

Project Fiche – IPA Multi-beneficiary programmes

1 IDENTIFICATION

Project Title	"Next Generation Competitiveness" (NGC) project
CRIS Decision number	2013/024091
Project no.	06
MIPD Sector Code	3. Private Sector Development
ELARG Statistical code	02.20 – Enterprise and industrial policy
DAC Sector code	25010
Total cost¹ (VAT excluded)	EUR 5 000 000
EU contribution	EUR 4 900 000
Management mode	Joint Management
Implementation management	European Commission DG Enlargement Unit D.3 in joint management with OECD
Implementing modality	Stand alone project
Project implementation type	Contribution Agreement
Zone benefiting from the action(s)	Western Balkans: Albania, Bosnia and Herzegovina, Croatia, Kosovo*, the former Yugoslav Republic of Macedonia, Montenegro, and Serbia

¹ The total project cost should be net of VAT and/or of other taxes. Should this not be the case, clearly indicate the amount of VAT and the reasons why it is considered eligible.

* 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

2 RATIONALE

2.1 PROJECT CONTEXT: ISSUES TO BE TACKLED AND NEEDS ADDRESSED

Between 2000 and 2008 the economies of the Western Balkans experienced rapid growth, modest inflation, contained budget deficits and increased macro-economic stability. However, since 2008 the onset of the current economic crisis has exposed the structural vulnerabilities in the Western Balkans such as the low contribution of the region's knowledge base to economic growth and the fragmented nature of the region's value chains.

The Multi-beneficiary MIPD 2011-13 states in the Private Sector Development chapter (section 3.4.1):

“The economic and financial crisis hit the economies of the Western Balkans strongly. In order to support sound recovery and generate future growth for the region the main challenges besides **access to financing**, are to develop efficient mechanisms to **raise competitiveness**, including competence of human capital, improving the business environment to attract FDI and trade facilitation, including better marketing and access to markets. Moreover, private sector needs to increase efforts to strengthen research and innovation capacity.

In order to increase competitiveness, businesses need to move further up the value chain and offer specialised, high quality and high value-add services and products. The development of a regional investment strategy could provide investors with the opportunity to gain economies of scale by working in a region where one trade and investment area exists and where business support services are promoted.”

As part of its response package to mitigate the effects of the crisis in the Western Balkans, the European Commission has been supporting the seven economies in undertaking policy reforms with the aim of increasing medium to long-term competitiveness.

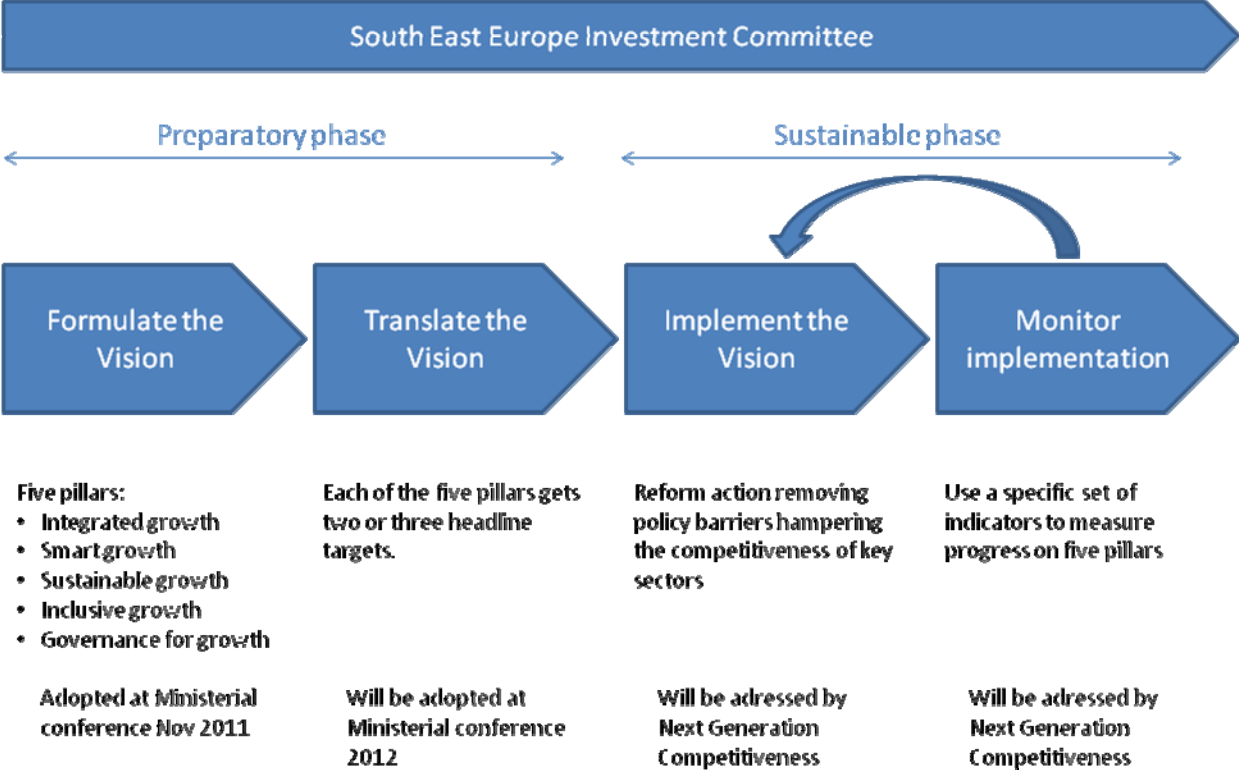
Recognising the need for structural reforms to improve the competitiveness of the region, ministers of economy from South East Europe (SEE) endorsed the “2020 Vision for South East Europe” at their Ministerial Conference in Paris on 24 November 2011. This roadmap sets the course for the development through five pillars (see Annex 3):

- 1) *Integrated growth* which means deepening trade and investment linkages between SEE economies' respective markets to maximise economic gains and raise the efficiency of value chains;
- 2) *Smart growth* which means using knowledge as a lever for wealth creation. The region can move to higher value-added activities if innovation is properly nurtured and skills developed and used to their fullest extent possible;
- 3) *Sustainable growth* which refers to raising private sector competitiveness and entrepreneurship, as well as fostering greener and more energy-efficient development;
- 4) *Inclusive growth* which refers to growth through skills development, employment creation and labour market participation by all, including vulnerable groups and minorities; and
- 5) *Governance for growth* which refers to improvements in public administration capacity to strengthen rule of law and reducing incidents of corruption.

Following the adoption of the above roadmap at Ministerial level, the South East Europe Investment Committee (SEE IC), chaired by the Regional Co-operation Council (RCC) and Albania has taken the responsibility of a target-setting process to determine a set of headline targets as concrete goals for the implementation.

Following this preparatory phase, the SEE IC will enter the sustainable phase comprising of cycles of (i) implementation and (ii) monitoring of this vision.

The whole process is depicted in the following diagram:



The Next Generation Competitiveness project in the Western Balkans (NGC) is designed to support the SEE Investment Committee in helping the economies in the Western Balkans meet their commitments contained in the SEE 2020 Vision by addressing the lack of a competitive and innovative private sector in the Western Balkans.

Building on past experience of the OECD in Western Balkans, and transferring best practice from the European Union itself, the project will adopt a sector-specific approach to help the region strengthen regional value chains which can make it competitive in global terms.

The project on 'Sector-specific Sources of Competitiveness' was carried out by the OECD Investment Compact for South East Europe from 2008 to 2010. Three sectors were studied: automotive, textile and ICT. The project resulted in the identification of key policy barriers to competitiveness in the three sectors along with an action plan to eliminate or at least mitigate the effects of those barriers.

In parallel, DG Enterprise and Industry of the European Commission facilitates sector-specific fora to enable more competitive and better functioning supply chains, e.g. the Forum for a Better Functioning Food Supply Chain. More recently, the Commission launched the Smart

Specialisation Platform, a network designed to help Europe's regions exploit their full potential and become competitive on a global scale.

The project will thus support the implementation of the SEE 2020 vision by

- Support to implementation: Strengthening the competitiveness of key economic sectors in the Western Balkans; and
- Monitoring, evaluating and assessing the policy reforms and institutional settings which are necessary for meeting the commitments contained in the SEE 2020 Vision.

2.2 LINK WITH MIPD AND NATIONAL SECTOR STRATEGIES

The NGC project will address the overall MIPD priority:

“Help Beneficiaries overcome the economic and financial crisis and prepare for sound recovery by jointly working on increasing competitiveness and investments in infrastructure.”²

The specific MIPD sector that the project addresses is 3.4 Private Sector Development.

The sector objectives are quoted as:

“Support in the area of private sector development and investment aims to raise regional competitiveness, increase competence of human capital, attract investments, facilitate trade and establish a business climate conducive to the development of SMEs.”

The NGC project directly supports the objectives of the MIPD by addressing structural economic problems such as the lack of competitiveness and insufficient leveraging of regional value chains in key economic sectors. The NGC will focus upon three specific economic sectors deemed to possess comparative advantages vis-à-vis EU members and other international actors and where regional value chains exist. By supporting the implementation of the SEE 2020 Vision, which is directly inspired by the Europe 2020 agenda, the NGC project will assist the beneficiaries to implement reforms to enable them to take on the obligations of eventual EU membership.

The results of the SEE 2020 monitoring and benchmarking process will also support DG Enlargement in identifying priorities for IPA and monitoring the progress of reforms.

The NGC complements the sector strategies included in National Development Plans and National Plans for the adoption of the *acquis*. For example, several National Development Plans target the agrifood and tourism sectors as strategic sectors where policy support is being directed.³

² Instrument for Pre-Accession Assistance (IPA), Multi-Annual Indicative Planning Document 2011-2013, Multi-Beneficiary, Section 2.6. Selected priorities for EU assistance, fifth bullet point, pg. 13.

³ Without prejudice to the final selection of sectors by the beneficiaries, these sectors could be the ones covered by the NGC provided they prove to possess a comparative advantage and contain a regional value-chain.

2.3 LINK WITH ACCESSION PARTNERSHIP (AP) / EUROPEAN PARTNERSHIP (EP) / STABILISATION AND ASSOCIATION AGREEMENT (SAA) / ANNUAL PROGRESS REPORT

The NGC project will help the seven Western Balkan beneficiaries meet their commitments contained in the South East Europe (SEE) 2020 Vision by addressing the lack of a competitive and innovative private sector in the Western Balkans.

The NGC will address the following priorities which were spelled out in the Annual Progress Reports:

- Chapter 1 - Free movement of goods;
- Chapter 2 - Freedom of movement for workers;
- Chapter 3 - Right of establishment and freedom to provide services;
- Chapter 4 - Free movement of capital;
- Chapter 7 - Intellectual property law;
- Chapter 8 - Competition Policy;
- Chapter 16 – Taxation;
- Chapter 19 - Social Policy and employment;
- Chapter 20 - Enterprise and industrial policy; and
- Chapter 25 - Science and research.

The NGC will also contribute to national plans and EU integration by establishing three regional industry working groups. The groups will be inspired by the structure of EU industry working groups under the auspices of DG Enterprise.⁴

2.4 PROBLEM ANALYSIS

From 2000 to 2008 the Western Balkan economies experienced buoyant growth which was reflected by increased industrial production, high FDI inflows, and expansion of GDP. This period of growth went hand-in-hand with a set of positive policy developments some of which were influenced by the focus on EU accession and the adoption of the European norms and standards, as well as a growing awareness of the benefits from regional co-operation, particularly in trade and infrastructure development.

However, despite strong growth, the Western Balkans region has continued to face a series of unresolved policy and structural economic challenges. These include:

- A business sector that undertakes only few innovations, mostly limited to changes in processes rather than in radical (research-based) forms of innovation, while linkages with tertiary education institutions are weak almost everywhere;

⁴ ec.europa.eu/enterprise/sectors/automotive/working-groups/index_en.htm as an example of the automotive industry group. Where appropriate, the NGC will seek inspiration from other EU instruments and actions such as the EU Small Business Act, the Competitiveness and Innovation Framework Programme (CIP), and PRO-INNO.

- An export profile dominated by low-skill services and natural-resource intensive products, while per capita exports of goods and services are lower than in relevant comparative countries. This results in sizeable trade deficits in all the beneficiaries.
- Pervasive skills gaps, exacerbated in a number of countries by significant emigration of skilled workers.
- Non-tariff barriers to trade due to evolution of technical standards, as well as sanitary and phyto-sanitary regulations.
- Fragmented efforts of investment promotion resulting in insufficient impact with potential investors.
- Labour market rigidities which constitute a barrier to free movement of skilled labour.
- Fragmented capital markets and inadequate insolvency frameworks leading to difficulties in accessing finance especially for SMEs.
- High incidence of corruption and informal economy hampering the development of competitive markets.

The economic crisis in 2008 quickly spread to the Western Balkans and significantly affected the real economy. For instance, net FDI inflows fell to just over EUR 1.5 billion in 2010 from EUR 7.6 billion in 2008, while GDP (in current prices) contracted to EUR 105 billion in 2010 from EUR 115 billion in 2008.

The abrupt slowdown in European export markets underlines the weak competitive standing of many Western Balkan firms. Success in raising the volume of exports will depend on closer regional cooperation through the development of value chains, especially in sectors where complementarities exist. As shown in the figure below, these complementarities can be found in several sectors, where the different economies have revealed comparative advantage (RCA)⁵ at different points in the value chain. For example, this analysis shows that a sector-specific working group could be established in the food, beverages and tobacco sector.⁶

In this sector, Serbia has an advantage in the export of raw materials whereas the former Yugoslav Republic of Macedonia and Moldova have an advantage in exports of intermediary goods while importing raw materials. Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia and Montenegro have advantages in exports of final goods while importing intermediaries. Actors from the sectors could find mutually beneficial arrangements by doing more business with each other within the region in order to improve global competitiveness.

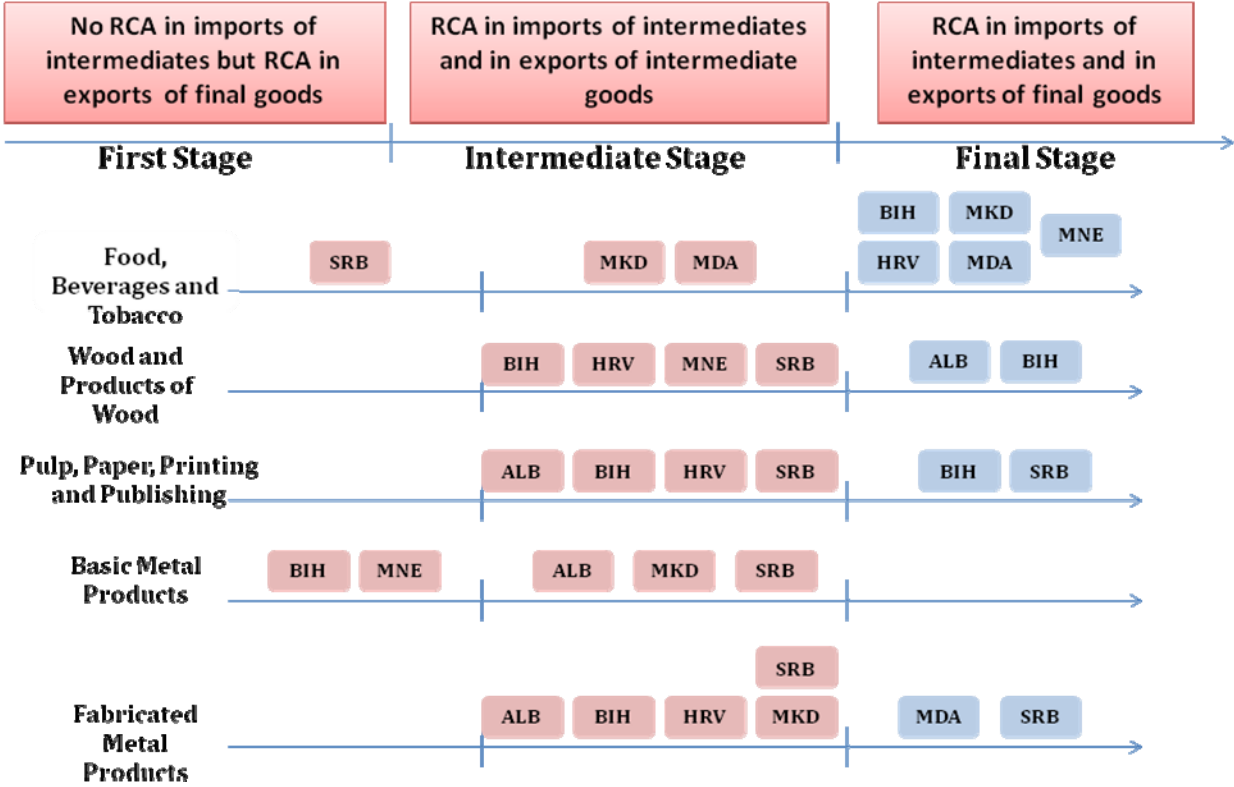
This is because regional supply chains can be much more effective and efficient since they use the advantage of geographical and cultural proximity thereby reducing costs and improving competitiveness. A similar case can be made for the wood-processing sector, the metals sector as well as the pulp paper, printing and publishing sector.

⁵ The CEFTA parties include: Albania, Bosnia and Herzegovina, Croatia, Kosovo*, the former Yugoslav Republic of Macedonia, Montenegro, Moldova and Serbia.

⁶ Revealed comparative advantage (RCA) captures relative trade specialisation dividing an industry market share by the manufacturing market share for exports (or imports).

Given that the economies in the Western Balkans vary in size from a more advanced transition economy like Croatia to a much smaller economy such as Montenegro, improving and facilitating regional value chain development will be a crucial factor in raising the competitiveness of the Western Balkans more broadly. The likelihood of finding complementarities between firms along the value chain is higher in a situation where economies vary in size and where those comparative advantages become more pronounced. If all of the Western Balkan economies were the same size, this task would be more challenging.

Table 1. Revealed comparative advantage in selected intermediate and final goods



Governments in the Western Balkans are now making policy decisions that may have long lasting effects on the medium and long-term competitiveness of their economies. In line with countries around the world, they are employing different mechanisms to try to improve economic activity in the face of the global crisis. The NGC project will provide direct capacity building support to improve the outlook for three Western Balkan sectors by removing constraints to value chain development.

2.5 LINKED ACTIVITIES AND DONOR COORDINATION

The NGC project will build on the results of two previous EU funded projects: Regional Competitiveness Initiative (RCI) 2010–2012 under IPA and the Sector Specific Sources of Competitiveness (SSSC) project 2008-2010. The NGC project will also complement EU-funded work in the area of regional value-chain identification by the CEFTA Secretariat. The NGC will benefit from projects of the ETF and the South East Europe Centre for Entrepreneurial Learning (SEECCEL) for skills needs assessments.

For instance, the analytical results from the CEFTA value-chain analysis will provide guidance on where trans-national business linkages in the Western Balkans exist. Consultation

will also be made with DG Enlargement's Private Sector Programming Group to avoid duplication.

Cooperation and coordination with related initiatives will be a high priority throughout the implementation of the programme. The OECD implementation team will actively seek to cooperate and coordinate with other relevant regional and national initiatives and a detailed mapping of such initiatives and other international donor efforts will be undertaken at the outset of the programme to ensure their involvement as soon as possible. This should allow the NGC to benefit from potential synergies and to avoid duplication or contradiction of effort.

At regional level, the OECD has already developed a good working relationship with the RCC and will work closely with this organisation on the implementation of this Action which addresses at least two of the RCC's six priority areas (economic and social development and human capital development).

Results from previous OECD activities in the region such as the RCI, IRI, CEFTA-related analysis on industry concentration and regional supply chains and the SME Policy Index will inform the development and implementation of activities under the NGC.

The Business Advisory Council for South Eastern Europe, which comprises senior executives from South Eastern European and international companies active in the region, has expressed interest in cooperating with the OECD in this programme.

At the international level, the OECD team will seek to involve as appropriate a number of international organisations active in the different fields such as:

- The European Commission: in addition to DG Enlargement, other DGs including Enterprise and Industry, Employment, Social Affairs and Equal Opportunities, Research, Trade, and Education and Culture (EAC).
- The European Training Foundation (ETF)
- International Financial Institutions including the World Bank, the EBRD, the EIB and the Council of Europe Investment Bank.

2.6 LESSONS LEARNED

The Action builds on the OECD's previous experience in implementing EC-funded projects such as the RCI under IPA and the SSSC project 2008-2010. They demonstrated that several competitiveness-related issues such as over-reliance on cost competitiveness, looming skills gaps, inadequate innovation and lack of policy monitoring mechanisms to address barriers to development continuously were common in the whole region.

Relevant lessons learned include the importance of high-level political commitment, local ownership and the development of tailored development tools. In addition, a strong focus on the regional aspect is needed.

The lessons learned from previous evaluations will be specifically reflected in the structures established to implement this project. The OECD will rely on the composition of the SEEIC to ensure continuity with previous actions and will encourage a greater participation by women.

3 DESCRIPTION

3.1 OVERALL OBJECTIVE OF THE PROJECT

The overall purpose of the NGC project is to improve the competitiveness of the Western Balkan economies by supporting the implementation of the SEE 2020 Vision.

The NGC is important as it will help remove structural barriers to growth. This is consistent with the Copenhagen Criteria which call for the development of a functioning market economy and the capacity to meet the competitive pressures of the Single Market.

The concrete public benefits which the project will bring include:

- Support to implementation:
 - An open, sector-based, regional network of Western Balkan businesses and government officials to promote competitiveness and sharing of best practices;
 - A set of policy tools and actions which will ensure sustainable improvement of competitiveness in key sectors of the Western Balkans economies Those tools can subsequently be transferred and applied in other economic sectors to increase their competitiveness; and
- Monitoring:
 - A transparent and publically-accessible monitoring process to ensure the SEE 2020 Vision is being implemented.

3.2 SPECIFIC OBJECTIVE(S) OF THE PROJECT

The specific project objectives for the NGC include:

- Facilitation of regional industry working groups modelled after the DG Enterprise best practice, in three sectors where regional complementarities can support competitiveness in global markets;
- Determination of potential constraints which limit the development of those sectors (e.g. poor infrastructure, incoherent policy frameworks, absence of public sector-private sector partnerships, low spending on innovation, minimal investment in skills and human capital development);
- Definition of policy actions for each identified constraint;
- Launch of pilot projects of support to implementation (e.g., these projects would help beneficiary governments to implement components of the action plans developed in the point above but on a reduced scale); and
- Sharing of lessons learned through regional workshops;
- Development of a comprehensive monitoring tool to track implementation of the SEE 2020 Vision – the tool will consist of 100+ indicators measuring progress on the five pillars contained within the Vision (see Annex 2); and

- Proceed with the baseline measurement as a key step towards the implementation of the SEE 2020 Vision and a means to prioritise policy reforms under the five pillars.⁷

3.3 RESULTS

The NGC project will support the implementation of the SEE 2020 Vision and achieve the following results:

Result 1: strengthening the competitiveness of three key economic sectors in the Western Balkans.

- Identification of three sectors with the most potential to contribute to the SEE 2020 Vision’s goals and the establishment of three regional, sector-based, industry working groups modelled after the EU’s industry groups.⁸
- Assessment of key barriers to investment in these three priority economic sectors with intra- and extra-regional value chains and definition of actions required to remove these impediments to growth and competitiveness.

(Examples include: insufficient frameworks for the development of skills required in the labour market, identification of incoherence in policy frameworks, absence of public sector-private sector partnerships, insufficient incentives for spending on innovation, inadequate legal frameworks for investor protection, inflexible labour laws.)

- Launch one pilot project in each identified economic sector to remove barriers to growth.

(Examples include: (i) implement a framework for skills gaps analysis in a given sector and identifying corrective actions to be taken in terms of internships, lifelong learning, training and curricula adaptation; (ii) implement a region-wide “Triple Helix”⁹ partnership project which would result in concrete innovative products and services; (iii) identify main non-tariff barriers to trade in the sector which would allow better flow of goods and services across the region, and design measures to remove those barriers; (iv) implement a common investment and/or export promotion scheme for the end product of a regional value chain; (v) initiative to improve mobility of professionals across the region to allow skill pooling.)

⁷ I) Smart growth, II) Sustainable growth, III) Inclusive growth, IV) Integrated growth and V) Governance for growth (see Annex 2).

⁸ See the types of sector working groups established in the EU: http://ec.europa.eu/enterprise/sectors/automotive/working-groups/index_en.htm.

Without prejudging the eventual sectors, examples of working groups could be established in sectors covering agri-food, tourism, energy, or automotive.

⁹ i.e. links between academia, industry and policy makers.

Result 2: monitoring, evaluating and assessing the policy reforms and institutional settings necessary for meeting the commitments contained in the SEE 2020 Vision.

- Using the approach developed for the Investment Reform Index (IRI), the NGC will measure overall progress in achieving SEE 2020 Vision commitments based on five thematic growth pillars (*Smart, Sustainable, Inclusive, Integrated, and Governance*) and identification of policy constraints and reform priorities;
- Based on the assessment described above, the NGC will identify specific actions, policy guidance, and recommendations under each of the five thematic pillars to support the full implementation of the SEE 2020 Vision, leading to reforms such as better intellectual property enforcement to motivate innovation or improvements in curriculum to better meet business needs. These recommendations can inform the priority-setting for IPA programming and reform progress monitoring;

Performance indicators have been developed for all levels of the log-frame in partnership with the beneficiaries through such structures as SEEIC.

3.4 MAIN ACTIVITIES

The main activities for Results 1 and 2 will be divided into two phases, a preparatory phase and an implementation phase as described below:

Activities for Result 1: Strengthening the competitiveness of three specific sectors

Preparatory phase

- Action 1: Short-listing of those sectors in the Western Balkans where supply chains existing on the basis of analysis already developed for the CEFTA parties.
- Action 2: Mapping of institutions, programmes and existing donor initiatives that support short-listed sectors, in order to avoid duplication of efforts.
- Action 3: Organisation of a meeting with NGC operational contact points to identify the three best candidates for sector specific working groups, based on results from quantitative research complemented by expert opinions.
- Action 4: The sectors identified in action 3 will then be vetted by the SEEIC.
- Action 5: Once the SEEIC has agreed to the three sectors, identification of relevant stakeholders to participate in the three sector-specific working groups.

Implementation phase

- Action 1: Once the three sector working group participants are identified and vetted by the SEEIC, the OECD project team would organise the first meeting of the sector groups.
- Action 2: One of the first tasks of the sector groups will be to identify the most pressing constraints which limit private sector expansion and greater regional cooperation. This work will be informed by OECD analysis for the CEFTA Secretariat on supply chain development, as well as by the IRI monitoring process.
- Action 3: Following the identification of constraints and barriers to private sector expansion, the sector groups will define the most appropriate strategies and actions to

address these constraints. An illustration of the types of strategies and actions which could be developed, for example in the food sector, can be found in the reports and recommendations contained in the EU Expert Platform on the competitiveness of the agro-food industry.¹⁰

- Action 4: Each of the three sector groups would then decide on a specific pilot project which would aim to remove one of the barriers identified in action 2 and consistent with the strategies proposed in action 3. The sector-specific working groups would also facilitate the creation of a pipeline for regional projects which would exploit opportunities for greater regional cooperation.

(As an illustration, one of the pilot projects could include implementing a skills gap analysis for one sector across the Western Balkans with a view to developing an internship scheme. Other examples of potential pilot projects are listed in annex 4.)

- Action 5: Each sector working group would identify the individuals who would work with the OECD in mixed teams to implement one pilot project per sector group. Each pilot project team would include a representative from each beneficiary.
- Action 6: Following the identification of pilot project teams, the implementation of each pilot project would begin and last for 12 months. A typical pilot project would consist of best practice transfer in the policy domain concerned, from the OECD and transition country area, capacity building of officials, expert help in designing specific policy measures or institutions, organisation of stakeholder consultations, company surveys, etc.
- Action 7: Once completed, a pilot project would be reviewed to assess its immediate impact with an emphasis on identifying the important lessons learned during implementation. These lessons learned would be shared among the operational contact points and the SEEIC.
- Action 8: Six months after completion of the pilot project, the OECD project team would evaluate the effectiveness of the pilot projects and report back to the SEEIC.

Activities for Result 2: SEE 2020 monitoring

Preparatory phase

- Action 1: Review existing Investment Reform Index (IRI) policy measurement framework and adaptation to five SEE 2020 growth pillars. This will include extensive consultations with Western Balkan and international experts (such as EC experts) on which quantitative and qualitative indicators should be removed and included. In this phase, OECD know-how will be used in different areas such as innovation, education policy, tax, trade, investment etc.
- Action 2: Based on consultations in action 1, the OECD project team will prepare a draft assessment questionnaire which will be circulated to the SEEIC.
- Action 3: The SEEIC will be asked to verify the new measurement framework including policy dimensions and along with the quantitative and qualitative indicators.

Implementation phase

¹⁰ See ec.europa.eu/enterprise/sectors/food/competitiveness/forum_food/index_en.htm

- Action 1: Once the SEEIC endorses the SEE 2020 monitoring framework, and following the established tripartite methodology with proven track record in the Investment Reform Index (IRI), it would be sent as: (i) a self-assessment questionnaire to beneficiary governments, (ii) representatives of the private sector, and (iii) independent third-party experts.
- Action 2: Once the OECD project team receives the completed questionnaires from all participating stakeholders it would assign preliminary scores. These would be sent to the operational contact points in order that review and reconciliation meetings can be organised in each beneficiary economy. These meetings would involve the participation of government representatives, the private sector and independent third party experts. The purpose of these meetings is to understand where discrepancies exist between self-assessments by government, the private sector and independent third parties. Those meetings also induce learning for government officials when confronted with different views and arguments.
- Action 3: Following the reconciliation meetings, the OECD will produce a first draft assessment. This assessment will be sent to beneficiaries, EC and other international institutions for consultation.
- Action 4: Once comments are received on the first assessment the OECD project team would revise the document and send it to the SEEIC for vetting.
- Action 5: Following the SEEIC's final endorsement the OECD would publish the new IRI assessment.
- Action 6: The OECD project team would then organise round-tables in each beneficiary economy to prioritise the most pressing reforms to address policy gaps identified by the new IRI. These round-tables would involve all relevant stakeholders (i.e., government, business, academics and NGOs).
- Action 7: In addition to identifying priority reforms, the OECD project team would work with the beneficiaries and relevant stakeholders to define specific policy actions which each beneficiary could implement. These actions would also include regional actions.
- Action 8: Following consultations in the beneficiaries the policy recommendations and actions would be submitted to the SEEIC for discussion and eventual endorsement.

3.5 ASSESSMENT OF PROJECT IMPACT, CATALYTIC EFFECT AND CROSS BORDER IMPACT

The regional scope of the NGC will ensure that the impact across borders arising from the implementation of pilot projects in the three sector specific working groups will be felt. The project teams will consist of OECD officials and representatives from the seven Western Balkan beneficiaries. Each sector-specific project will focus upon increasing the competitiveness and investment potential of the entire region.

This is in line with the overall MIPD priority of helping beneficiaries overcome the economic and financial crisis and prepare for sound recovery by jointly working on increasing competitiveness and investments in infrastructure¹¹ as well as the specific MIPD sector objective which is to *“raise regional competitiveness, increase competence of human capital,*

¹¹ Ibid, Instrument for Pre-Accession Assistance (IPA), Multi-Annual Indicative Planning Document 2011-2013, Section 2.6. Selected priorities for EU assistance, fifth bullet point, pg. 13

attract investments, facilitate trade and establish a business climate conducive to the development of SMEs.”

3.6 SUSTAINABILITY

Key elements and conditions which will ensure the sustainability of the project’s results:

- Use of existing sustainable regional structures like the SEEIC as the NGC’s oversight body;
- A mix of public and private sector participation in the industry working groups;
- Consultation with the business community and independent experts in the Western Balkans as a means of verifying implementation of SEE 2020 commitments;
- Involvement of EC experts during the life of the project to ensure that the policy actions recommended are fully compatible with EU and other international commitments.

A key focus of the NGC project is the creation of streamlined, inter-related and sustainable regional structures that can continue to act as engines for the development and implementation of competitiveness enhancing policies.

The efforts made under the project to ensure appropriate public and private sector participation in these structures, the evolution of the leadership role of the beneficiaries and the availability of adequately tailored analytical and management tools will contribute to their capacity to function following completion of the project.

The actions recommended under the project should result in improved policies in key sectors of the economies. The involvement of international experts including those from the EC during the life of the project will ensure that the policy actions recommended are fully compatible with the EU and other international commitments of the beneficiaries. Consequently, they should not have to make any radical changes to them on their path to EU accession.

3.7 ASSUMPTIONS AND PRE-CONDITIONS

The main risks associated with the project include:

3.7.1 Political Commitment

Given the range of government ministries and agencies to be involved in the programme, it will be necessary to secure high-level political support to ensure the necessary commitment in terms of participation of relevant staff in activities and willingness to use the analytical and management tools under the programme. It is proposed that the SEEIC act as the project steering committee.

Support required from beneficiaries includes the allocation of appropriate staff to the various sector working groups and programme structures and the gathering of relevant data for the different programme elements. Governments will also be asked to actively engage in dialogue with the business community. Those participating in the pilot projects will also be asked to provide a full account of their experiences under the project.

The OECD will coordinate closely with the RCC to secure high-level political support from the governments of the region, for example through raising the issue on the agenda of relevant ministerial meetings of the South Eastern European Cooperation Process.

3.7.2 Administrative Capacity

The administrative capacity of the various beneficiaries varies. The use of regional sector working groups will ensure that pilot projects proceed with those beneficiaries who are able to commit the necessary resources and that delay and insufficient resources by one or more beneficiaries will not impede progress in the overall programme.

The OECD Implementation Unit will provide expert, technical and administrative support to the beneficiaries throughout the programme. However, this support can only complement local resources and does not replace them or act in a vacuum.

The analytical and management tools developed under the pilot programmes will be tailored for use by each beneficiary and thus be adapted to take account of the specific administrative capacity.

3.7.3 Local Ownership

The highly consultative nature of the programme will play a key role in securing active local ownership of programme outputs. Local officials and business people will be involved in all programme activities from the outset.

3.7.4 Interest of the Business Community

The active involvement of the business community throughout the region will be encouraged from the very start of the NGC project. The OECD's experience in involving the business community in determining the results for each country under the Investment Reform Index is that the business community is anxious to play a constructive role in improving the overall policy climate in the various economies.

The business community must be assured that the governments are committed to the NGC project and that action will be taken on the basis of the analysis and recommendations resulting from the various activities. Unambiguous declarations of support from governments and regular updates on actions in the region will be required.

The opportunities to network with governments, international experts and fellow business people from the region and beyond will provide a significant incentive for the business community to remain involved in the programme.

4 IMPLEMENTATION ISSUES

The NGC will be implemented using existing regional structures.

(i) South East Europe Investment Committee (SEEIC)

The SEEIC will be the main regional body and at the outset of the Action will comprise representatives of the beneficiaries, the OECD, the EC, RCC and other relevant regional bodies/initiatives e.g. the South East Europe Centre for Entrepreneurial Learning as well as

representatives of the business community. It will provide the OECD implementation team with high-level guidance and support throughout the lifetime of the NGC. The SEEIC will act as the steering committee for this project.

The SEEIC will also provide the necessary forum for co-ordination and co-operation with other relevant regional initiatives.

(ii) Operational contact points

As a means of coordinating with beneficiary officials at working level, the NGC will establish operational contact points to assist in the implementation of the sector-specific working groups and the SEE 2020 monitoring. The operational contact points will be the first point of contact point for the OECD implementation team. The operational contact points will be responsible for organising meetings in their respective economies when the OECD implementation team visits, identifying representatives to sit on the sector specific working groups, and coordinating government responses to the SEE 2020 questionnaire. The operational contact points for the NGC project will individuals on the RCI Steering Committee.

(iii) Sector specific working groups

The sector-specific working groups will consist of industry and government representatives from each beneficiary. The OECD project team will manage the sector-specific working groups with the assistance of the operational contact points. The working groups will be modelled after similar EU industry working groups managed by DG Enterprise¹². They will be responsible for implementing pilot projects. The pilot project teams will contain officials from the OECD and members of the sector-specific working group. This model was used for the implementation of pilot projects during the RCI project.

iv) OECD Investment Compact for South East Europe

The OECD Investment Compact for South East Europe will be responsible for the design, management and implementation of the Action. The NGC Project Manager will assume overall responsibility for the NGC ensuring overall coherence of the programme and that the objectives and deadlines are met. He/she will have particular responsibility for developing and maintaining co-ordination with beneficiaries and external organisations. Each component of the Action will have an assigned OECD coordinator: 1) sector specific working groups; and 2) SEE 2020 monitoring. External consultants will be used as appropriate.

¹² ec.europa.eu/enterprise/sectors/index_en.htm

4.1 INDICATIVE BUDGET

PROJECT TITLE			SOURCES OF FUNDING									
			TOTAL EXPENDITURE	IPA CONTRIBUTION		NATIONAL CONTRIBUTION						OECD CONTRIBUTION
	IB (1)	INV (1)	EUR (a)=(b)+(e)	EUR (c)	% (2)	Total EUR (d)=(x)+(y)+(z)	% (2)	Central EUR (x)	Regional/Local EUR (y)	IFIs EUR (z)	EUR (e)	% (3)
Activities 1 to 2												
Contract 1	x		5 000 000	4 900 000	98						100 000	2
TOTAL IB			5 000 000	4 900 000	98						100 000	2
TOTAL INV												
TOTAL PROJECT			5 000 000	4 900 000	98						100 000	2

Amounts net of VAT

(1) In the Activity row, use "X" to identify whether IB or INV

(2) Expressed in % of the **Total** Expenditure (column (a

4.2 INDICATIVE IMPLEMENTATION SCHEDULE

Contracts	Start of Tendering/ Call for proposals	Signature of contract	Project Completion
Contract 1	N/A	Q1 2013	Q4 2015

4.3 CROSS CUTTING ISSUES

4.3.1 *Equal Opportunities and non discrimination*

The OECD implementation team will emphasise at the outset that the composition of any of the project structures - such as the operational contact points, sector-specific working groups, and pilot project implementation teams - should reflect a gender balance.

4.3.2 *Environment and climate change*

The development of policy responses and implementation of pilot projects will take into account the main pillars of the SEE 2020 Vision (see annex 3). Paragraph I.iii) of the SEE 2020 Vision specifically calls for actions to be greener and encourage more energy-efficient development.

4.3.3 *Minorities and vulnerable groups*

The development of policy responses and implementation of pilot projects will take into account the main pillars of the SEE 2020 Vision (see annex 3). Specifically, paragraph I (iv) of the SEE 2020 Vision specifically calls for policy reforms and actions to encourage greater participation of, including vulnerable groups and minorities.

4.3.4 *Civil Society/Stakeholders involvement*

The development of this project proposal has included detailed consultations with various stakeholders including government officials, as well as representatives of the business and academic communities in the Western Balkans. The RCI Working Groups on Innovation and Human Capital discussed the NGC proposal in Split, Croatia on 10 June 2011.

Both the monitoring of SEE 2020 commitments and the implementation of sector-specific working groups rely on the active participation and contributions of stakeholders outside of government. The OECD project implementation team will continue the practice of encouraging the participation of relevant stakeholders in the implementation of this project.

ANNEXES

Documents to be annexed to the Project fiche

- 1. Log frame**
- 2. Amounts (EUR) contracted and disbursed per quarter over the full duration of the project**
- 3. Description of Institutional Framework**
- 4. Details per EU funded contract where applicable**
- 5. SEE 2020 Vision**
- 6. Examples of potential pilot projects used in the Western Balkans Regional Competitiveness Initiative**

ANNEX 1: Logical framework

LOGFRAME PLANNING MATRIX FOR Project Fiche		Next Generation Competitiveness Initiative	Number: 05	
		Contracting period expires 30/11/2014	Execution period expires 30/11/2017	
		Total budget	EUR 5.000.000	
		IPA budget:	EUR 4.900.000	
Overall objectives	Objectively verifiable indicators (OVI)	Sources of Verification		
To strengthen the competitiveness of key economic sectors in the Western Balkans and support the implementation of the SEE 2020 Vision.	Positive macro-economic benefits: improved trade performance (through increased export sophistication), increased government receipts from a more productive business sector, and positive developments as regards labour market outcomes (which would in turn have positive impacts on government accounts).	<p>EC Progress Reports</p> <p>National Offices of Statistics</p> <p>National Central Banks</p> <p>EU Innovation scoreboard</p>		
Specific objectives	Objectively verifiable indicators (OVI)	Sources of Verification		Assumptions
<p>SEE 2020 Sector Specific policy reform: Expediting the implementation of policy reforms consistent with the goals of the SEE 2020 Vision with a focus on at least three specific sectors deemed to possess comparative advantage;</p> <p>SEE 2020 Monitoring: Development of a monitoring tool to track implementation of the SEE 2020 Vision on the basis of the five pillars contained within the Vision and prioritising reforms to see that the commitments contained in the Vision are met;</p>	<p>SEE 2020 Sector Specific Policy Reform: functioning regional sector-specific working groups in three sectors; new and/or adapted policy actions which support value chain development in three sectors involving all beneficiaries; identification of synergies at regional level and policy recommendations to expedite development of key sectors.</p> <p>SEE 2020 Monitoring: a revised Investment Reform Index which contains at least eight policy dimensions with a mix of qualitative</p>	<p>EC Progress Reports</p> <p>Reports on meetings of the sector specific working groups.</p> <p>Reports on the general progress of the project (OECD semi-annual progress and final reports)</p>		<p>Political commitment from beneficiaries</p> <p>Sufficient administrative capacity in the beneficiaries</p> <p>Local ownership of programme outputs</p> <p>Interest of the Business Community</p> <p>Coordination with related activities</p>

	and quantitative indicators; clear recommendations on priority reforms and actions to meet the commitments contained in SEE 2020.		
Results	Objectively verifiable indicators (OVI)	Sources of Verification	Assumptions
<p>SEE 2020 Sector Specific Policy Reform: Identification of three sectors with the most potential to contribute to the SEE 2020 Vision's goals; Assessment of key barriers to investment in the three sectors noted above; and launch of regional capacity building actions;</p> <p>SEE 2020 Monitoring: Strengthened capacity of beneficiary governments to monitor, prioritise, and implement competitiveness-enhancing reforms which meet the commitments contained in SEE 2020 Vision;</p>	<p>SEE 2020 Sector Specific Policy Reform: Establishment of three regional, sector-based, industry working groups modelled after the EU's industry groups; Identification of barriers which limit the development of regional value chains in the three specific sectors noted above; Implementation of regional capacity building projects in three selected sectors;</p> <p>SEE 2020 Monitoring: Developing policy practioner-oriented guidance and recommendations for the implementation of the SEE 2020 Vision in at least eight policy dimensions leveraging the methodology used for the IRI; and identification of specific policy constraints and reform priorities which should enable the full implementation of SEE 2020 in accordance with the five pillars of the strategy;</p>	<p>SEE 2020 Sector Specific Policy Reform: Progress reports of the European Commission; sector specific reports; strategy reports; records of working groups' proceedings.</p> <p>SEE 2020 Monitoring: Progress reports of the European Commission, reports of the South East Europe Investment Committee, publication of the Investment Reform Index in 2013.</p>	<p>Political commitment from beneficiaries</p> <p>Sufficient administrative capacity in the beneficiaries</p> <p>Local ownership of programme outputs</p> <p>Interest of the Business Community</p> <p>Coordination with related activities</p>
Activities to achieve results	Means / contracts	Costs	Assumptions
<p><i>Preparatory phase:</i> Regional value chain analysis and short-listing of target sectors</p> <p>Mapping of institutions, programmes and existing donor initiatives that support the short-listed sectors.</p> <p>Roundtable consultations in each of the beneficiaries to identify three most relevant sectors.</p>		<ul style="list-style-type: none"> • Staff costs (management, technical and administrative staff); • Consulting costs (international and local); • Travel costs (staff & consultants); • Meeting costs (regional & national) • Miscellaneous costs (company 	<p>Political commitment from beneficiaries</p> <p>Sufficient administrative capacity in the beneficiaries</p> <p>Local ownership of programme outputs</p> <p>Interest of the Business Community</p> <p>Coordination with related activities</p>

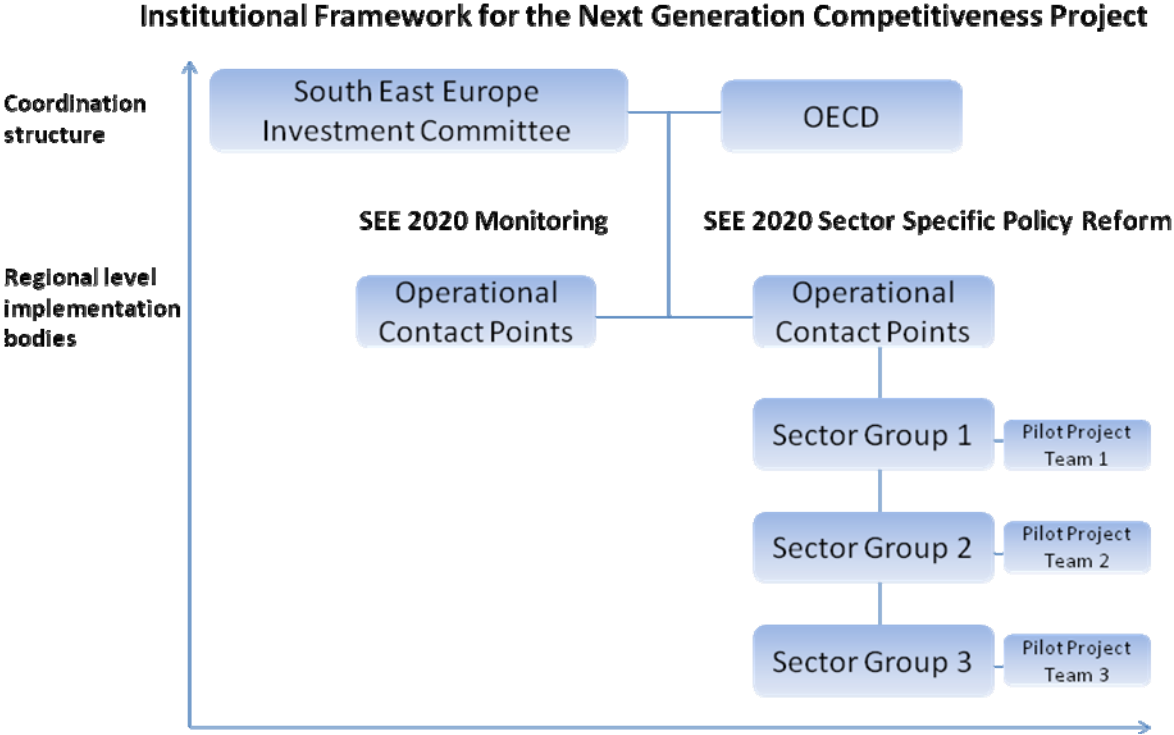
<p>Organisation of NGC Steering Committee meeting to agree on three industry working groups.</p> <p>Designation of membership for each sector specific working group.</p> <p>Review of existing IRI measurement framework and adaptation to SEE 2020 pillars.</p> <p>Revision of policy dimensions and indicators to reflect five pillars contained in SEE 2020 in consultation with beneficiaries and international experts.</p> <p>South East Europe Investment Committee to endorse monitoring framework including policy dimensions and indicators.</p> <p><i>SEE 2020 Sector Specific Working Groups:</i></p> <p>Activity 1: Set up Sector Specific Regional working groups Activity 2: Identification of key constraints hampering the competitiveness of each of the three specific sectors Activity 3: Definition of sector strategy and action Activity 4: Design of regional pilot projects in each sector specific working group Activity 5: Identification of project teams in each beneficiary Activity 6: Implementation of pilot projects Activity 7: Formal review of pilot Activity 8: Monitor reform implementation</p> <p><i>SEE 2020 Monitoring:</i></p> <p>Activity 1: Distribute framework questionnaire to governments, independent experts, and business</p>	<p>Preparatory phase: OECD staff; consultants; desk and field research; country missions; regional meetings.</p> <p>Sector Specific Policy Reform: OECD staff, international and local consultants, sector experts' interviews; country and regional missions; Organisation of sector specific working groups; Government staff dedicated to implementation of activities, pilot projects, and participating in sector specific working groups;</p> <p>SEE 2020 Implementation: OECD Staff; international and local consultants, business surveys, country missions and regional missions; Government staff dedicated to completing questionnaires and identifying priority reforms;</p>	<p>surveys, documentation, publications).</p>	
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<p>associations in the Western Balkans</p> <p>Activity 2: Conduct first assessment based on responses</p> <p>Activity 3: Organise missions in each beneficiary to reconcile assessment scores</p> <p>Activity 4: Determine final scores and present to South East Europe Investment Committee</p> <p>Activity 5: Publish IRI 2013</p> <p>Activity 6: Organise roundtables in beneficiaries to identify reform priorities based on IRI 2013</p> <p>Activity 7: Define reform priorities with recommendations on policy actions for each beneficiary.</p> <p>Activity 8: Present policy recommendations and actions to South East Europe Investment Committee for endorsement.</p>			
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ANNEX 2: Amounts (in EUR) contracted and disbursed per quarter over the full duration of project

Contracted	Q1 2013	Q2 2013	Q3 2013											
Contract 1	4.900.000													
Cumulated	4.900.000													
Disbursed	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Contract 1	1.631.958,30				1.478.824,90				1.608.417,10				180.799,70	
Cumulated	1.631.958,30				3.110.783,20				4.719.200,30				4.900.000,00	

ANNEX 3: Description of Institutional Framework



ANNEX 4: Details per EU funded contract where applicable

It is envisaged to sign in quarter 1, 2013 a Contribution Agreement with OECD and to enter into joint management, following Article 53d of the Financial Regulation and the corresponding provisions of the Implementing Rules as this organisation has prepared the activities, assessed their feasibility and defined the implementation arrangements together with the European Commission.

ANNEX 5: BUILDING A 2020 VISION FOR SOUTH EAST EUROPE

- STATEMENT BY THE CHAIR -

On the occasion of the conference on “A 2020 Vision for South East Europe” held in Paris on 24 November 2011, co-organised by the Organisation for Economic Co-operation and Development (OECD) and the Government of the Republic of Slovenia, the Chair issues the following Statement on behalf of participating Ministers and high-ranking officials from the economies of South East Europe.

During the conference, delegates:

1. **Recalled** that economic prosperity is essential to long term stability and democracy in the region and part of the European stabilisation and association process, as expressed in the EU-Western Balkans Summit Declaration in Thessaloniki on 21 June 2003 and as declared by the South East Europe Cooperation Process (SEEC) Summit of Heads of States and Governments in Zagreb, on May 11th 2007;
2. **Affirmed** the importance of regional co-operation, dialogue, openness, and good-neighbourly relations as expressed in the SEEC Bucharest Charter on good Neighborly Relations, Stability, Co-operation and Security, signed on February 12 2000 and noted in the Budva Declaration on 30 June 2011;
3. **Highlighted** the positive impact of economic reforms, market liberalisation and cross-border co-operation on growth and investment for all economies of the region in the past decade and the need to pursue structural reforms whatever the external economic environment;
4. **Underscored** the contribution of international, regional and domestic investment toward broader economic and social development and of open trade and investment policies;
5. **Took note** of the valuable contribution of the OECD Investment Compact and the South East Europe Investment Committee (SEE IC) to improving the investment environment in the region and expressed their gratitude to the OECD and the supporting institutions and governments;
6. **Welcomed** the handover of the SEE IC to the Regional Co-operation Council (RCC) as a sign of progress and of enhanced regional ownership;
7. **Recognised** the progress of the countries of the region towards European integration, as evidenced by the successful accession of Bulgaria and Romania, soon to be followed by Croatia, and of the importance of further alignment with the EU *acquis* as expressed by the European Commission Enlargement Strategy 2011-12;

8. **Underlined** the impact of the global economic crisis in South East Europe and the inherent economic vulnerabilities it has revealed, especially with regard to regional competitiveness and future growth prospects;
 9. **Emphasised** the value of continued private-public sector dialogue and co-operation towards growth and development;
 10. **Acknowledged** the progress made by the Parties to the Central European Free Trade Agreement (CEFTA 2006) to create an open, liberal and integrated regional market;
 11. **Stressed** the importance of good governance in the pursuit of sustainable economic growth;
 12. **Noted** the Chair's statement following the High-Level Meeting on the Western Balkans in Sarajevo on 2 June 2010, stating that a regional recovery and development strategy should follow the main parameters of the Europe 2020 growth strategy and take into account the specific characteristics of the Western Balkan countries;
 13. **Endorsed** a common regional vision for South East Europe as outlined in sections I, II, and Annex I of this statement;
- I. Conference participants agreed that continued economic reforms should be based on a common regional vision for South East Europe. The vision calls for the consistent implementation of economic reforms to foster integrated, smart, sustainable and inclusive growth underpinned by good governance and the rule of law. The specific elements contained in the vision include the following:
- i. **Integrated growth** through deeper regional trade and investment linkages and policies that are non-discriminatory, transparent and predictable and enhance the flow of goods, investment, services and persons within the region.
 - ii. **Smart growth** through a commitment to innovate and compete on value-added rather than labour costs in the long run. Retaining the best and brightest talent that the SEE region has to offer is inextricably linked to raising the absorptive capacity of business and research communities to use existing technologies and develop new ones.
 - iii. **Sustainable growth** through raising the level of private sector competitiveness, entrepreneurship and a commitment to greener and more energy-efficient development.

- iv. **Inclusive growth** through skills development, employment creation and labour market participation by all, including vulnerable groups and minorities.
- v. **Governance for growth** through improving the capacity of public administrations to strengthen the rule of law and reduce corruption so as to create a business-friendly environment. Good governance practices should also include promotion of balanced development at the territorial level to overcome internal disparities of SEE countries.

II. Participants agreed that greater alignment and convergence with the Europe 2020 strategy will be important for the region as it moves forward with a new economic vision. Participants requested that the SEE IC, under the auspices of the RCC and with the support of the CEFTA Secretariat, OECD, European Training Foundation (ETF) and other relevant regional partners, and in close consultation with the European Commission, report back to Ministers and high-level officials by November 2012 with:

1. A detailed assessment of the degree of economic convergence between South East Europe and the EU-27 on the basis of targets used in the Europe 2020 Strategy.
2. A proposed set of ambitious headline targets for a regional 2020 Strategy taking into account the specificities of SEE economies.
3. The results of eliminating non-tariff barriers, including the removal of remaining horizontal and sector-specific barriers to deeper regional trade and investment integration in the SEE region, with an emphasis on those barriers holding back value-chain development.
4. A map of existing and potential centres of industrial agglomeration and knowledge creation accompanied by recommendations on measures which will support:
 - i. strengthening regional business networks
 - ii. fostering clustering activity between industry and academia
 - iii. development of academic centres of excellence.

Participants invited the SEECF Chairmanship in Office and the RCC to build support for the implementation of the principles included in this Chair's Statement (see proposed Action Plan in Annex I) among SEECF members and within the framework of cooperation amongst them.

Annex 5a: Action Plan for Implementation of a SEE 2020 Strategy

To transform the vision outlined in sections I and II of this statement into reality, conference participants agreed that the following Action Plan should be pursued at regional and national levels:

1. **Integrated growth** underpinned by deeper trade and investment linkages should be pursued by:
 - i. Removing trade distortive non-tariff barriers and facilitating cross-border movement of goods in a timely fashion;
 - ii. Undertaking concerted efforts for the liberalisation of trade in services, under the auspices of CEFTA;
 - iii. Creating a regional strategy for investment promotion that builds on the work that has already been conducted by the regional working groups under the auspices of the Investment Compact and the SEEIC;
 - iv. Enforcing laws and regulations to protect intellectual property;
 - v. Supporting the work of all CEFTA bodies and structures to fulfil their respective mandates; and
 - vi. Developing a single regional capital market;

2. **Smart growth** should be built on knowledge and innovation by:
 - i. Promoting ‘triple helix’ linkages between academia, industry and policy makers;
 - ii. Promoting free flows of talent in the region by encouraging SEE economies in achieving bilateral/multilateral universal recognition of diplomas and abolishment of unnecessary visas and permits for students, academia and the business community;
 - iii. Encouraging “brain gain” through targeted networking with the diaspora and creating conditions favourable to eventual return, in particular through the establishment of a supportive entrepreneurial environment;
 - iv. Supporting private and public sector investment in R&D via coherent and regionally co-ordinated policies to enhance innovation and promote the knowledge economy and society;
 - v. Facilitating the participation of enterprises and scientific institutions from SEE in EU programmes and EUREKA and developing effective linkages with European institutions fostering innovation and knowledge (e.g., the European Institute for Innovation and Technology);
 - vi. Raising the level of knowledge absorption via policies that support existing clusters, networks, and centres of excellence to establish a regional cooperation framework fostering knowledge communities;

- vii. Promoting natural science, maths and engineering studies while enhancing the quality of education provision and existing quality assurance mechanisms;
 - viii. Using available resources and private sector expertise to substantially increase the level of combined public-private sector investment in R&D as a percentage of GDP; and
 - ix. Considering measures to support business investment in R&D.
3. **Sustainable growth** which raises competitiveness, entrepreneurship, and promotes greener and more energy efficient technologies should be supported - among others – by policy priorities conducive to doing business and investment by:
- i. Diversifying export markets, and promoting regional co-operation whenever possible to help businesses access those markets;
 - ii. Developing measures such as export guarantee schemes to support the private sector;
 - iii. Supporting private sector competitiveness by helping firms, and in particular SMEs, find niches in which they can be successful in global terms (e.g. through support of strategic consulting services);
 - iv. Strengthening regional value chains by actively supporting the creation of transnational clusters and business networks;
 - v. Promoting venture capital and business angel networks;
 - vi. Reducing the tax wedge on labour to improve competitiveness;
 - vii. Accelerating the development of critical infrastructure;
 - viii. Helping businesses develop and adopt renewable & green technologies;
 - ix. Encouraging education and training systems to deliver ‘green’ and ‘white’ skills; and
 - x. Integrating green development priorities into long-term policy making, utilising available European and international expertise, and interacting with all stakeholders of the economy on the national level.
4. **Inclusive growth**, centred on skills development, should be enhanced by:
- i. Monitoring and tracking skills needs at the regional level;
 - ii. Developing mechanisms for regional dialogue between employers and policy makers on ways to minimise skills gaps and address skills mismatches through customised training and curricula reform;
 - iii. Raising the attractiveness of vocational training and increasing employment opportunities for younger workers and promoting early

contact with the labour market, including through measures for facilitation of school-to-work transitions and removing obstacles to internships in particular;

- iv. Promoting in-company training and up-skilling of employees;
 - v. Promoting the inclusion and retraining of older workers in the labour market;
 - vi. Promoting women's employment and entrepreneurship and employment of vulnerable groups, in particular the Roma;
 - vii. Developing regional strategies to support continuous education and lifelong learning and recognition of non-formal and informal educational paths;
 - viii. Developing entrepreneurial learning as one priority for education reform;
 - ix. Increasing high quality tertiary education levels;
 - x. Providing opportunities for student exchanges enabling students to study in the region and in OECD countries; and
 - xi. Reducing the number of individuals who leave school early, with a special focus on students with disabilities, learning disabilities and socio-economic, cultural and/or linguistic disadvantages.
5. **Governance for growth** stresses the importance of good corporate and public governance as a basis for achieving the goals of smart, sustainable, inclusive and integrated growth through:
- i. Supporting the capacities of public administrations to design and implement development policies;
 - ii. Finding complementarities and synergies with other regional initiatives and mechanisms such as the Western Balkan Investment Framework and the Western Balkan Regional Competitiveness Initiative;
 - iii. Promoting the effective implementation of existing legislation governing competition, including improvement of judiciary capacities and giving high priority to enforcing the rule of law and anti-corruption measures; and
 - iv. Responsible fiscal and monetary policies.

ANNEX 6: EXAMPLES OF POTENTIAL PILOT PROJECTS USED IN THE WESTERN BALKANS REGIONAL COMPETITIVENESS INITIATIVE

Innovation pilot projects

- Services for supporting technological innovation – manufacturing extension services
- Services for supporting non-technological innovation

- Support establishment of inter-firm networks in specific sectors
- Develop programmes to spread technology-specific information
- Innovation competition
- Mechanisms to finance business services in support of innovation (e.g. voucher schemes)
- Establishment of an Innovation Fund
- Increase investment readiness
- Mapping of existing venture capital schemes
- Explore development of business angel networks
- Business plan competition
- The establishment of a Competence Research Centre (CRC)
- Assist governments in reviewing the overall policy framework for innovation
- Practices and techniques for monitoring innovation
- Identifying domestic projects for joint ventures
- Improving the “triple helix” relationship.

Human capital pilot projects

- Assist governments with systematised usage of skills gap analysis for policy making
- Review strategies for work-related training
- Review best practices in internship programmes
- Review best practices in VET and apprenticeship schemes.
- Assessment of the effectiveness and design of policies to encourage reverse migration
- Improving social networks within the region and the diaspora of highly-skilled individuals
- Review the impact of the tax system, labour market restrictions and parental support on female employment in the Western Balkans
- One-stop-shop for self-employed to start-up their own businesses
- Support the drafting of a labour market information strategy
- Map career guidance programmes in the Western Balkans
- Reviewing system of continued education training