</li> <li>• Survey of roadside facilities and their compliance with TEN-T standards</li> <li>• Assessment of opportunities to deploy electronic border queuing-management systems</li> <li>• Registry of ancillary infrastructure completed</li> <li>• Economic corridors concept developed and presented to the Paris Summit of the Berlin Process</li> </ul>
<p>Harmonise with EU regulatory framework for transport</p> <p>Track progress in transport policy areas</p> <p>Improve quality and expand dissemination of research and analysis on key transport issues</p> <p>Implement Single European Sky (SES) in SEE 2020 region (JSPA</p>	<ul style="list-style-type: none"> <li>• Establishment and initial meetings of the SEETO Transport Facilitation Working Group – an inter-institutional platform with public and private sector participation, focusing on transport and trade activities (the group has met twice)</li> <li>• Assessment of transport policies in SEE 2020 economies as input to OECD Competitiveness Outlook</li> <li>• Preparation and dissemination of the revamped SEETO Multi-Annual Plan, covering transport and TEN-T policy</li> </ul>	<ul style="list-style-type: none"> <li>• Determine feasibility of advancing the Transport Community Treaty</li> <li>• Analysis of the potential of airports in SEE in terms of capacity and connectivity (between airports of Western Balkans/SEETO airports and between SEETO airports and airports in neighbouring EU Member States)</li> </ul>

Measures/Actions	Achievements 2015/2016	Expected Results 2016/2017
initiative)	and infrastructure project promotion	
Measures to improve ratio of railway and waterborne transport  Promote further liberalisation of rail services / railway reform (in line with Addendum to MoU)	<ul style="list-style-type: none"> <li>• Adoption of relevant legislation and creation of bodies for opening of railway market undertaken in some SEE 2020 economies</li> </ul>	<ul style="list-style-type: none"> <li>• Progress on railway reform expedited under Berlin Process</li> </ul>
Development of co-modal solutions  Promote energy-efficient and environmentally friendly transport system	<ul style="list-style-type: none"> <li>• RCC-supported Western Balkans Intermodal Study completed assessing the main logistics corridors and identifying short- and long-term measures for strategic development of intermodal transport in the SEE region</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of short-term measures as described in the Western Balkans Intermodal Study</li> </ul>
<b>Dimension J: Environment</b>		
Strengthen capacity of REC, GWP-Med and SWG to provide appropriate support to regional actions under the Environment dimension	<ul style="list-style-type: none"> <li>• Formal establishment of the Working Group on Environment to coordinate regional actions for SEE 2020 and organisation of two meetings of the group to advance work</li> <li>• High level political support for SEE 2020 Environment dimension and key objectives secured at Ministerial Meeting on Environment (March 2016)</li> <li>• Detailed preparation of a regional environment programme</li> </ul>	<ul style="list-style-type: none"> <li>• Commence implementation of work programme on a staggered basis subject to funding</li> <li>• Management and monitoring of implementation of work programme via regular meetings of Environmental Working Group</li> </ul>
Awareness raising and education on environment and climate change adaptation	<ul style="list-style-type: none"> <li>• Capacity building on climate change adaptation via provision of a series of training events</li> <li>• Publication and wide dissemination of various reports and assessments on climate change related topics</li> <li>• Development of climate change related training materials (to be adapted for use in SEE 2020 economies)</li> <li>• Enhanced capacities of local administrations of the Drina and Drini watershed communities in the six SEE economies to develop and implement climate change adaptations through training, awareness raising, information exchange and pilot projects</li> <li>• Implementation of the Austrian-financed project on Strategies for Low Emission Development (SLED) in several SEE economies providing assessments and policy options and</li> </ul>	<ul style="list-style-type: none"> <li>• Study on the use of environmental networks as potential adaptation measures (including Dinaric Arc)</li> <li>• Finalisation of training materials</li> <li>• Commencement of 10 pilot projects (four at regional level)</li> <li>• Network of local communities strengthened via participation in various meetings and events and information sharing</li> <li>• Development of tool for water management and monitoring</li> <li>• Finalisation of studies under SLED</li> <li>• Presentation of results at EU's Energy Week</li> <li>• Strengthened communication and cooperation among SEE bodies</li> <li>• Greater awareness and knowledge transfer</li> <li>• Mid-term assessment of programme</li> <li>• Additional training programmes at sub-regional and national level</li> </ul>

Measures/Actions	Achievements 2015/2016	Expected Results 2016/2017
	<p>raising awareness</p> <ul style="list-style-type: none"> <li>• Strengthened capacities of authorities responsible for implementation and enforcement of environmental law in a trans-boundary / regional context via implementation of THEMIS work programme including communication and networking among relevant SEE bodies, training needs assessment and report on compliance with the EU Environmental Crime Directive in SEE 2020 economies</li> <li>• Provision of training programmes on management of natural resources and combating environmental crime</li> <li>• Initial development of Standard Operational Procedures (SOPS) for environmental crimes</li> </ul>	<p>and/or on-the-job training</p> <ul style="list-style-type: none"> <li>• Seven SOPs developed for prevention, detection and investigation of environmental crime</li> </ul>
<p>Determine feasibility of introducing the Water, Energy and Food Nexus management approach at national and trans-boundary levels.</p>	<ul style="list-style-type: none"> <li>• Design of project to advance the Water, Energy and Food Nexus finalised and agreed as part of the overall Regional Action Plan on Environment</li> <li>• Discussions with potential financiers</li> </ul>	<ul style="list-style-type: none"> <li>• Commencement of regional dialogue project to advance Nexus</li> <li>• Finalisation of financing agreement for project to advance Nexus at national level and commencement of activities</li> </ul>
<p>Assess status of Trans-boundary Water Resources Management in the Western Balkans in terms of cooperation among economies and related challenges and indicate possible means and tools to assist in addressing these</p>	<ul style="list-style-type: none"> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>• Dialogue on enhancing private sector participation in water infrastructure development to be initiated at regional and selected SEE economy level</li> </ul>
<p>Measures for sustainable forest management that foster economic growth, environmental protection and rural development in the Western Balkan economies</p>	<ul style="list-style-type: none"> <li>• Provision of policy recommendations on integrated natural resource management (Agriculture Policy Forum 2015)</li> <li>• Recommendations approved by Ministers of Agriculture in November 2015</li> <li>• Regional Expert Advisory Working Group on agriculture, water and forest management operational</li> <li>• Commencement of a regional programme on improving regional and national capacities for rural development and sustainable management of natural resources (LEIWW programme) with GIZ support</li> </ul>	<ul style="list-style-type: none"> <li>• Greater awareness among policy makers regarding integrated natural resource management</li> <li>• Enhanced policies in this area among SEE 2020 economies</li> <li>• Preparation of an evidence-based policy paper on integrated water and forest management to support policies for economic development via rural development</li> </ul>
<b>Dimension K: Competitiveness</b>		
<p>Develop regional value chains Support SME development</p>	<ul style="list-style-type: none"> <li>• Two studies completed by the OECD on the obstacles to regional development of tourism and food and beverage processing sectors</li> </ul>	<ul style="list-style-type: none"> <li>• Development of a full project proposal for a regional tourism action to implement the recommendations of the Tourism</li> </ul>

Measures/Actions	Achievements 2015/2016	Expected Results 2016/2017
<p>Establish expert working groups in selected sectors (food and beverages and tourism) under the auspices of the SEE IC providing advice and guidance on policy actions</p> <p>Boost entrepreneurial learning and women's entrepreneurship and enterprise skills</p>	<ul style="list-style-type: none"> <li>• Working Group on Industrial Policy established to look into regional approaches to industrial policy and preparing for EU accession negotiations</li> <li>• A concept of joint regional offer for international tourists developed by the Tourism Expert Group</li> <li>• Study completed on increasing the business synergies between the SEE economies and Turkey and presented at the B20 summit</li> <li>• SEECCEL now a formal partner in the SBA Assessment for the SEE region</li> <li>• Working Groups established for TNA and Quality Assurance Frameworks for entrepreneurial learning</li> <li>• Wide dissemination of research results</li> <li>• Training modules for women's entrepreneurship developed and made available online</li> <li>• International conference on women's entrepreneurship organised</li> </ul>	<p>Expert Group</p>

## Key recommendations

Some of the key recommendations under the Sustainable Growth pillar relate to maximising the momentum of the heightened focus, both political and in terms of resource mobilisation, on the regional connectivity agenda to continue improving the physical infrastructure and addressing the soft connectivity measures. More attention should be devoted to highlighting the link between connectivity, market integration and competitiveness and to investigate the wider economic development growth potential of infrastructure investments and trade and transport facilitation processes, through developing and bringing into operation the concept of economic corridors.

Efforts should be intensified to initial the Transport Community Treaty as well as to finalise the establishment of a regional electricity market as the key expected deliverables from the Paris Summit. Greater alignment of the infrastructure priorities with the regional connectivity agenda is encouraged, with particular focus on the core network (TEN-T extension to the Western Balkans), as well as maintaining credible planning and prioritisation mechanisms and frameworks (single pipelines and National Investment Committees).

Further, ensuring sustainable coordinating and monitoring frameworks on the soft connectivity agenda are recommended. This should include the provision of technical assistance to national administrations and SEETO and ECT Secretariats in order to continue to review progress and expand the connectivity agenda (both infrastructure projects and soft measures). Additional suggestions call for a more precisely defined link between progress in fulfilling the soft measures and future WBIF funding, as well as careful consideration of the excessive overloading of transport and energy projects on WBIF's funding availability.

Some of the more general challenges for the SEE region in the energy sphere relate primarily to ensuring full alignment of the legislation with the Third Energy Package and moving to the implementation stage; improving alignment with the *acquis* in renewable energy and energy efficiency and meeting the international commitments stemming from the Energy Community; and strengthening the independence and increasing the administrative capacity of the energy and nuclear regulators, etc. In addition, a key challenge to implementing the Energy dimension is the slow implementation process and the delay by ECT contracting parties in fulfilling their obligations and commitments. (The launch of several infringement procedures by the Energy Community Secretariat seems to have helped speed up the reform and implementation process, for example in the adoption of several NREAPs in Western Balkan economies during 2015.)

Continued focus is needed on promoting co-modal and sustainable transport solutions, and credibly addressing the challenging transport maintenance and safety issues. Careful consideration of the sustainability of the JSPA initiative is advocated, along with further investigation of the prospects for improved air connectivity within SEE.

The true trans-boundary nature of the Environmental dimension and the daunting challenges involved in implementing and transposing the goals of the 2030 Agenda for Sustainable Development, the Paris Climate Agreement, the EU Biodiversity Strategy 2020 and the EU 2050 Road Map into national sustainable development and climate change policies necessitate strengthened regional efforts. To this end, the recommendations call for further support for the established regional mechanisms in environment and the highest political commitment as expressed in the Podgorica Declaration.

Finally, in the Competitiveness dimension, it is necessary to start using the wealth of knowledge, research and policy recommendations to develop concrete pilot projects and initiatives. Particular focus in this sense should be given to the two priority sectors, tourism and food and beverage processing, to ensure implementation of the recommendations adopted by the two expert groups and the SEEIC Ministerial. The SEEIC Tourism Expert Group working under the auspices of the RCC has prepared a proposal for a three-year tourism action that would bring together private operators with government institutions to develop a joint regional tourism offer, remove current barriers to stronger tourism integration and promote the region as a common tourism destination to overseas visitors.

Though significant challenges remain in the region – it is still poorly connected, lacks adequate infrastructure and shares a strained fiscal space, and has yet to attain full legislative alignment or to demonstrate a credible track record in the areas of transport and energy – the developments within the reporting period demonstrate that significant progress is attainable once a number of enabling factors are in place. These factors include: the highest political commitment, frameworks to intensify regional cooperation (the Berlin Process and WB6 initiative give high prominence to the connectivity agenda), a strong monitoring framework by empowered regional structures (SEETO and EC Secretariats), concrete and available financing mechanisms (e.g. WBIF) and an explicit link between progress and future funding prospects.

Key recommendations for the Sustainable Growth dimensions during the 2016–17 period include:

- **H. Energy:** (i) further harmonise legislation in the Western Balkans. (ii) Adopt the third National Energy Efficiency Action Plan. (iii) Enhance monitoring at national level of achieved energy savings. (iv) Implement NREAP in all Western Balkan economies and continue support for the wider use of renewable energy. (v) Further harmonise legislation and develop a national legal framework for the wider use of renewable energy in all sectors. (vi) Further integrate the regional energy market. (vii) Adopt the new PECl list by the end of 2016. (viii) Transpose the Regulation on Guidelines for Trans-European Energy Infrastructure in all Western Balkan economies by the end of 2016. (ix) Fully adopt and implement the gas legislation compatible with Energy Community obligations (which allows for unbundling, market opening and third party access to key pipelines). (x) Remove legal and contractual obstacles to establishing organised electricity markets and market coupling.
- **I. Transport:** (i) Implement soft measures agreed during 2015 and address the remaining non-physical barriers to the movement of goods and passengers. (ii) Modernise and improve the efficiency of existing infrastructure. (iii) Promote multi-modal and sustainable transport solutions. (iv) Prepare and publish EU acquis-aligned railway network statements. (v) Facilitate railway network access for private operators. (vi) Put in place systems for sustainable maintenance of transport infrastructure and road safety which must be credible and fully funded. (vii) Provide high-quality logistics services and facilitate international shipments. (viii) Adopt and implement transport sustainability strategies (focusing on reducing energy consumption and increasing the share of electrical mobility, optimising transportation solutions in urban areas, etc.).
- **J. Environment:** (i) Commence implementation of the Podgorica Declaration by setting up the necessary mechanisms for cooperation during 2016. (ii) Support integrated water and forest management to assist policies for economic development via rural development. (iii) Develop and finalise a regional biodiversity programme in cooperation with GIZ.
- **K. Competitiveness:** (i) Develop a regional tourism action with pilot projects to be implemented in the region.

## II.4 Inclusive Growth

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### Overview

*The Inclusive Growth pillar of the Strategy aims to develop a common agenda for the Western Balkan economies which emphasises the creation of employment, the development of a skilled workforce, inclusive participation in the labour market and health and wellbeing for all. 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, such measures revolve around easing the mobility of the labour force across borders and working together to enhance governance of the labour market and to stimulate social economy initiatives. In the area of health, the agreed measures aim to harmonise cross-border public health legislation, to adopt multilateral agreements to strengthen human resources for health and to improve inter-sectoral governance for health.*

**Employment and health have been recognised as two pressing challenges that require immediate action, but which in return increase long-term social welfare.** While the SEE 2020 Strategy aims to enhance the growth and competitiveness of the region, ensuring that the benefits of growth are shared by all is an important priority within the Inclusive Growth pillar. This entails more and better job opportunities for all and ensuring health equity across all population groups. Unemployment carries heavy consequences both at the economy level through the inefficient use of resources and reduced economic activity and the individual level, leading to social exclusion and obsolescence of skills, which make it difficult to re-enter the labour market. The health and wellbeing of the population are not only one of the main pillars for ensuring social cohesion but also contribute to economic growth. A population in good overall health is more productive and has higher, longer-term rates of participation in the labour market.

**The target of the Inclusive Growth pillar is to increase the overall employment rate in 2020 from 39.5% to 44.4% (as a percentage of the population aged 15 years and older).** When the Strategy was prepared, this was considered to be the most comprehensive measure of employment in line with the ILO definition. Based on data revisions and updates by the economies in recent years, the baseline figure and the target have been revised to 38.0% and 43.2%, respectively.

**Table 15: SEE 2020 Target – Employment rate, 15–64 age group**

Economy	2010 (baseline)	2011	2012	2013	2014	2015	2020 (target)	Progress towards target
ALB†	47.5	51.9	49.6	44.1	44.3	46.2	54.3	-19%
BOS	32.5	31.9	31.7	31.6	31.7	31.9	33.9	-43%
CRO††	46.5	44.8	43.2	42.1	43.3	44.1	47.5	-240%
KOS*†††	25.5	25.5	25.6	28.4	26.9	27.0	45.8	7%
MNE	40.3	39.1	40.1	40.3	43.2	44.3	49.6	43%
SER	37.9	35.8	35.5	37.7	41.7	42.2	43.8	73%
MKD	38.7	38.9	39.0	40.6	41.2	42.1	43.6	69%
<b>SEE</b>	<b>39.7</b>	<b>38.6</b>	<b>38.3</b>	<b>38.4</b>	<b>40.1</b>	<b>40.1</b>	<b>44.4</b>	<b>9%</b>

Source: LFS, National Statistics

†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.

††In order to achieve the consistency and comparability between the 2014 data and the already issued data for previous years, the data for the period from 2007 to 2013 have been revised in terms of weighting – weights have been applied according to the 2011 Census data applying the calibration method.

†††Baseline for Kosovo\* revised due to LFS methodology changes in 2011; baseline from 2012; estimate for 2015

**The employment target has seen the least progress of all SEE 2020 targets.** The economic downturn hit the region’s employment figures particularly hard, with SEE shedding approximately 170,000 jobs in the 2010–13 period. This trend began to reverse in 2014 and 2015, but the region still has a long way to go in terms of meeting the target, which seems highly unlikely under the current growth scenarios. SEE would need to add approximately 160–170,000 jobs each year until 2020 to reach the 44.4% employment target.

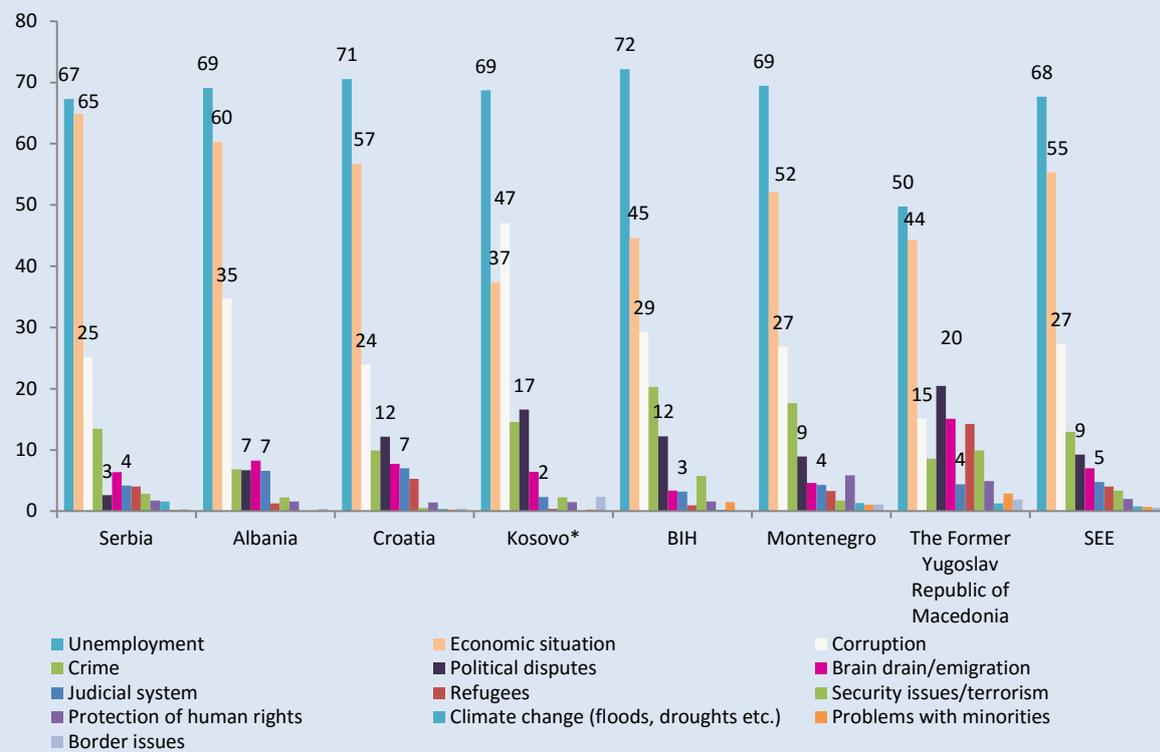
**The employment performance in the region is extremely diverse, with Serbia and The Former Yugoslav Republic of Macedonia leading the way.** Employment figures for 2015 in Albania, Bosnia and Herzegovina and Croatia are all below the 2010 baseline, with Croatia being hit the hardest (over 160 thousand jobs lost in 2010–13 period). On the other hand, The Former Yugoslav Republic of Macedonia has been adding new jobs throughout the period, indicating that labour market reforms implemented and the proactive FDI policy and promotion paid off during the period. Serbia has also rebounded in the last two years and is currently closest to achieving the 2020 target.

**A more detailed analysis of labour market data indicates particular challenges for specific groups of populations.** Participation rates of women and youth remain considerably below those of men and the averages for the economies. Female employment rates approximately average two thirds of male employment rates, while youth employment rates are mostly less than half of overall employment rates. Among those employed, the share of vulnerable employment (which involves unpaid family workers and own-account workers as a percentage of total employment) remains considerable and affects every third or fourth employed person. On average, between 60% and 80% of those unemployed have been so for more than a year.

**The emphasis that the SEE 2020 Strategy puts on job creation is echoed by the citizens of the region.** For the second year in a row, the Public Opinion Survey of the Balkan Barometer 2016 confirms unemployment as the number one priority. When asked what they think are the two most important problems facing the economy, about seven out of 10 people in SEE referred to unemployment. Along with the economic situation, this stands out as their major concern.

**Figure 9: Unemployment still the biggest concern of SEE citizens**

*What do you think are the two most important problems facing your economy?  
(all respondents, N=7002)*



Source: Balkan Barometer 2016

**In their annual Economic Reform Programme Documents, all economies have recognised the priority given to structural reforms in the labour market.** The latest joint conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey propose concrete measures that address both demand and supply side obstacles for job creation. Of particular importance is the promotion of productivity and employability through increasing educational attainment and developing Vocational Education and Training as well as work-based learning systems. Effective social dialogue, public employment services and labour inspection are all required if labour markets are to function better.

This has also been reflected in the latest set of ERPs, where the economies have committed to instigating some labour market structural reforms, including amendments to labour market legislation for increased market flexibility, ensuring effective and efficient labour market policies and strengthening the capacities of public employment services, enhancing the alignment of education and skills with labour market needs, and structured dialogue with social partners.

**Table 16: Overview of the main employment-related reforms planned in the 2016 ERPs**

<b>Economy</b>	<b>Key structural reform proposed</b>	<b>National response in ERPs</b>
<b>Montenegro</b>	Amend labour market legislation to further market flexibility Better align education and skills with labour market needs	New labour law aimed at increasing flexibility in the labour market Active labour market policies Development of qualifications based on learning outcomes in accordance with the needs of the labour market
<b>Serbia</b>	Adopt a comprehensive and well-targeted set of active labour market policies (ALMP) Education system reform	Improve the effectiveness of ALMPs (including early profiling of the unemployed) with a special emphasis on youth, redundant workers and long-term unemployed Establishing the national qualifications framework aimed at increasing competences
<b>The Former Yugoslav Republic of Macedonia</b>	Improve the employability of workers by better aligning skills with labour market needs Amend labour market legislation Structured dialogue with social partners regarding the implementation and review of the master plan	Profiling of unemployed persons and designing an individual employment plan Education and qualifications for all Equal education opportunities
<b>Albania</b>	Improve the relevance of training to the needs of the labour market	Improve quality and coverage of VET while ensuring linkages with the labour market Modernise public employment services, increase employment of women, youth and vulnerable groups
<b>Bosnia and Herzegovina</b>	Reduce labour market rigidities Reduce skills gaps	Provide the conditions for employment growth Introduce new labour legislation and support real sector employment in RS Establish a fund for the mobility of students and teachers in FBiH
<b>Kosovo*</b>	Align the education system to make it more responsive to the labour market Bring into operation the recently established Public Employment Service	Establish professional standards and implement a core curriculum and teacher training Capacity building of PES Wage subsidy initiative Implement and improve career system for teachers

**Box 5: Employment and Social Affairs Platform**

The *Employment and Social Affairs Platform* (ESAP) is a regional project financed by the European Commission to the amount of 3 million EUR, jointly implemented by the RCC and ILO in Albania, Bosnia and Herzegovina, Kosovo\*, Montenegro, Serbia and The Former Yugoslav Republic of Macedonia. The three-year project, with implementation beginning in 2016, aims to strengthen regional cooperation and help develop institutional capacities of national administrations and employers and workers organisations, enabling them to develop and effectively implement labour market and social policy reforms in the EU-enlargement process. Given the regionally shared labour market challenges and the common process of enhancing economic governance in the EU-accession process, the regional approach of this project will add value in each economy's labour market policy-making and implementation process.

Specifically, the project aims to:

- Enhance regional cooperation and establish a structured regional Employment and Social Affairs Platform
- Support the processes for preparation, monitoring and follow-up of the integrated ERPs (employment and social component) and monitoring of the current ESRPs
- Enhance the capacities of the relevant administrations to improve policy outcomes and policy reviews related to the prioritised employment, human capital and social policies
- Strengthen the capacities of public employment services (PES) and the existing PES Network with a view to facilitating the SEE 2020 labour mobility objective and prepare for future participation in the European Employment Services (EURES)

**The health sector does not feature prominently on the national reform agendas.** The Economic Reform Programmes make little reference to the health sector per se. Health expenditures are considered important from the point of view of the sustainability of public finances. The ERPs recognise the broader goals of fostering social inclusion, combatting poverty and promoting equal opportunities as important priorities. Access to quality health services is one of the key considerations in this regard. At the same time, the long-term sustainability of the health systems remains at risk.

**Citizens of the region perceive corruption in the health sector to be a serious concern.** In terms of public opinion, an important perception of citizens of the Western Balkan economies is that the health care sector is particularly corrupt (26% of respondents). This is probably in part due to the fact that most health services need to be paid for irrespective of the existence or the coverage of public health insurance. Paying for health services is probably seen as inequitable: those who have money get preferential treatment, which is seen as a corrupt practice.

**Health expenditures on the decline.** Health insurance coverage is relatively high (between 86.6% in The Former Yugoslav Republic of Macedonia and almost 100% in Montenegro, while the public sector health expenditures as a percentage of GDP have been declining in many economies between 2010 and 2015. This decline was most prominent in Montenegro (by 11%), followed by The Former Yugoslav Republic of Macedonia (by 4.6%), while in Serbia and Bosnia and Herzegovina the expenditures have maintained a stable share. Expenditures on prevention, even though they are important investments in the long-term health of the population, have also experienced a negative trend, mostly due to budgetary restrictions. Of the economies that reported this set of data, Serbia's reduction of 45% in terms of expenditure on prevention between 2010 and 2015 (as a share of overall health expenditure) has been the most pronounced, while in Bosnia and Herzegovina the prevention expenditure levels as a share of the total health budgets have been mostly stable.

**Health reforms are tackling different problems in SEE.** A varied set of activities is being planned or implemented throughout the region to improve the health systems:

- Albania aims to establish a system for monitoring and measuring social inclusion across several policy domains including health.
- The entity governments in Bosnia and Herzegovina have set a strategic commitment to improve the health care system and the health of all citizens. Measures to reform the health care system will address the issues of debt of the health care sector, introducing a treasury system and defining new models and sources of financing.
- Kosovo\* is currently unable to provide full universal health care access, and available health services are assessed as being of weak quality. As a first step, the government is implementing a health information system.
- The Former Yugoslav Republic of Macedonia recognises the need to improve health infrastructure, deliver appropriate health services and upgrade equipment and technology.
- In Montenegro, the government is looking to improve the organisation of health care system and ensure the financial sustainability of health protection system. This includes training medical personnel, rationalising expenses, introducing more restrictive lists of medicines, standardising and accrediting health institutions, and establishing an integrated information system.

- In Serbia, the development and improvement of the national broadband communications infrastructure includes the possibility of developing e-health services. Improving the national quality infrastructure system ensures better health due to usage of safer products.

## Implementation of SEE 2020 activities during the reporting period

The main activities implemented under the Inclusive Growth pillar related to the promotion of labour mobility within the Employment dimension, with the establishment of a Joint Working Group on Recognition of Professional Qualifications and the identification of priority sectors and professions. Moreover, together with DG Employment and the ILO, the RCC worked on the development of the Employment and Social Affairs Platform, the implementation of which started in the second quarter of 2016. In the Health dimension, the SEE Health Network focused on the promotion of health goals through two high-level meetings and the development of regional projects on universal health coverage, governance for health, and cross-border public health.

**Table 17: Implementation of Inclusive Growth actions during 2015/2016**

Measures/Actions	Achievements 2015/2016	Expected Results 2016/2017
<b>Dimension L: Employment</b>		
<p>Ensure greater labour mobility</p> <p>Assess current labour mobility policies and develop a regional programme to facilitate greater labour mobility among SEE economies, thereby improving job opportunities</p>	<ul style="list-style-type: none"> <li>Proposals from RCC-financed study on labour mobility assessed by governments and informed CEFTA negotiations on liberalisation of trade in services</li> <li>Establishment of the Joint Working Group on Mutual Recognition of Professional Qualifications and prioritisation of two sectors (health and construction) and four professions (medical doctors, dentists, architects and civil engineers)</li> <li>Mapping and assessment study conducted, aimed at identifying sectors and professions of mutual interest where potential agreements on mutual recognition might be concluded</li> </ul>	<ul style="list-style-type: none"> <li>Regulatory, institutional and market analysis for the four professions prioritised</li> <li>Negotiations on mutual recognition agreements for at least one priority profession to begin</li> </ul>
<p>Enhance labour market governance for employment</p> <p>Improve region's abilities to develop and implement employment policies</p>	<ul style="list-style-type: none"> <li>Establishment of the EC-sponsored regional Employment and Social Affairs Platform (ESAP)</li> <li>Launch of a regional project to support activities of the ESAP</li> </ul>	<ul style="list-style-type: none"> <li>Provision of technical assistance to public employment services and ministries in charge of labour and social policy</li> <li>Development of a working paper series on employment and social policy and production of the annual labour market report</li> <li>Capacity development in costing and budgeting</li> <li>Provision of technical assistance to develop employment-related ERP measures</li> <li>Benchmarking methodology for PES</li> <li>Peer-review methodology for</li> </ul>

Measures/Actions	Achievements 2015/2016	Expected Results 2016/2017
		PES <ul style="list-style-type: none"> <li>• First peer review conducted</li> <li>• Development of the main set of indicators to track performance on ERP (employment and social policies) and ESRP implementation</li> </ul>
Stimulate an enabling environment for social economy  Assess potential for further development of social economy and agree on a programme of actions to improve environment for social economy initiatives	<ul style="list-style-type: none"> <li>• Development of an overview of social economy initiatives in SEE through the RCC small grants programme</li> </ul>	<ul style="list-style-type: none"> <li>• Follow up through information exchange between regional social economy initiatives</li> <li>• Preparation of proposals for necessary legislative changes to enable social economy initiatives</li> </ul>
<b>Dimension M: Health</b>		
Support national efforts to improve performance of health system at all levels of care  Increase awareness on the relevance of health policies to socio-economic policies in areas such as trade, labour mobility, investment, access to education, etc.  Harmonise cross-border public health legislation  Enhance cooperation between the Health dimension and other SEE 2020 dimension/pillar coordinators	<ul style="list-style-type: none"> <li>• High level promotion of SEE 2020 health goals including ad hoc meetings of ministers of health and High Level Meeting and 26<sup>th</sup> Plenary of the SEE Health Network</li> <li>• Development of regional projects on Universal Health Coverage, Governance for Health, and Cross-Border Public Health</li> <li>• Provision of detailed inputs to OECD's Competitiveness Outlook Report</li> <li>• Delivery of several workshops and events on the development of regional cross-border public health standards and procedures</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of feasibility studies on:</li> <li>• Opportunities for investments in health</li> <li>• Cross-border public health and coordinated regional actions and response to emergencies</li> <li>• Establishment of SEE regional database on cross-border health issues</li> <li>• Provision of technical support for greater alignment between educational institutions and health service institutions</li> </ul>

## Key recommendations

Labour markets in the Western Balkan economies need to become more flexible in order to increase their ability to accommodate greater employment. In this respect, reducing labour market rigidities through amendments to labour market legislation should make employment creation more attractive to the private sector.

Given the limited fiscal space, there is a general consensus that public employment services need to step up their efforts to deliver on their objectives within their limited means. Active labour market policies, including public employment schemes, training and retraining programmes and employment subsidies need to become more clearly available to the unemployed and to deliver skills that the labour market needs.

Developments in the labour market need to be more closely reflected in the education system in order to reduce existing skills gaps and to provide the necessary skills mix that the future workforce

will need. The establishment and development of a qualifications framework in line with the needs of the labour market remains an important priority for all economies.

Employment creation requires a comprehensive and coordinated multi-sector approach at the national level, placing job creation and human development at the centre of policy-making. The majority of jobs needed in Western Balkan economies should come from the private sector, and governments should thus focus their efforts on stimulating an enabling environment for the development of private sector initiatives, ensuring a level playing field and supporting building the right skills mix among the population.

Given the overall perception of corruption in health and the fact that the fiscal space in the Western Balkan economies will remain limited in the near-to-medium term, more needs to be done to increase the efficiency of spending on public health, while aiming to maintain a similar level of total expenditures for the sector. In this sense, prevention remains a key element and needs to be supported in the context of social determinants of health.

At the regional level, harmonising cross-border health-related legislation will enable the easier flow of goods, services and people. The capacities of the health workforce should be strengthened and ways of supporting circular labour mobility in the sector identified while attempting to avoid a brain drain.

Key recommendations for the Inclusive Growth dimensions during the 2016–17 period include:

- **L. Employment:** (i) Support national efforts on labour market reforms through direct assistance to the relevant ministries and public employment services and targeted capacity development. (ii) Develop the analytical base for evidence-based policy making in the employment and social dimension, including the necessary regional databases. (iii) Enable best practice sharing on employment policy and implementation of employment measures within the region and with the relevant EU institutions and Member States.
- **M. Health:** (i) Explore opportunities for investments in health, including the involvement of private sector partners. (ii) Develop means and instruments to address cross-border public health issues and coordinated regional actions and responses to emergencies. (iii) Provide technical support for greater alignment between educational and health service institutions.

## II.5 Governance for Growth

### Overview

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

**Good governance is a cross-cutting issue that impacts all other policy dimensions of SEE 2020.**

Effective and efficient public services, low levels of corruption in public sector practices and a competent and efficient judiciary represent the cornerstones of an investment-conducive and business-friendly environment. Elements of good governance touch upon each and every policy dimension of the SEE 2020 Strategy and have the ability to (positively or negatively) impact the outcomes of other, sectoral measures undertaken in its implementation. This view is reinforced by the EU Enlargement Strategy's approach of 'fundamentals first', listing the rule of law and public administration reform as key areas to be tackled within the framework of European integration of the SEE. Furthermore, both the public and business prioritise good governance reforms – the Balkan Barometer surveys indicate that governance-related reforms have the highest potential in influencing the overall public and business opinion. This correlates with the assessment that improvement in the total factor productivity, where legal institutions and governance play crucial roles, can significantly boost growth.

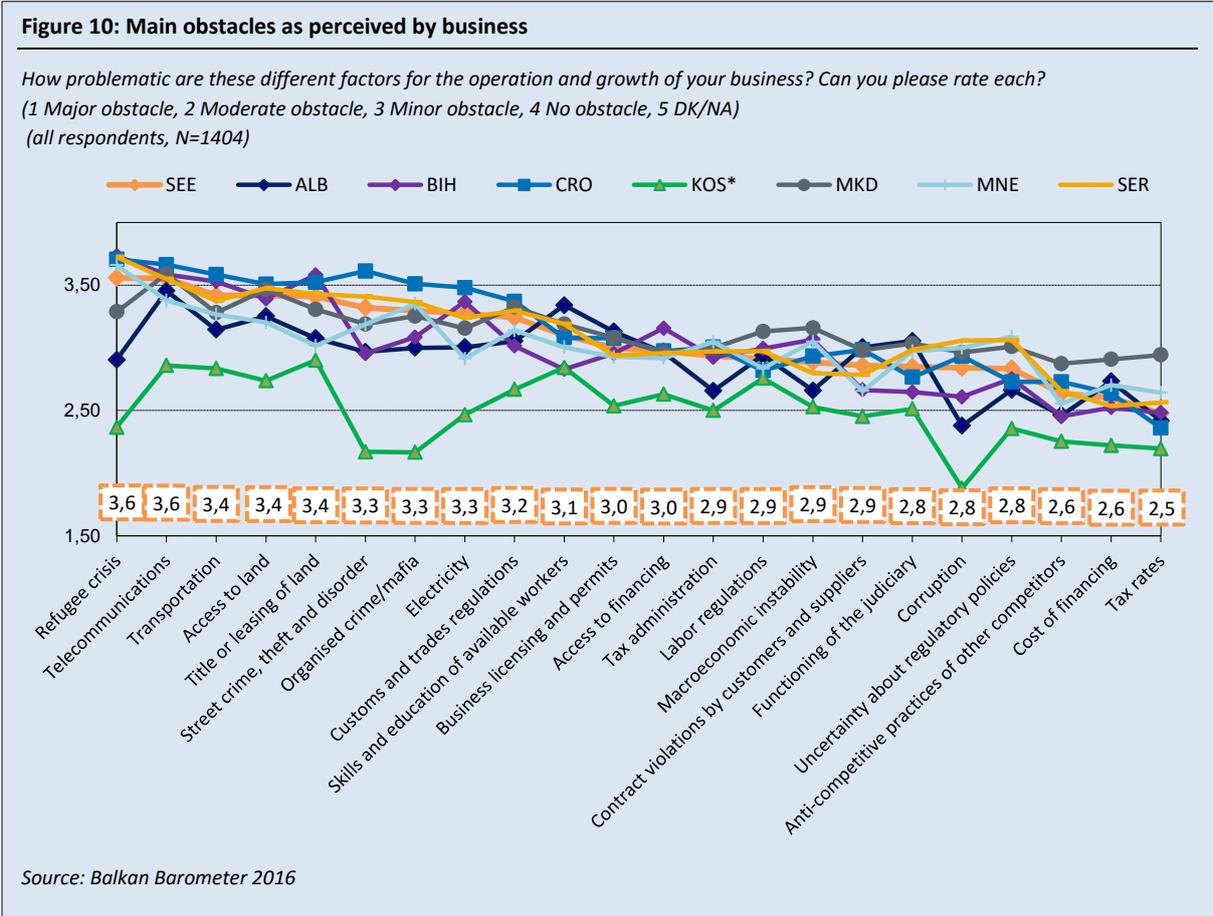
Economy	2010 (baseline)	2011	2012	2013	2014	2020 (target)	Progress towards target at 2014
ALB	2.2	2.3	2.2	2.2	2.4	2.7	45%
BOS	1.8	1.7	2.0	2.0	2.0	2.1	73%
CRO	3.1	3.1	3.2	3.2	3.2	3.8	10%
KOS*	1.9	2.0	2.1	2.1	2.2	2.3	77%
MNE	2.6	2.6	2.6	2.7	2.8	3.1	36%
SER	2.4	2.4	2.4	2.4	2.6	2.9	29%
MKD	2.3	2.4	2.4	2.4	2.7	2.8	65%
<b>SEE</b>	<b>2.3</b>	<b>2.4</b>	<b>2.4</b>	<b>2.4</b>	<b>2.6</b>	<b>2.9</b>	<b>37%</b>

*Source: Worldwide Governance Indicators ([www.govindicators.org](http://www.govindicators.org)), normalised on a 0-5 scale, where 5 is best*

**The headline target for this pillar is to improve the effectiveness of governments, as measured by the World Bank's Governance Index, from 2.33 in 2010 to 2.9 in 2020.** The index is a composite index 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 region is showing steady progress in reaching the Governance for Growth target.** In the period 2010–14, the region has come 37% closer to reaching the target, which, should the current trend continue, is broadly achievable by 2020. However, the overall government effectiveness ratings are still the lowest in Europe, with only Croatia above the threshold of 3 on a scale of 1 to 5 in 2014. In terms of individual economy performance, both Bosnia and Herzegovina and Kosovo\* have achieved most progress, albeit starting from the lowest baseline in the region. On the other hand, Croatia which had by far the highest baseline in 2010 has made only modest progress towards reaching the 2020 target. Given the broad scope of the indicator, the results should not be over-interpreted as further observation would be necessary to draw conclusions on this progress.

**The problems that businesses face are predominantly governance-related, linked directly to institutional, legal and policy frameworks.** Taxes, corruption, unfair competition, legal uncertainty and instability are among the main complaints of businesses surveyed in the Balkan Barometer (see Figure 10). While rated high in all economies of the region, in some they are perceived as the main stumbling blocks (for example organised crime, corruption and disorder are reported as the main obstacles to business operations and growth by respondents in Kosovo\*).



During the reporting period, the RCC and its Regional Dimension Coordinators in this pillar (ReSPA, NALAS, RAI) have focused on creating the preconditions for and supporting regional cooperation in areas related to public administration reform, improvement of effective public services (public administration reforms and capacity building), building institutional capacities and public awareness

to combat corruption, enhancing regional cooperation and capacity building in justice, and enhancing mutual trust.

The tools used by the RCC and its implementing partners to achieve these goals were different policy analyses, benchmarking studies and methodologies based on the needs of the stakeholders, networking, facilitating peer support, and training at the regional level. Increased focus was given to strengthening partnerships with the public and non-government organisations as ways to reach out to wider public audiences.

### Implementation of SEE 2020 activities during the reporting period

In the *Effective Public Services* dimension, 96 training events, networking and capacity-building activities in the thematic areas related to SEE 2020 were implemented. Close to 2000 civil servants participated in these activities for a total of 5311 participant days. In this regard, a significant amount of training material has been compiled and disseminated in the region. Moreover, 11 regional benchmark studies were developed, including Baseline Analysis on Better Regulation, Baseline Analysis on One Stop Shop Solutions in the Western Balkans and several others.

In the area of *Anti-corruption* two studies relating to preventing corruption were developed and disseminated: the Anti-corruption Assessment of Laws (the Corruption-proofing of Legislation) and Corruption Risk Assessment in Public Administration. A three-year donor-funded programme for the implementation of corruption proofing and corruption risk assessment in national legislation and practice has been initiated to help transpose the methodologies developed into national frameworks. With regard to the efficiency and transparency of public procurement as another preventive measure against corruption, ReSPA is conducting a regional study on public procurement that is anticipated to set clear joint objectives to all regional partners. In cooperation with the NGO Blueprint for Free Speech, the first baseline Report on whistle blowers legislation and practice in South East Europe was prepared. Finally, the Summer School for Junior Anti-Corruption Practitioners from SEE was organised on financial investigations and the recovery of crime-related proceeds. The event had the added value of strengthening regional cooperation between anti-corruption professionals and sharing expertise and experience from the region.

In the *Justice* dimension, three studies on best practices in the area of efficiency of judiciary were developed ('E-enforcement system on the basis of authentic documents', 'Court backlog reduction programmes in the region and some EU Member States and case weighting system', 'Report on a comparative overview and analysis of good practices with identification of elements of a court-annexed mediation programme and a comparative study on accreditation and certification systems') with recommendations for judicial authorities. The implementation of recommendations and their results are revisited at the meetings of the Working Group on Justice. SEE networks of Judicial Training Institutions and of the Associations of Mediators have been established as platforms for exchanging experiences and for peer-to-peer support. In the process of establishing and supporting these regional networks, the RCC has cooperated closely with the GIZ Open Regional Fund-Legal Reform team.

**Table 19: Implementation of Governance for Growth actions during 2015/2016**

Measures/Actions	Achievements 2015/2016	Expected Results 2016/2017
<b>Dimension N: Effective Public Services</b>		
Upgrade policy and regulatory capacities	<ul style="list-style-type: none"> <li>• The Baseline Analysis on Better Regulation has identified strengths and weaknesses in the Western Balkan economies with 2015 as the baseline</li> <li>• ReSPA Working Group on Better Regulation discussed at length how to better measure implementation of RIA tools on business environment and growth</li> </ul>	<ul style="list-style-type: none"> <li>• The better regulation baseline tables produced by the study will be used for benchmarking on an annual basis</li> <li>• Activities will be geared towards improving consultation processes (both inter-governmental and public consultations in the process of drafting legislation); strengthening RIA in the context of EU accession and creation of national versions of the acquis; including full RIA in the process of legislation in the area of Administrative Law; and overall raising of political awareness in the region on the importance of a strategic approach towards better regulation</li> </ul>
Improve the quality of public services	<ul style="list-style-type: none"> <li>• Regional studies completed:               <ol style="list-style-type: none"> <li>1) Baseline Analysis on One Stop Shop Solutions in the Western Balkans</li> <li>2) Abuse of IT for Corruption</li> <li>3) Comparative Study on Conflict of Interest</li> <li>4) Public Procurement with a Focus on e-Procurement and Irregularities in Public Procurement</li> <li>5) Comparative Analysis of Lessons Learned from Recent Developments in the Implementation of Public Private Partnership Projects in the Western Balkans</li> <li>6) Legal Remedies in Administrative Procedures</li> <li>7) Methodologies used for the Preparation of Strategies on Public Administration Reform in the Western Balkans</li> <li>8) Feasibility Study on an International Instrument on Data Exchange for Income and Asset Declarations, including a Draft Model Memorandum of Understanding on Data Exchange</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>• Support economies in the implementation of recommendations of regional comparative studies in the agreed areas</li> <li>• Conduct a quality management (QM) study and initiate a QM regional centre within ReSPA</li> </ul>

Measures/Actions	Achievements 2015/2016	Expected Results 2016/2017
	9) A needs assessment was conducted and specifications prepared for ensuring quality in public administration and public services	
Introduce a procedure for continuous improvement of competences of public officials (professionalization)	<ul style="list-style-type: none"> <li>Regional Comparative Study: Improving Implementation of Merit Recruitment Procedures in the Western Balkans: Analysis and Recommendations</li> </ul>	<ul style="list-style-type: none"> <li>Coaching programmes for public administration managers will be developed and delivered in order to strengthen their leadership and managerial capacities</li> <li>Support to public administrations will be provided to develop competency framework in national legislations</li> </ul>
<b>Dimension O: Anti-Corruption</b>		
<p>Transparent rules</p> <p>Competitive procedures</p> <p>Use best practice methodologies for assessing corruption risk in public institutions in SEE 2020 economies</p> <p>Enhance 'corruption-proofing' of legislation in SEE 2020 economies</p> <p>Capacity building for law enforcement agencies and judiciary</p>	<ul style="list-style-type: none"> <li>Regional methodologies for corruption-proofing of legislation and corruption risk assessment adopted by stakeholders</li> <li>Regional methodologies translated in all SEE 2020 languages and circulated</li> <li>Best practices in competitive public procurement identified and discussed with practitioners</li> <li>Summer school on financial investigations held for junior anti-corruption officials</li> <li>Series of regional capacity-building events for anti-corruption agencies strengthening regional cooperation and information exchange</li> </ul>	<ul style="list-style-type: none"> <li>Tailored technical assistance on corruption-proofing of legislation and corruption risk assessment delivered to different SEE economies, leading to tailored models and compatible national methodologies</li> <li>Enhanced skills among law enforcement and judiciary personnel via TA and training programmes</li> <li>Greater cooperation between regional law enforcement agencies and judiciaries</li> </ul>
Ensure greater awareness among civil society of actions to combat corruption and better cooperation across organisations	<ul style="list-style-type: none"> <li>Regional Study providing an overview of whistleblower protection in SEE produced and discussed at international conference</li> <li>Several NGOs have formed the SEE Whistleblower Anti-Corruption Coalition</li> <li>Promotion of cooperation between the public sector and civil society via joint activities and capacity-building / information events</li> </ul>	<ul style="list-style-type: none"> <li>Greater awareness on options to strengthen whistleblower protection and capacity of public institutions to deal with whistleblowers via series of regional events</li> <li>Improved capacity of civil society to influence policy-making and decision-making processes with regard to anti-corruption and good governance through concerted actions of the Coalition</li> </ul>
<b>Dimension P: Justice</b>		
<p>Improve education</p> <p>Improve efficiency of courts,</p>	<ul style="list-style-type: none"> <li>Recommendations from the final report on 'Court Backlog Reduction Programmes in the Region and EU'</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of recommendations on court backlog reduction underway in</li> </ul>

Measures/Actions	Achievements 2015/2016	Expected Results 2016/2017
enhance quality of justice and improve competences of judges and prosecutors	<ul style="list-style-type: none"> <li>reviewed by key stakeholders at international conference</li> <li>• Preparations underway to establish the SEE Judicial Training Institutions Network</li> <li>• Several EU Member States providing inputs on best practice</li> </ul>	<p>SEE economies</p> <ul style="list-style-type: none"> <li>• Network of SEE Judicial Training Institutions fully functional and cooperation with EU judicial training institutions established</li> <li>• Enhanced competency of SEE judicial personnel facilitating greater cross-border cooperation</li> <li>• Report on 'Best Practices in the EU for Training Needs Analyses and Evaluation for Judicial Training' completed</li> </ul>
<p>Improved exchange of information</p> <p>Strengthen cross-border judicial cooperation in business-related legal and judicial areas (e.g. bankruptcy, mergers and acquisitions, company registration)</p>	<ul style="list-style-type: none"> <li>• Recommendations for an 'E-enforcement system on the basis of authentic documents' discussed by key stakeholders at international conference</li> <li>• GIZ-supported process to draft and negotiate a regional instrument for recognising documents and decisions in civil and commercial matters underway</li> <li>• Two meetings of the Working Group on Justice held to evaluate progress and approve planned activities</li> </ul>	<ul style="list-style-type: none"> <li>• Synchronised instruments of e-enforcement based on authentic documents finalised</li> <li>• Implementation of recommendations on e-enforcement underway at regional and national level</li> <li>• Enhanced regional cooperation in commercial and civil matters including functional cooperation between prosecutors in cross-border cases</li> </ul>
<p>Enhance support for Alternative Dispute Resolution mechanisms</p> <p>Introduce or improve legislation on ADR and enable proper legal and institutional cooperation with the judiciary</p>	<ul style="list-style-type: none"> <li>• Finalisation and discussion of report providing a comparative overview of and best practices on court related mediation including certification systems</li> <li>• Preparations underway for the establishment of the SEE Network of Associations of Mediators</li> <li>• Mediation and cross-border cooperation promoted via several regional events</li> </ul>	<ul style="list-style-type: none"> <li>• Transfer of several court cases to court-related mediation, thereby improving efficiency</li> <li>• Network of SEE Associations of Mediators fully functional and cooperation with EU networks established</li> <li>• Enhancement of skills and improved cooperation between judges and mediators</li> <li>• 2016 Meeting of SEE 2020 Ministers for Justice to provide high level political support for greater judicial training and use of mediation</li> </ul>

## Key recommendations

The public and business perception indicators in the Balkan Barometer are a serious warning that the reforms in public administrations and of the judiciaries in the region have not achieved the expected results. This is evidence that reforms undertaken by the governments in the accession process do not have the expected impact on the everyday life of citizens or the business community. In addition, this poor public perception on the quality of governance, on corruption and on the judiciaries in SEE undermines the legitimacy of the related institutions, resulting in a spiral of deteriorating public

trust. The role of the RCC and its partners is to continue to support the reform processes – government institutions at central and local level, judiciaries and enhancing anti-corruption measures – but at the same time contribute to raising public awareness on the developments and concrete results of these reforms.

Key recommendations for the Governance for Growth dimensions during the 2016–17 period include:

- **N. Effective Public Services:** (i) Implement benchmarking on better regulation on annual basis. (ii) Improve consultation processes (both inter-governmental and public consultations in the process of drafting legislation), strengthen the Regulatory Impact Assessment (RIA) in the context of EU accession and create national versions of the *acquis*, including full RIA in the process of legislation. (iii) Support economies in the implementation of recommendations of regional comparative studies in the agreed areas. (iv) Conduct a quality management (QM) study and initiate a QM regional centre within ReSPA. (v) Implement coaching programmes for public administration managers to strengthen leadership and managerial capacities. (vi) Support public administrations to develop a competency framework in national legislation.
- **O. Anti-corruption:** (i) Provide technical assistance on corruption-proofing of legislation and risk assessment to SEE economies, leading to tailored models and compatible national methodologies. (ii) Enhance skills among law enforcement and judiciary personnel via technical assistance and training programmes and strengthen regional cooperation. (iii) Raise awareness on options to strengthen whistleblower protection and the capacity of public institutions to deal with whistleblowers. (iii) Improve the capacity of civil society to influence policy-making and decision-making processes with regard to anti-corruption and good governance.
- **P. Justice:** (i) Implement recommendations on court backlog reduction. (ii) Establish cooperation between the Network of SEE Judicial Training Institutions and EU judicial training institutions. (iii) Implement capacity development programme for judiciary personnel on cross-border cooperation. (iv) Finalise the report on ‘Best Practices in the EU for Training Needs Analyses and Evaluation for Judicial Training’. (v) Put in place procedures to transfer court cases to court-related mediation.