



RegionalCooperationCouncil

---



# **SEE 2020 Annual Report on Implementation**

May 2015

**Contents**

Introduction..... 4

Overview of Progress Achieved ..... 4

Moving Forward on SEE 2020 in 2015/2016..... 7

Overall Management and Monitoring of SEE 2020 – Update 2014/2015..... 9

Progress under the Individual SEE 2020 Pillars in 2014/2015..... 11

    Integrated Growth Pillar (trade and investment) ..... 11

    Smart Growth Pillar (enhancing innovation and competences) ..... 15

    Sustainable Growth Pillar (infrastructure and competitiveness) ..... 21

    Inclusive Growth Pillar (generating employment opportunities for all)..... 30

    Governance for Growth Pillar (growth conducive environment)..... 34

## List of Acronyms

### B

BiH *Bosnia and Herzegovina*

### C

CEFTA *Central European Free Trade Agreement*

### E

EBRD *European Bank for Reconstruction and Development*

EC *European Commission*

ECT *Energy Community Treaty*

EFP *Economic and fiscal programme*

EIB *European Investment Bank*

ERI SEE *Education Reform Initiative of SEE*

ESC *Energy Community Secretariat*

e-SEE *Electronic South East Europe initiative*

EU *European Union*

### F

FDI *Foreign direct investment*

### G

GFEC *Gross final energy consumption*

GWP-Med *Global Water Partnership - Mediterranean*

### I

IFI *International Financial Institutions*

IMF *International Monetary Fund*

IPA *Instrument for Pre-Accession Assistance*

### J

JSPA *Joint Service Provision Area*

### K

KfW *Kreditanstalt für Wiederaufbau*

### M

MCSP *Multi-Country Strategy Programme*

MFP *Macroeconomic and fiscal programme*

### N

NALAS *Network of Associations of Local Authorities in SEE*

NAP *National action plan*

NTB *Non-tariff barriers*

### O

OECD *Organization for Economic Cooperation and Development*

### P

PEP *Pre-accession economic programme*

PPS *Purchasing power standard*

### R

RAI *Regional Anti-Corruption Initiative*

RAP *Regional Action Plans*

RCC *Regional Cooperation Council*

REC *Regional Environment Centre for Central and Eastern Europe*

RES *Renewable Energy Sources*

ReSPA *Regional School of Public Administration*

### S

SCRP *Structural and competitiveness reform programme*

SEEHN *South East Europe Health Network*

SEECCEL *SEE Centre for Entrepreneurial Learning*

SEEIC *SEE Investment Committee*

SWG RRD *Standing Working Group on Regional Rural Development*

### T

TFCS *Task Force on Culture and Society*

### W

WBIF *Western Balkans Investment Framework*

WISE *Western Balkans Research and Innovation Exercise*

## Introduction

This report serves as the first annual implementation report on the SEE 2020 Strategy adopted by the seven South Eastern European economies<sup>1</sup> in November 2013 and builds on the Baseline Report presented to the SEE 2020 Governing Board in June 2014. It seeks to provide all stakeholders with an overview of progress on the overall management and guidance of the Strategy and the political and economic context within which it operates. It also sets out a concise summary of the progress achieved within each of the five pillars – Integrated Growth, Smart Growth, Sustainable Growth, Inclusive Growth and Governance for Growth that comprise the Strategy.

The SEE 2020 Governing Board comprising Ministries of European Integration, SEE 2020 coordinators (normally from Ministries of Economy) and RCC Coordinators (Ministries of Foreign Affairs) will consider this report at their annual meeting in May 2015.

## Overview of Progress Achieved

The SEE 2020 Strategy has advanced on all fronts during this reporting period.

**Politically**, key elements of the Strategy such as transport, energy, competitiveness and integrated growth have secured support from the Prime Ministers of Western Balkan economies and several EU Member States through the Berlin Process launched in August 2014 and the subsequent follow-up by Ministers under the Western Balkan 6 initiative. The most recent announcement under the WB6 initiative on 21 April 2015 regarding agreement on a core regional transport network is a major boost for efforts to improve the connectivity of the region both

amongst the economies themselves and with the EU. Enhanced connectivity means improved infrastructure, a better business climate and the capacity to strengthen social capital – all part of the SEE 2020 agenda.

The EU's enlargement package of October 2014 heralded a move away from a heavy focus on *acquis* transposition and a greater emphasis on fundamentals such as rule of law, economic governance, and public administration reform. The approach now revolves around securing long-term socio-economic growth through the sustainable implementation of EU compliant policies and regulations. This policy shift is fully in line with SEE 2020's holistic integrated approach across the 5 pillars.

In addition to the major policy announcements under the WB6 initiative, policy advances have been made under a number of different dimensions. Examples include the adoption of National Plans for Renewable Energy in several economies, the achievement of a full liberalisation of trade in goods in the region following the signing of the last protocol on agricultural quotas, greater recognition of educational qualifications in line with European standards and a ministerial agreement to tackle the high cost of mobile phone roaming. Many policy areas have benefited from extensive research and analysis conducted under the auspices of the Strategy.

**Economically**, the region has continued to stagnate over the past year. Although the regional average growth rate in 2014 was zero per cent, there were notable differences between the economies as illustrated in Table 1. While Croatia and Serbia, as the largest economies in the region, recorded negative growth of -0.6 and -2 per cent respectively, the rest of the region fared somewhat better with Kosovo\* and The Former Yugoslav Republic of Macedonia, leading the pack with growth rates of 5 and 3.5 percent respectively. Bosnia and Herzegovina, Albania and Montenegro were in the middle of the group with growth rates varying between 0.5 and 1.5 per cent. Last year's floods had additionally depressed the economies,

<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.

particularly in Bosnia and Herzegovina and Serbia, causing devastating damage to the economies from which it will take some time to fully recover.

Looking forward, the growth forecasts remain cautious, with a growing consensus between different institutions that the 2020 targets could be reached only by making more radical changes in the economies and wider societies.

**Table 1. Growth rates**

<b>SEE economy</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014e</b>	<b>Avg</b>
Albania	3.7	2.5	1.6	1.4	1.5	2.4
Bosnia and Herzegovina	0.8	1	-1.2	2.5	0.5	0.1
Croatia	-1.7	-0.3	-2.2	-0.9	-0.6	-2.2
Kosovo*	3.3	4.4	2.8	3.4	5	3.8
The Former Yugoslav Republic of Macedonia	3.4	2.3	-0.5	2.7	3.5	1.8
Montenegro	2.5	3.2	-2.5	3.3	1.3	0.4
Serbia	0.6	1.4	-1	2.6	-2	-0.3
<b>SEE average</b>	<b>0.7</b>	<b>1.2</b>	<b>-0.9</b>	<b>1.5</b>	<b>0.0</b>	<b>-0.1</b>

The SEE economies continue to face major challenges in several areas. The labour markets seems to be the least functional with persistently high unemployment and low employment and activity rates, predominantly among the young who, along with the vulnerable groups, seem to be particularly disadvantaged. Women seem to be at a considerable disadvantage as well, especially in some of the economies in the region.

Corporate and banking sectors are still plagued by high levels of non-performing loans which reflect the liquidity and solvency problems. The continuation of the corporate restructuring and privatization agenda is complicated by a constrained fiscal environment which makes implementation difficult, with limited ability of governments to address the social aspect of these types of reforms.

There are opportunities as well. The economic conditions in the EU, as the main trade and investment partner of the region, are expected to improve in the medium term, lifting the SEE boats in the process. Investments, either currently implemented, or being agreed through various regional processes, would bring much needed growth, provided the governments create a more investment-friendly environment, especially for private participation in infrastructure development. Both the EU integration and the

regional cooperation processes are expected to positively affect the economic conditions in the region.

The governments have already made the first steps in this direction during 2015 with the introduction of Economic Reform Programmes that all of the Western Balkans economies prepared and submitted to the European Commission at the beginning of the year. These programmes are envisioned to systemise and prioritize reforms, ensuring policy coherence and allocation of adequate resources towards the implementation of needed reforms.

In addition to strengthening the competitiveness and economic governance, the governments will need to focus their attention in other areas as well, such as improved regional stability, acceleration of EU integration and strengthening the rule of law, which are all necessary elements for a business-conducive environment.

### **Governance**

Important progress has been made regarding the governance structures and management procedures of the SEE 2020 Strategy. Successful implementation of the Strategy requires that the participants have suitable mechanisms, both at the overall horizontal level and in the individual policy dimensions, to oversee the entire policy cycle from

preparation to implementation to assessment to adjustment.

At the horizontal level, the establishment and operationalization of the SEE 2020 Coordination Board, the Programming Committee and the Monitoring Committee over the past year are particularly noteworthy. All national governments and other key stakeholders are represented on these structures and have committed to their “modus operandi”. This progress means that SEE 2020 can proceed as a well managed, timely and goal oriented process; aligned with the participating economies’ national and international commitments; that progress can be regularly measured; and policies adjusted by participants as required by the dynamic operating environment.

Progress has also been made in terms of strengthening the coordination and cooperation mechanisms at pillar and dimension level. Pillar or dimension coordinators who have a firm legal basis for regional cooperation such as the CEFTA or the Energy Community have ensured that the SEE 2020 objectives are firmly embedded in their structures and work programmes. This allows for a seamless approach between the achieving the specific goals of the Agreement/Treaty and the SEE 2020 objectives. In other cases such as Environment or Justice, the SEE 2020 is providing an impetus for both national administrations and relevant organisations to develop more comprehensive and integrated regional structures to address the various cross-cutting policies that comprise that dimension.

In some areas such as public administration, social policy, research and innovation and education, the restructuring of existing regional structures and/or the creation of new regional structures has encountered a number of obstacles - mainly political and financial. In all cases, RCC has provided technical and administrative support to ensure that the momentum of designing and implementing SEE 2020 related work programmes is maintained. However such interim support is not sustainable in the longer term.

### ***Increased data and information on major policy areas***

One of the major achievements of 2014/2015 is the wealth of research and analysis in different sectors that is now available to policy makers and development partners. Innovative work has been carried out under the auspices of RCC to assess public opinion (citizens and the business community) on SEE 2020 related issues resulting in the first Balkan Barometer published in May 2015. In addition targeted studies on priority policy areas have been carried out in virtually every pillar. The up-to-date data and information includes assessments of the national policy and legislative frameworks; the degree of alignment with EU and/or international standards; mapping of the main actors – national, regional and international involved in a sector; and stocktaking of the current active programmes and projects. Efforts have also been made to ensure that this data is widely available including an extensive series of in-country presentations and formal circulation of reports to national administrations. This has been complemented by the establishment of comprehensive databases and web-based tools now available in user friendly formats onto websites – good examples included RCC’s Balkan Barometer or CEFTA’s Transparency Pack.

### ***Regional programmes to reinforce national reform processes***

The situational assessments have provided a firm basis for the elaboration of a series of regional programmes in individual SEE 2020 policy areas. The programmes are designed to complement national efforts so that governments can overcome the gaps identified in policy development and implementation and instigate better strategies and measures. There is widespread agreement that a regional policy platform that can: provide easy access to regional and international information; promote capacity building in areas of shared interest; help propagate common standards; and provide a forum to share best practice and experience is a cost effective and efficient mechanism for both the SEE 2020 economies and development partners. It also brings benefits in

terms of greater regional cooperation across a diverse range of important policy areas.

### ***Actions designed to tackle the specific challenges in the region***

A highly interactive and collaborative process has been used to develop and refine the different regional programmes. In each area, the main stakeholders – national, regional and international – have been consulted through various means including national and regional workshops and seminars involving the public sector, civil society including the business community. This has been an intensive and arduous process and has required considerable effort from many players, particularly RCC. However it has resulted in greater awareness on key issues among officials, civil society and development partners. It has also acted as an efficient mechanism to review and check the latest data and secure expert input from the actors working on the front line in these areas.

This in-depth consultation process has also contributed to the development of regional programmes that are tailored to the specific circumstances in the region – particularly the legal, administrative and cultural environment in which any actions are to take place. All too often support programmes, while based on valuable experience in other regions, are rolled out in the Western Balkans without taking into account the specificities in the region that can dictate the success or failure of the initiative.

### ***Fully exploiting the potential of SEE 2020***

In conducting the various SEE 2020 related activities in 2014/2015, RCC and its partners have sought to ensure that the issues raised in “Looking Forward” section of the Baseline Report of June 2014 regarding effective implementation have been addressed.

In summary:

- Substantial work has been undertaken in conjunction with the national statistics offices and Eurostat to ensure the relevance of SEE2020 targets and indicators;

- The instigation of the public surveys under the “Balkan Barometer” process and the greater availability up-to-date information of user-friendly databases and websites are increasing the transparency of the process;
- The development of regional action plans have been characterised by detailed analysis and extensive consultations so that they provided tailored support for national efforts;
- Several regional organisations are actively involved in designing and/or overseeing the development and delivery of technical assistance;
- The SEE 2020 process is aligned with and supportive of key strategic processes such as the Berlin Process and the revamped EU Enlargement Package;
- Efforts are underway to reinforce cooperation across pillars and dimensions;
- RCC has strengthened its capacities to monitor and assess progress; to support dimension coordinators; to better integrate programming of regional IPA funds with the national IPA programming; and to channel assistance in timely and targeted manner.

## **Moving Forward on SEE 2020 in 2015/2016**

In the next reporting period, 2015/2016, issues that will be impact on the capacity of the SEE 2020 Strategy to support the increased competitiveness of the economies and boost socio-economic development include:

### ***High-level political support and fuller integration strategic processes***

The continuing high-level support coming from the Berlin Process and the Western Balkan 6 Initiative generates a positive political environment for the entire SEE 2020 Strategy to advance in the coming period. All of the policy areas to be advanced at the forthcoming Vienna Conference of EU and Western Balkan Prime Ministers on 27 August 2015 are contained within the SEE 2020 Strategy. The “connectivity” agenda that has been taken up by all the main actors is one that the SEE 2020

Strategy is ideally placed to serve. The Strategy acts as a stimulus for the consistent harmonisation of legislation and regulations and the instigation of sustainable implementation systems across the 6 economies. These are the so-called “soft” measures that will be vital to the successful implementation of capital investments in better transport, energy and ICT infrastructure and thus its contribution to sustainable socio-economic development of the region.

### ***Targeted, tailored and prioritised regional programmes***

The shift by the EU towards a more holistic and sustainable implementation of EU legislation and regulations is welcomed in the region. However, the detailed mapping undertaken in the different policy area reveals a very mixed picture in terms of the pace and scope of transposition and implementation. Such disparities impose costs on the economies and the wider region not just in terms of the resources required to complete the process, but also the opportunities lost due to lack of harmonisation and the varying practices. Therefore regional structures and programmes in selected policy areas that provide: easy access to information on common standards and approaches; peer review; sharing of best practice; and capacity building offer the SEE economies and the development partners an efficient mechanism in terms of finance, personnel and time to complement and reinforce national reform efforts. However care must be taken to ensure that the regional programmes are: targeted at priority issues of common interest; take account of the specific conditions in the region; designed to ensure maximum participation; and managed effectively.

### ***Greater focus on the medium and long-term benefits of regional cooperation***

As evidenced by the progress achieved under structures such as CEFTA, ECT and SEECOL, effective management of regional cooperation processes requires structures that have a clear mandate, are accountable to their members and are appropriately resourced. In several SEE 2020 policy areas, governments need to urgently focus

on the medium and long-term benefits that such structures and programmes can bring to their respective economies. This should lead them to finalise the short-term issues surrounding the establishment or restructuring of dimension coordinators so that they can provide the necessary management and support framework.

### ***Streamlining to ensure a fully integrated and sustainable approach***

RCC is exploring options to focus the SEE 2020 Strategy even more tightly by grouping the different pillars and dimensions around three flagship themes that are of critical importance to the region – (i) industrial development and competitiveness (ii) skills and mobility and (iii) connectivity. Such a grouping should strengthen the motivation to forge the necessary linkages among different policy areas and avoid “stovepipe” policy development. It also provides an opportunity to overcome some of the constraints on the availability of resources – human and financial - in the region. It could facilitate a streamlining of the number of regional programmes and actions foreseen and determine if economies of scale can be achieved by merging specific actions developed under one dimension into a programme in related policy area. For example, it may be possible to advance actions in the cultural heritage field in the Smart Growth Pillar in a more holistic and integrated way by placing them in the context of the work on tourism being undertaken as part of the Competitiveness Dimension in the Sustainable Growth Pillar.

### ***Expanding the availability of financial resources***

The availability of adequate financial resources to prepare and implement the regional action plans is a significant constraint on the capacity to implement the Strategy. The on-going impact of the economic crisis on national budgets throughout the region impacts on the ability of governments to contribute as fully as required to different regional initiatives. In some dimensions, this constraint on national sources of funding is exacerbated by the delays in finalising the organisational structures and procedures for



channelling national contributions to the relevant structure.

The EU's IPA is one of the most important sources of funding for policy development assistance and capacity building in all of the SEE economies. It is particularly relevant for SEE 2020 as it has the capacity to finance regional programmes as well as national ones. The RCC has sought to ensure that any IPA funding directed towards SEE 2020 regional programmes complements the financing provided by IPA on a national basis by involving the National IPA Coordinators (NIPAC) in the SEE 2020 Programming Committee. The European Commission places considerable emphasis on regional ownership and commitment to the various programmes financed under IPA. The in-depth analysis and extensive consultations among the main actors that characterise the development of the regional programmes in the different dimensions provides a good forum to systematically develop such ownership and secure formal commitments.

Another potential source of funding for some of the measures proposed under the regional programmes is EU programmes that are open to enlargement region. The list of programmes for which the SEE 2020 economies are eligible is quite extensive and cross many different policy areas e.g. the Connecting Europe Facility for transport, energy and ICT or the Horizon 2020 programme for research and innovation. In addition to providing an additional source of finance, such programmes also help national governments to gain experience in applying for and managing EU funds. Many programmes are only open for pan-European consortia and thus provide the SEE economies with the valuable opportunity to co-operate with institutions in EU Member States. However several of the EU programme limit the amount of funding that is made available for the enlargement region and /or the SEE institutions do not have the technical, managerial or financial capacity to meet the eligibility criteria.

The EBRD led Regional Energy Efficiency Programme and the GIZ Open Regional Funds for Trade, Energy Efficiency, Municipal Development

and Legal Reform are good examples of 3<sup>rd</sup> party financed programmes relevant for SEE 2020 and similar initiatives from other development partners would be welcome.

## Overall Management and Monitoring of SEE 2020 – Update 2014/2015

The period covered in the report started on the heels of SEE 2020 adoption. The focus of RCC's interventions was thus split between two main areas: on one hand, RCC, its governments and its partners initiated the implementation of the Strategy's measures in various dimensions that comprise the 5 pillars of the Strategy (see next section below); and on the other hand, considerable efforts were invested in setting up the necessary processes and structures to support implementation until 2020. These horizontal activities were focused in the three main areas of action:

- **Coordination** - Setting up efficient mechanisms for coordination between the governments, participating regional structures and the RCC in the 16 policy areas addressed through SEE 2020 and facilitating establishment of intra-governmental coordination mechanisms on SEE 2020.
- **Programming** - Converting of SEE 2020 priorities and objectives into regional and national programmes and action plans where the regional programmes aim at reinforcing and complementing national efforts.
- **Monitoring** - Establishing a monitoring system to track progress on SEE 2020 with agreed quantitative and qualitative indicators and a clear delineation of responsibilities in collecting, analysing and disseminating information.

In the area of *coordination*, RCC has worked on strengthening cooperation and clarifying the lines of coordination with the governments, the regional structures acting as regional dimension coordinators (RDCs) and a multitude of various

other partners. RCC has instituted a SEE 2020 Coordination Board consisting of representatives of RDCs and has set up regular consultations with the SEE 2020 National Coordinators to ensure that the implementation is progressing in a coordinated and coherent way. The coordination effort was further extended to the donor community through establishing a regular structured dialogue with RCC's development partners under the SEE 2020 umbrella, with the first meeting on donor coordination in the Western Balkans held during 2015. This elaborate effort will be further strengthened during the next year, bringing the private sector into the coordination mix.

On the programming side, RCC helped set up a Programming Committee bringing the representatives of NIPACs and SEE 2020 Coordinators around the table to set the annual priorities for programming, oversee the programming process and approve the regional programmes being developed. The Programming Committee puts the SEE 2020 implementation directly in the national context, ensuring a clear link between the national needs and regional solutions being proposed. It ensures that the development of regional programmes under the SEE2020 Strategy is aligned with national efforts funded by state budgets, the EU's IPA or other development partners. A total of 14 regional programmes have been prepared in the area of investment, education, R&D and innovation, culture and creative sectors, digital society, transport, energy, environment, employment, health and governance. These programmes are at different stages of finalisation. Some have already received funding commitments from governments and donors and activities have been launched; others are under active consideration by the financiers; and some are being further refined to ensure that they focus on those areas where regional cooperation brings real value added and that priority activities are identified for initial funding.

After the pilot data collection process during early 2014, RCC focused its efforts on formalizing the monitoring system and defining the roles and responsibilities of participating governments and

organizations within the system. A set of monitoring guidelines was developed and a Monitoring Committee set up to oversee the process. The committee comprises representatives of the national statistical offices, as well as Eurostat as observer, and ensures that a consistent methodology is being used across the board when defining indicators as a guarantee of both quality and comparability of data collected. More than 100 quantitative indicators have been included so far in the monitoring process and progress on the headline indicators is reported by pillar in the next section. It is expected that this tracking of quantitative indicators will be complemented by more than 200 qualitative indicators as well.

Finally, RCC has conducted a region-wide survey of 7,000 citizens and 1,400 companies to complement the quantitative and qualitative data with perception-based indicators. This Balkan Barometer, as the survey is called, entails also an index of public and business sentiment that the RCC will be tracking and publishing on annual basis.

All of this information has been made available on the RCC website as an integral web-based platform, providing a wealth of information about the SEE 2020 targets, indicators, progress to date and the views of the citizens and business. This level of transparency and openness is seen as an important contribution to gaining greater ownership and support for the Strategy from the citizens of the region as well as providing different interest groups with valuable, up-to-date and accurate information on the various areas.

The appointment of the new European Commission and the shift in EU's approach to the Western Balkans and the enlargement process is also having a considerable impact on the reform debate in the Balkans. All of the enlargement economies have produced the new Economic Reform Programmes (ERPs) at the beginning of 2015, outlining the macro-level and structural reforms to be undertaken over the next two years. Given the structure of ERPs and the similar focus to the National Action Plans produced in the SEE 2020 framework, the RCC has proposed to the

governments that their ERPs replace the NAPs to help streamline the national reform agenda. This is seen as a contribution to reducing the coordination burden that is becoming ever more severe for the governments as several different reform agendas and cooperation platforms have emerged in addition to SEE 2020 (ERPs, National Investment Councils, Economic and Social Reform Programmes, etc.). Governments face substantial challenges in managing and keeping track of a coherent and consistent reform process.

Activities conducted during the reporting period by RCC, its governments, and regional and

international partners, have effectively finalized the preparatory phase and set the stage for effective implementation of the Strategy: the overall governance architecture is complete, with the Governing Board in place, along with the two committees (monitoring and programming) reporting into the Board; the monitoring system is in place, with settled procedures and agreed quantitative indicators; and a mechanism to produce well designed, widely consulted and meaningful regional programmes for action is established.

## Progress under the Individual SEE 2020 Pillars in 2014/2015

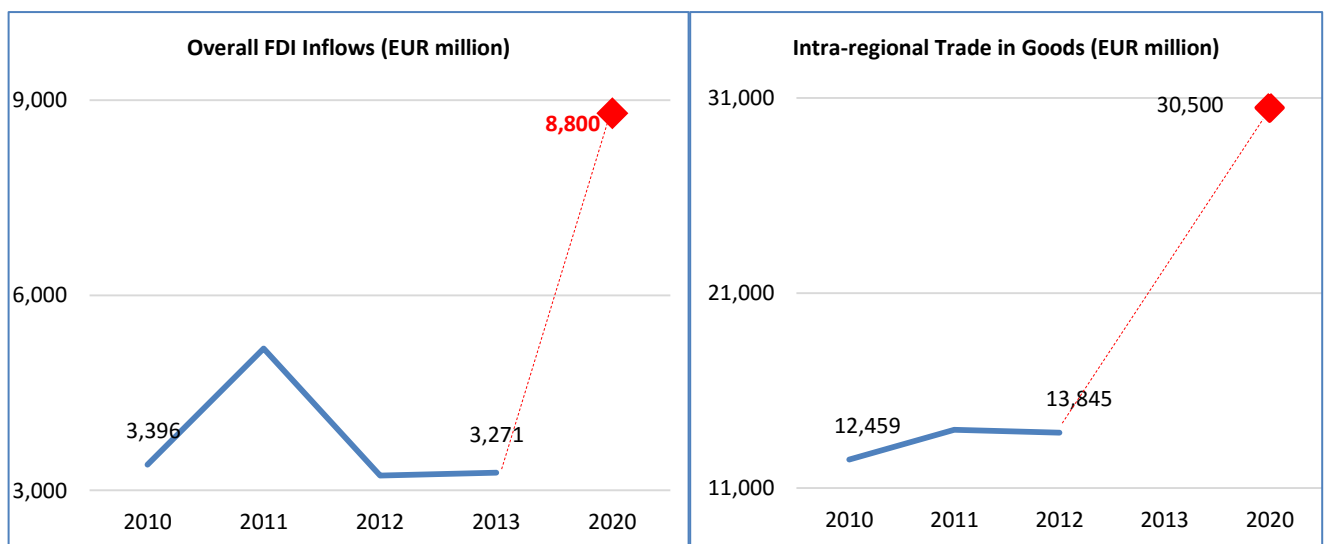
There has been considerable activity at the level of the individual SEE 2020 pillars and the policy dimensions that comprise these. An overview of progress achieved, the status of the dimension coordinator(s) and some of the key issues arising in each pillar is summarised below.

### Integrated Growth Pillar (trade and investment)

#### 1. Headline target

Actions under this pillar are aimed at the further development of the **free trade area**, **increasing the competitiveness** of the region as a destination of FDI and **integrating the region** more fully into the European and global economy. The pillar has very ambitious headline targets namely that by 2020 the region will achieve the following (i) Increase intra-regional trade in goods by more than 140%; and (ii) Increase overall annual FDI inflows to the region by at least 160%.

Figure 1. Integrated Growth Targets



Source: CEFTA for intra-regional trade and Central Banks for FDI (except for ALB, BiH, KOS where IMF data used)

As presented in Figure 1, actual data up to 2012/2013 shows slower than expected convergence towards the 2020 targets. This especially relates to trade indicators, given that around 60% of total SEE trade volume goes to the EU. Furthermore, most of the foreign capital inflows (including FDI) into the region are from the EU.

Intra-regional trade (data from CEFTA) showed increase in 2011, but then a slight decrease in 2012, making the gap between the 2012 value and 2020 target very large at 120%. Country-by-country comparison indicates that the 2020 targets are between 102% (The Former Yugoslav Republic of Macedonia) and 170% (Serbia) higher than 2012 values in all economies, except for Montenegro, which has modest 15% gap between 2012 and 2020 target. As noted the indicator for overall FDI inflow is subject to one-off annual data and therefore it is difficult to extrapolate a clear trend. However, given the 2010-2013 annual values, the 2020 targets also seem very ambitious, with the regional 2020 target inflow being 169% higher than the 2013 inflow.

## **2. Overview of Objective**

The Integrated Growth Pillar aims at the further development of the free trade area - including greater liberalisation of trade and removal of trade barriers - increasing the competitiveness of the region as a destination for Foreign Direct Investment (FDI) and integrating the region more fully in the European and global economy.

The regional free trade agreement – CEFTA – acts as the main driver for actions in this pillar, particularly for the trade liberalisation and trade facilitation aspects. CEFTA also provides a framework for greater regional cooperation on investment, as there are specific references to this in the Agreement.

## **3. Coordination Structures for Integrated Growth**

The main coordinator for this pillar is CEFTA (including all its structures – Joint Committee, sub-committees, working groups and secretariat). The RCC managed SEE Investment Committee works on specific investment related aspects of the pillar.

In line with its original decision in 2013 to align the SEE 2020 Strategy with the CEFTA Agenda, the CEFTA Joint Committee, which meets annually at ministerial level, has continued to take SEE 2020 objectives into account when taking decisions on different aspects of the CEFTA work programme. To date this has included decisions on launching negotiations on trade in services, the removal of trade barriers and the creation of particular working groups. CEFTA has an intensive and ambitious work programme comprising technical support, negotiations, analysis and capacity building activities. Implementation of this is managed by the CEFTA Secretariat and supported by a number of assistance programmes financed by the CEFTA Parties and other donors – namely the EC. The alignment of CEFTA and SEE 2020 objectives means that many of the activities under the CEFTA Work Programme directly benefit SEE 2020 Strategy implementation.

To ensure close cooperation and avoid duplication, CEFTA and the SEE Investment Committee have established a Working Group on Investment to guide the identification of potential areas for greater cooperation in the field of investment. This Group provides a valuable forum for regional dialogue on potential for harmonisation of policies in selected economic sectors and for development of joint promotional efforts.

#### 4. Overview of Progress 2014/2015 and Expectations for 2015/2016

Considerable progress has been made on the trade agenda. Following the signing of the last bilateral protocol abolishing a quota in March 2015, full liberalisation of trade in goods has been achieved. This, combined with the opening of negotiations on further liberalisation of trade in services in 2014 are key elements for achieving the ambitious SEE 2020 targets on intra-regional trade.

The establishment of a link between the implementation of diagonal cumulation of origin in CEFTA and the Pan-European Mediterranean (PEM) Convention merges the patchy diagonal cumulation zones and thus strongly promotes investment and facilitates integration of the SEE economies into global value chains. The CEFTA Parties have placed considerable importance on increased transparency as a way to prevent the implementation of measures that may act as trade barriers. The various user-friendly portals and databases launched under the so-called “Transparency Pack” provide the public and private sector with valuable tools to manage and improve trade flows.

A key challenge for the trade dimension in the coming period is to maintain the level of ambition of the national administrations and their willingness to participate fully in the various CEFTA negotiations underway on customs simplification and trade in services. This will dictate the scale and scope of the liberalisation that will be achieved and the pace at which trade barriers in certain areas will be removed. The Ministerial Decisions announced at the November 2014 meeting of the CEFTA Joint Committee demonstrate that so far the Parties are maintaining a bold approach.

The recently launched Investment Policy Review endorsed by all the members of the Working Group on Investment sends a strong signal that the national administrations recognise that their individual investment related policies have consequences on the overall attractiveness of the region as a destination for FDI. The scale of the global competition for mobile investment is such that the small SEE 2020 economies need to combine their efforts to secure an adequate inflow of much needed capital, technical and human resources.

Agreeing on a harmonised approach to investment related policies will test the SEE governments’ capacity to take a regional approach to socio-economic challenges. National administrations are often in direct competition with each other to secure FDI. However greater regional cooperation will be vital if a ‘race to the bottom’ is to be avoided. The in-depth research and analysis to be provided by the Investment Policy Review should provide a robust basis for policy makers to take the necessary decisions.

#### 5. Summary Table of Achievements and Expected Results by Dimension

Action	Achievements 2014/2015	Expected Results 2015/2016
<b>Free Trade Area</b>		
Signing of bilateral protocols on tariffs & quotas to eliminate remaining tariffs & quotas in agriculture in line with CEFTA Commitments	The last bilateral protocol required, eliminating a quota on wine has been concluded between The Former Yugoslav Republic of Macedonia and Moldova, thus ensuring that trade in goods among CEFTA Parties is completely liberalised	Full liberalisation of trade in goods completed and formalised
Review of legislation/measures & classification of NTMs to overcome NTBs and increase transparency of trade procedures	Completion of the so called “Transparency Pack” comprising of four databases: <ul style="list-style-type: none"> <li>• Market Access Database;</li> <li>• Technical Barriers to Trade (TBT) Platform;</li> <li>• Sanitary and Phytosanitary (SPS) Database; and</li> <li>• CEFTA Trade Portal – an electronic tool</li> </ul>	Develop the comprehensive CEFTA Monitoring Information System (MIS) incorporating existing and new databases. This will: <ul style="list-style-type: none"> <li>• Support negotiations;</li> <li>• Facilitate the management and resolution of disputes; and</li> </ul>

Action	Achievements 2014/2015	Expected Results 2015/2016
	<p>allowing the CEFTA Parties to notify measures and to analyse the impact of regional trade.</p> <p>See <a href="http://www.ceftatransparency.com">http://www.ceftatransparency.com</a></p> <p>The Transparency Pack is available in full to the relevant authorities of the CEFTA Parties and partially to the public.</p>	<ul style="list-style-type: none"> <li>Assist with monitoring implementation of the Agreement</li> </ul>
Facilitate customs related information exchange and simplify customs procedures	<p>Launch of negotiations to conclude a framework agreement between Customs Administrations covering:</p> <ul style="list-style-type: none"> <li>Simplification of inspections;</li> <li>Exchange of data; and</li> <li>Recognition of mutually Authorised Economic Operators (AEO) Programmes.</li> </ul>	<p>Negotiations on the framework agreement completed by the end of 2015</p>
Define minimum level of specific commitments on trade in services as part of process to remove barriers to trade in services; and determine key issues to improve labour mobility for selected sectors.	<p>Two rounds of negotiations on specific commitments held by CEFTA Parties;</p> <p>Substantial liberalisation agreed in business and professional services;</p> <p>Annex I of the Additional Protocol on Trade of Services on temporary movement of natural persons agreed</p>	<p>Three rounds of negotiations to take place;</p> <p>Sectors to be covered include:</p> <ul style="list-style-type: none"> <li>Tourism</li> <li>Recreational and cultural services</li> <li>Distribution</li> <li>Construction; and</li> <li>Communication;</li> </ul> <p>Final text of the Additional Protocol on Trade of services confirmed</p>
Perform comparative analysis of investment policies and focus on key regulatory issues to encourage the harmonisation of investment policies across the region and achieve same level of investment protection and transparency.	<p>Investment policy review (IPR) launched with the focus on:</p> <ul style="list-style-type: none"> <li>Investment laws and FDI entry;</li> <li>Protection and treatment;</li> <li>Business establishment;</li> <li>Fiscal policy;</li> <li>Investment incentives;</li> <li>Labour market and skills;</li> <li>Competition and investment promotion</li> </ul> <p>This is the first IPR UNCTAD has agreed to conduct at a regional level</p>	<p>Design and secure funding for a major regional programme to institutionalise regional reform dialogue to:</p> <ul style="list-style-type: none"> <li>Address prioritised issues in removal of barriers,</li> <li>Where appropriate harmonise investment policies across the region; and</li> <li>Develop regional branding strategy for priority value chains and sectors</li> </ul>
<b>Competitive Economic Environment</b>		
Determine interest and feasibility in creating trade related networks of (i) Competition Authorities (ii) IPR authorities and (iii) Public Procurement authorities.	<p>Some of the topics are currently covered under the work of CEFTA structures on trade liberalisation and facilitation.</p> <p>Initial contacts made with ReSPA regarding a network on public procurement</p>	<p>Create a common agenda and develop a roadmap between CEFTA Structures and ReSPA's expert networks on the implementation of measures for:</p> <ul style="list-style-type: none"> <li>Competition policy;</li> <li>Intellectual property; and/or public procurement.</li> </ul>
<b>Integration into the Global Economy</b>		
Advance discussions on integration of regional supply chains into global market (for selected sectors)	Pilot attempts to address NTBs to creation/strengthening of regional supply chains in food and beverage sectors	Develop input –output tables for the region with assistance of OECD;

Action	Achievements 2014/2015	Expected Results 2015/2016
	revealing difficulties in performing relevant analyses and in involving interested private sector	Establish mechanism to involve private sector in regional discussions
Ratification of PEM Convention by all CEFTA Parties to contribute to better market access for the region in EU, Turkey and EFTA	All CEFTA Parties except Kosovo* have adhered to PEM;  CEFTA Protocol of Origin adjusted accordingly	Relevant procedures with EU, EFTA and Turkey completed

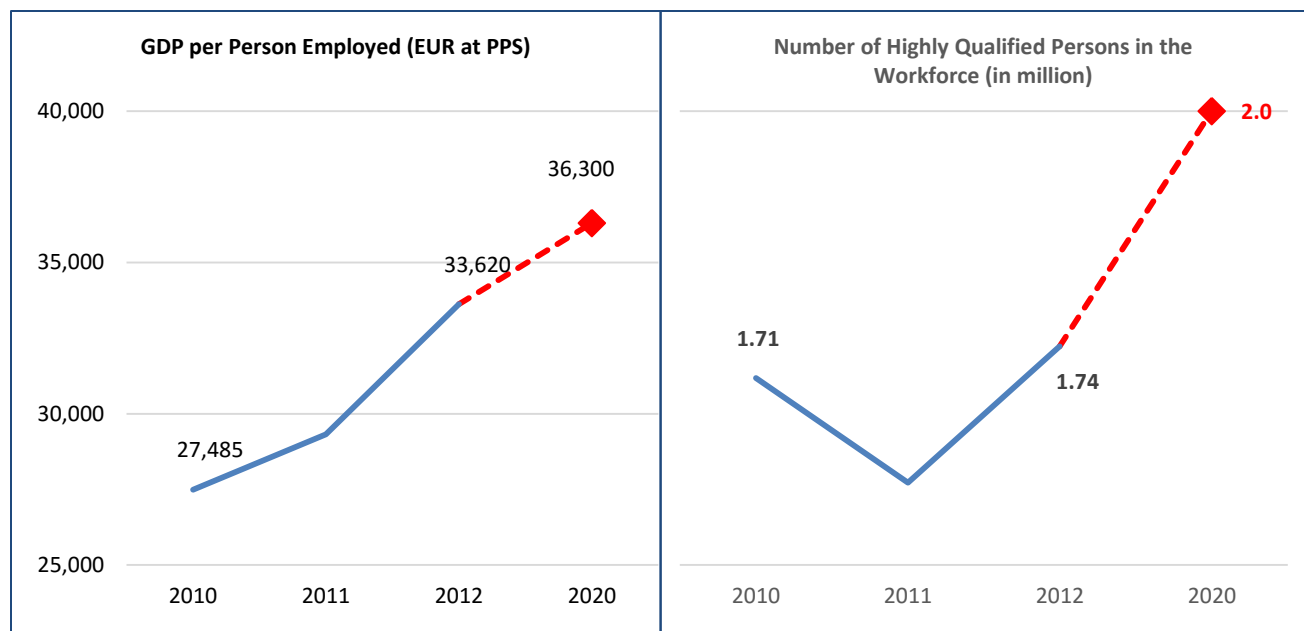
## Smart Growth Pillar (enhancing innovation and competences)

### 1. Headline target

Promoting innovation and fostering knowledge-driven growth is the central objective of this pillar as the regional economies seek to move away from low-cost labour to other more sustainable forms of competitiveness. The actions underway or planned in this area are aimed at improving access to quality education, increasing the level of research and development in the region, developing ICT infrastructure and promoting creative industries. The headline targets agreed for 2020 are: (i) Increase GDP per person employed by 32%; and (ii) add 300,00 highly qualified people to the workforce.

Figure 2 shows data for the regional headline indicators for this pillar, highlighting gaps between the current situation (2012 or 2013, depending on available data) and 2020 targets.

**Figure 2: Progress to Date towards 2020 Targets in Headline Indicators for Smart Growth**



Source: Eurostat for GDP PPP and Labour Force Survey data by the National Statistics Agencies for highly qualified workforce

### 2. Overview of Objectives

The central objective of this pillar is promoting innovation and fostering knowledge-driven growth as the regional economies seek to move away from low-cost labour to other more sustainable forms of competitiveness.

In education, the aim is to improve the regional knowledge and skills base through enhanced teacher training, improved access for all to education and a reduced drop-out rate at all stages of the educational cycle.

The research and innovation dimension is anchored in the Regional Research and Development Strategy adopted by the Western Balkan economies in 2013 and seeks to promote more and better investments in research and innovation and encouraging greater industry-science collaboration.

Supporting the economies in reaping the full potential of information and communication technologies (ICT) to spur innovation, economic growth, regional competitiveness and improved quality of life is the aim of the Digital Society dimension.

The culture dimension seeks to strengthen the position of the cultural and creative sectors as drivers for socio-economic development. In particular it promotes these sectors as important for growth in tourism, SME and entrepreneurship as well as enhancing regional cooperation generally.

### **3. Dimension Coordinators for Smart Growth**

The key structure for coordinating activities in the education dimension is the Education Reform Initiative for South Eastern Europe (ERI-SEE). This long-standing initiative incorporates all the SEE 2020 economies as well as Bulgaria, Romania and Moldova and has been active in many areas of the education sector. However the process of restructuring its governance structures including the move of the Secretariat from Croatia to Serbia has been underway since 2010 and is still not finalised. The Centre for Education Policy in Serbia is currently hosting the Secretariat on an interim basis. Rapid finalisation of the restructuring process and implementation of the procedures by which the national governments support the initiative are necessary if the initiative is to have the capacity to deliver the results expected under this dimension.

South East Europe Centre for Entrepreneurial Learning (SEECLE) is coordinating the SEE 2020 activities related to entrepreneurial learning. The organization has used the previous period to further strengthen its structures and consolidates its activities implemented under several, mostly EU-funded, projects.

It is foreseen that the Western Balkans Research and Innovation Exercise Facility (WISE) should coordinate the Research and Innovation dimension. This Facility was formally created in October 2013 and the Croatian Government has circulated a draft international agreement to establish the necessary structures and provide resources. Despite support from RCC, the formal decision on the structures and the ratification procedures have yet to be finalised. In the meantime RCC has provided management and technical support to advance activities in this dimension but this is not a long-term solution and RCC is hopeful that WISE will become fully operational over the next year.

The UNDP supported Secretariat of electronic South East Europe Initiative (eSEE) in Sarajevo has worked to operationalize the measures outlined for the digital society dimension. RCC has provided technical and financial support to the Initiative to carry out some of its activities in 2014/2015 including the development of a potential regional programme. The eSEE Initiative Secretariat continues to depend on external assistance and funding of activities and a more sustainable solution will need to be sought in the near term, as the current partner (UNDP) intends to eventually extricate itself from this role.



RCC's Task Force for Culture and Society (TFCS) provides the structure to coordinate activities in the culture and creative sector dimension. It builds on the experience gained under the EC-financed Ljubljana Process that promotes cultural heritage rehabilitation. The Task Force has also looked at other sectors such as audio-visual and design and is examining how best to promote these in the face of substantial challenges in securing sufficient political support and financial resources for stand-alone activities.

#### 4. Overview of Progress 2014/2015 and Expectations for 2015/2016

A number of detailed studies have been carried out under the different Smart Growth dimensions that provide policy makers in the region and the wider community with valuable research and analysis as to the current situation regarding issues such as the approach and availability of training programmes, the capacity for recognition of qualifications, technology transfer, levels of research and collaboration, the status of the audio-visual sector etc.

In several instances detailed mapping of the policies, actors and current assistance programmes has been provided to the key stakeholders – regionally and international. This mapping has been used as the basis for the development of a number of regional programmes that seek to reinforce national efforts and avoid duplication with existing programmes. The regional programmes are seen as a particularly efficient and effective mechanism to share experience, learn from best practice and to jointly develop common standards in line with EU requirements.

A highly consultative approach involving national, regional and international stakeholders has been used to design such programmes. The in-depth consultations that have been carried out have sought to ensure that the programmes are firmly based on the realities on the ground. Therefore they target the particular issues that must be addressed in the region rather using standard “templates” from other regions. Some of these programmes are now being considered by national governments while others are still being refined to take account of the many suggestions received and will be finalised later in 2015.

The availability of resources and the capacity of the dimension coordinators to manage activities will dictate the level of activity in each dimension in the next period. The work schedules of many of the programmes have been designed to allow priority activities to commence first as resources become available. Political support to secure resources will be important. While there is broad agreement that issues such as education, training and innovation are critical for the future competitiveness and socio-economic development of the region; these are also the areas that often suffer the most in terms of budgetary cuts.

#### 5. Summary Table of Achievements and Expected Results by Dimension

Action	Achievements 2014/2015	Expected Results 2015/2016
<b>Education and Competences</b>		
Identify and agree on programmes of specific measures to be undertaken at regional level to: (i) improve access to education; and (ii) increase quality of education through teacher training	<p><i>(i) Access to Education</i> Detailed review of current policies and initiatives in all economies on access and completion of education and prevention of drop outs;</p> <p>Large number of potential measures to be taken to improve access and prevent drop out identified and reviewed with representatives of main actors in each country and relevant EU organisations;</p>	<p><i>(i) Access to Education</i> Regional programme refined to focus on the main content agreed for primary and secondary level education;</p> <p>Available resources identified and secured.</p> <p><i>(ii) Teaching Training</i> Development of appropriate governance</p>

Action	Achievements 2014/2015	Expected Results 2015/2016
	<p>Agreement reached on main content of a regional programme to focus on:</p> <ul style="list-style-type: none"> <li>• Early school leaving and drop out policies</li> <li>• Development of monitoring systems and an Early Warning System;</li> <li>• Establishment of a regional platform for peer learning and exchange of best practice and information;</li> </ul> <p><i>(ii) Teacher Training</i> Comprehensive mapping of current Teacher Education and Training (TET) policies in all economies;</p> <p>Design and review of a regional programme on TET in consultation with key stakeholders from each country and relevant EU organisations;</p> <p>Programme is line with EU educational policies and addresses:</p> <ul style="list-style-type: none"> <li>• Admission criteria;</li> <li>• Initial and in service training</li> <li>• VET competencies</li> <li>• Enhanced recognition of importance of teaching to socio-economic development</li> <li>• Regional platform for sharing of best practice and information exchange</li> </ul>	<p>structure for regional programme on TET including mechanisms for quality assurance;</p> <p>Prioritisation of activities by country based on current status and availability of financing;</p> <p>Greater alignment with existing programmes and initiatives.</p>
Identify measures to assist SEE economies to remove obstacles to recognition of qualifications	<p>Survey on status of recognition of degrees across economies completed and highlighting main obstacles such as:</p> <ul style="list-style-type: none"> <li>• Different rates of progress in adopting and implementing EU &amp; international compatible legislation and procedures;</li> <li>• Varying status of National Qualifications Framework</li> </ul> <p>Collaborative review of survey findings and identification of possible next steps with ministries of education, key government agencies, EU organisations and regional bodies</p>	<p>More detailed mapping of policies, legislation and procedures in each country;</p> <p>Increased linkages between national recognition procedures and the European Quality Framework ;</p> <p>Development of improved quality assurance mechanisms.</p>
Strengthen institutional capacity of ERI-SEE	<p>Provision of external experts on TET and access to education to support implementation of ERI-SEE work programme;</p> <p>Support for organisation and delivery of regional seminars and workshops.</p>	Finalisation of restructuring process, functioning of agreed structures and receipt of country contributions.
Embedding Entrepreneurship as a key competence in all forms of (non) formal education	Through the two IPA contracts as well as Women Entrepreneurship project implemented under the auspices of the RCC, SEECCEL has developed new entrepreneurial learning	

Action	Achievements 2014/2015	Expected Results 2015/2016
	<p>instruments; EL Learning Outcomes defined; In-service teacher training modules developed; Awareness regarding the EL raised; New EL educational policy frameworks developed; EL network of schools established; Peer learning activities strengthened; Criteria for EL School, EL Teacher and EL students defined;</p> <p>In cooperation with several partners, SEECEL has won a three-year project for establishment of an EU hub for entrepreneurial learning, while memorandum of understanding was signed with the United Kingdom Commission for Employment and Skills on establishing a better connection and coordination among institutions responsible for the development of entrepreneurship.</p>	
Ratify Headquarters Agreement for seat of the Western Balkan Research and Innovation Exercise (WISE)	Agreement on the establishment of WISE developed by the Croatian government and has been sent to the other regional governments for review.	Procedure to establish WISE finalized, with the Agreement signed by all at least four participating governments.
Assess options for regional actions to promote technology transfer and develop potential measures/instruments	<p>Comprehensive mapping of current policies and initiatives to support Technology Transfer in all economies;</p> <p>Development of draft regional action programme on Technology Transfer comprising three components:</p> <ul style="list-style-type: none"> <li>• Support to Technology Transfer Offices</li> <li>• Matching Grant Scheme;</li> <li>• Advisory service for science park development</li> </ul> <p>In-depth consultations with Intellectual Property Offices (IPOs), Technology Transfer Offices (TTOs) Innovation Funds, Science and Technology (S&amp;T) Parks and technology incubators</p>	<p>Refinement of regional action plan with initial focus on support to Technology Transfer Offices and grants for proofs of concept and prototypes;</p> <p>Programme of cooperation with related initiatives developed and launched;</p> <p>Funding secured for initial activities;</p> <p>Feasibility of regional programme to support Early Stage Start-ups determined.</p>
Design regional programme to develop “networks of excellence” in selected research areas	<p>Completion of stakeholder analysis and review of barriers to creating a research base and using the knowledge gained for socio-economic development;</p> <p>In-depth consultations with ministries of science, OECD, other international organisations and regional initiatives to determine main components of a regional programme on Networks of Excellence;</p> <p>Regional programme elaborated that comprises</p>	<p>Regional programme approved and financing secured for key activities aimed at:</p> <ul style="list-style-type: none"> <li>• Integrating regional capacities in research;</li> <li>• Providing opportunities to advance knowledge and know-how;</li> <li>• Promoting co-development and shared usage of results; and</li> <li>• Opening up international dimensions for researchers and research</li> </ul>

Action	Achievements 2014/2015	Expected Results 2015/2016
	vertical and horizontal activities designed to: <ul style="list-style-type: none"> <li>• tackle the fragmentation caused by a country-based approach;</li> <li>• integrate, within a regional umbrella, support to reach out to the international dimension while leveraging local talents and results;</li> <li>• create closer links with the international research community to make a better use of international programmes and of the diaspora's networks and visibility;</li> <li>• reinforce ties and cooperation with the world-class industrial clusters to further link research with businesses and markets;</li> </ul>	institutions in the region;  Increased participation by regional organisations in successful applications under EU programmes such as Horizon 2020.
<b>Digital Society</b>		
Prepare roadmap for ensuring ICT interoperability for delivery of cross-border electronic public services	A regional programme on Interoperability and eServices prepared in consultation with the relevant line ministries. The programme foresees activities in three main areas: <ul style="list-style-type: none"> <li>• Enhancing the interoperability framework among the economies and aligning with the European Interoperability Framework (EIF);</li> <li>• Increasing capacities to design and implement citizen centred e-services and e-democracy;</li> <li>• Strengthen the regional platform to exchange, codify and replicate good practice in e-services.</li> </ul> Formal expression of interest by relevant ministers in Montenegro, Bosnia and Herzegovina, Serbia, and The Former Yugoslav Republic of Macedonia to reduce the high costs of cross-border mobile telephone traffic	Agreement on selected services, for which cross border delivery should be enabled.  Initiative launched to reduce cost of cross border mobile telephone traffic
Identify scale and scope of future studies on broadband availability and ICT in education	Initial draft of studies prepared on gaps and challenges in the e-government reform agenda from the ICT perspective. Regional programme on ICT services and interoperability will be presented and consulted at the meeting of the eSEE initiative in May 2015	Based on findings of study preparation of regional agreements to enhance broadband availability and ICT in education
<b>Cultural and Creative Sectors</b>		
Continue with strengthening of institutional capacities and implementation of an integrated heritage rehabilitation management tool to ensure rehabilitation of selected cultural heritage sites (Ljubljana process)	Development of a comprehensive regional programme to support cultural heritage rehabilitation through enhancement by improving professional capacities for cultural heritage rehabilitation covering: <ul style="list-style-type: none"> <li>• business planning and fundraising</li> <li>• legal frameworks</li> <li>• conservation techniques and preventive conservation;</li> </ul>	Agreement to priority elements of the regional programme and financing secured.

Action	Achievements 2014/2015	Expected Results 2015/2016
	<ul style="list-style-type: none"> <li>• research</li> <li>• management skills and processes;</li> </ul> <p>Strengthened cross institutional partnerships through preparation of joint projects applications for EU programmes, such as those currently underway in the area of audio-visual, design and cultural heritage cooperation.</p>	
<p>Identify state of play in the audio-visual industry;</p> <p>Determine feasibility of regional film fund</p>	<p>Key challenges for the audio-visual sector identified and reviewed by key stakeholders.</p> <p>Initial proposal for a Regional Audio-Visual Fund prepared</p>	<p>Determine feasibility of regional fund.</p> <p>Identify options to promote audio-visual sector through other SEE 2020 and regional initiatives.</p>
<p>Determine feasibility of a regional design incubator</p>	<p>Initial preparation of a proposal regarding the creation of a regional design incubator to provide a regional platform to:</p> <ul style="list-style-type: none"> <li>• Raise awareness of design as a driver of development;</li> <li>• Connect different partners (academia, businesses, professional services etc.);</li> <li>• Promote Balkan design capacities on the European and global market.</li> </ul>	<p>Assess feasibility of a stand alone programme;</p> <p>Seek mechanisms to promote design as part of other larger programmes and initiatives.</p>

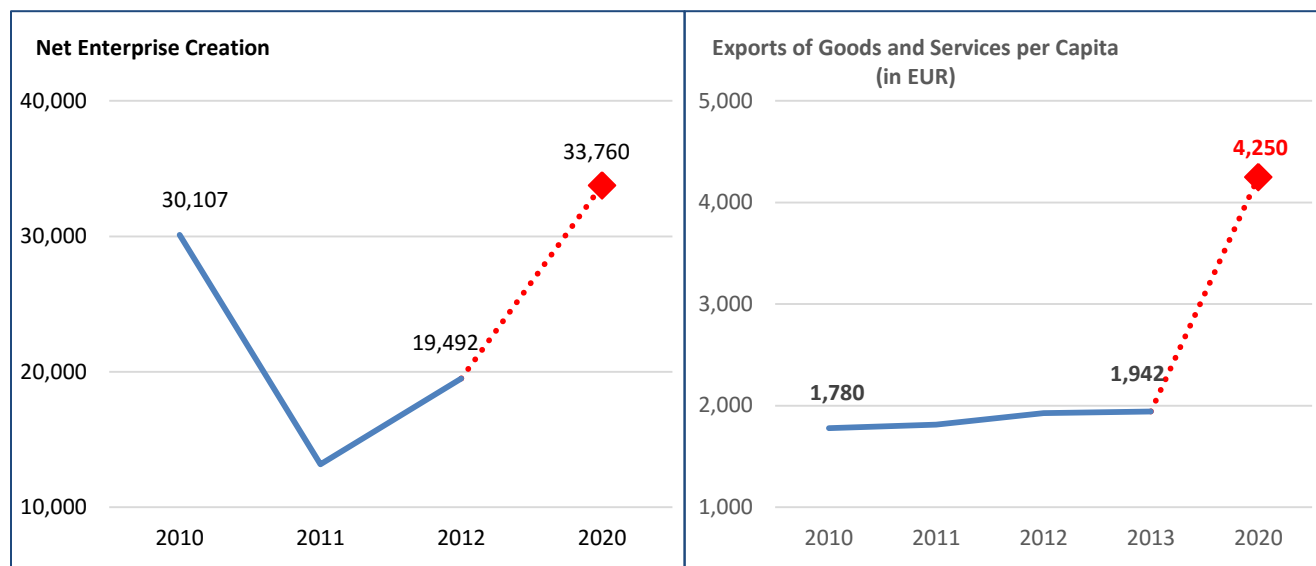
## Sustainable Growth Pillar (infrastructure and competitiveness)

### 1. Headline target

Actions under this 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. The ambitious headline targets for 2020 under this pillar are to: (i) increase net enterprise creation (new businesses per year) from 30,107 to 33,760 – an increase of 12%; and (ii) Increase exports of goods and services per capita from the region from €1,780 to €4,250 (2.3 times).

Figure 3 shows data for the regional and national headline indicators for this pillar, highlighting gaps between the current situation (2012 or 2013, depending on available data) and 2020 targets.

**Figure 3. Headline targets for the Sustainable Growth pillar**



Source: National Statistics Agencies for enterprise creation and exports of goods and services (National Accounts data except where GDP data by expenditure is not, available in which case it was supplemented by IMF data)

The economic slowdown in 2012 negatively affected the enterprise sector in the SEE region, with access to finance from the banking sector in particular becoming more difficult. Since data on enterprises is scarce in the region, the headline indicator chosen in the SEE 2020 Strategy refers to net enterprise creation, based on the criteria of data availability for all countries, although this indicator does not mention the level and success of the business activity. This particular indicator is one of the two SEE 2020 headline targets which represent one-off annual data that does not necessarily follow the inter-annual trend. This indicator can (and does) vary significantly from year to year, so the 2020 target values may be attainable.

The targeted 2020 values are around or above two times higher than the recorded annual enterprise creation in 2010–2013 for most countries. In order to invigorate enterprise sector, the improvements required include a wide ranging set of measures dealing with competitiveness, entrepreneurship, and strengthening the regulatory, jurisdictional, tax, and institutional effectiveness and efficiency (this is also clearly implied from the integrated dimension indicators analysed above). Many of these measures are addressed through the respective NAPs, with those that are regionally relevant included in the RAP outlined below.

While exports have recovered in 2013-2014, projected growth rates are still lower than the pre-crisis average annual growth. Consequently, exports of goods and services per capita showed a modest increase in 2010–2012 when compared to the SEE 2020 target, making the gap between the 2012 value and 2020 target large at 121%. A country-by-country comparison indicates that the 2020 targets are between 77% (Montenegro) and 182% (Serbia) higher than 2012 values, with all economies except for Montenegro having a gap of more than 100%. These targets appear too ambitious, as is the case for all trade indicators. Stronger improvements in exports per capita will be conditional on a general economic recovery but also to an improvement in the competitiveness of the SEE economies.

## 2. Overview of Objective

Actions under this pillar seek to improve efficiencies in the use of resources, upgrade infrastructure and boost entrepreneurship and the competitiveness of companies. The overall aim is to provide the necessary underpinning for a strong, diversified and competitive economic base in the region.

This pillar is a complex one with several distinct dimensions. The energy and transport dimensions are underpinned by 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 the national administrations to meet their commitments through regional cooperation.

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. The competitiveness dimension is focused on private sector development. It builds on a number of previous regional initiatives such as the Regional Competitiveness Initiative and the SME Policy Index and attempts to enhance the capacity of the region to compete on global markets in specific sectors.

### **3. Coordination Structures for Sustainable Growth**

The Energy Community Secretariat (ECS) coordinates the energy dimension. It is the official body established under the ECT to support the signatories with implementation of the Treaty. The ECS has ensured that the deliberations and decisions taken under established structures such as the Ministerial Council and the Energy Efficiency Coordination Group are aligned with the SEE 2020 objectives such as approving the adoption of specific EU Directives and improving the environment for investments in energy efficiency. The ECS has also dedicated specific resources to developing and rolling out a comprehensive monitoring system that will assess the progress across all the economies.

The South East Europe Transport Observatory (SEETO) Secretariat, which coordinates regional activities the transport policy dimension, has actively used the various EC financed projects at its disposal to progress the SEE2020 transport objectives. It has also liaised closely with the RCC to ensure the provision of additional expertise on topics not covered by the EC projects.

Coordination of the Air Transport dimension has been provided to date by the Joint Service Provision Area (JSPA) initiative. This is a network comprising representatives of civil aviation authorities and air navigation service providers involved in the implementation of the SES. It is currently functions on the basis of voluntary contributions by its members and hence its capacity to engage in large-scale activities is limited.

Unlike the other dimensions, the environment dimension lacks a functioning regional political decision making mechanism. Hence the RCC has led efforts in conjunction with the Regional Environment Centre (REC), the Standing Working Group on Regional Rural Development (SWG RRD) and the Global Water Partnership-Mediterranean (GWP-Med) to establish a Regional Working Group on Environment. The Regional Working Group on Environment was formally established during May 2015 by the Western Balkans governments.

The competitiveness dimension operates under the auspices of the SEE Investment Committee managed by RCC, which provides a forum for both technical and political support. The dimension also benefits from the activities of the OECD who is implementing a number of EC financed regional programmes such as the Next Generation Competitiveness Initiative in direct support to the work of the SEE Investment Committee.

### **4. Overview of Progress 2014/2015 and Expectations for 2015/2016**

*Energy*

The substantial capacity building and technical support services provided by the ECS to the national administrations facilitated greater alignment with the EU *acquis* and harmonisation of the legislative framework for energy, including energy efficiency throughout the region. It also improved the challenging environment for investments. Coordinated cooperation between the ECS, the EC and EBRD in particular has increased the availability of finance for energy efficiency investments and is also helping governments to facilitate new sources of finance and technical know how through developing the legislative framework for Energy Service Company Agreements (ESCOs).

The anticipated decisions by the Ministerial Council in autumn 2015 regarding the adoption of new /updated EU directives will help to further advance the attainment of SEE 2020 objectives. However they will place heavy demands on the capacity of the small SEE administrations already occupied with implementing previous directives. The availability of financing for the priority energy infrastructure investments - the Project of Energy Community Interest (PECI) continues to be a challenge. It is hoped that the increased emphasis by the EU Member States and the EC regarding the “connectivity” agenda in the Western Balkans will result in a greater flow of assistance and financing.

### *Transport*

The much needed development of the core transport network in the region received a significant boost in April 2015 when the Prime Ministers of all 6 economies under the auspices of the Western Balkan 6 initiative agreed to endorse a select number of transport corridors and routes for immediate attention. The active support of EU Member States and the EC through the Berlin Process was critical in securing this regional agreement. The availability of research and analysis necessary to identify and facilitate priority investments has been greatly boosted in the reporting period as a number of EC financed studies supporting the SEETO work programme have been conducted including the World Bank led update of the Regional Transport Infrastructure Study (REBIS).

Financial support and technical assistance from the international community to design and implement the investments required will be vital to ensure that the Core Transport Network becomes a fully functioning reality. As a mechanism that coordinates the assistance provided by the EC and the IFIs in key infrastructure sectors, the Western Balkan Investment Framework (WBIF) will have a crucial role to play. Translating the findings and recommendations of the various transport studies into well structured and adequately resourced regional action plans is a challenge for the transport dimension in the next reporting period.

### *Air Transport*

Capacity building and the development of a regional pool of experts are two key achievements of JSPA to date. Implementation of the various studies that have been designed under the current work programme will be critical to the development of a comprehensive regional action plan for SES. However, given the voluntary nature of the initiative that relies on contributions from the members, a source of sustainable financing will have to be identified if the development and subsequent implementation of a regional plan is to be achieved.

### *Environment*

The efforts to develop an overarching coordination body for the environment dimension have provided a useful forum for the different regional bodies to clearly identify their respective roles and responsibilities in this complex sector. The various organisations have actively used their existing structures and their partnerships with different institutions to raise awareness of the main issues and to increase the knowledge among key actors in the region of potentially useful approaches such as the Nexus approach.



Achievement of the various activities set out for 2015/2016 is highly dependent on securing overall agreement and high level political support for the Regional Environment Working Group set up during May 2015, as well as securing financing for its regional action programme.

### Competitiveness

The competitiveness dimension has over the past year formulated an ambitious agenda based on two main areas of action. On the horizontal level, two working groups have been established to assist the governments in developing sound policy, coordinating efforts and implementing joint actions: Joint Working Group on investment, and Working Group on Industrial Policy. These mechanisms will provide a context for the work in the second area of action – sectoral work in tourism and food and beverage processing aimed at identifying and removing obstacles to creating regional value chains in these sectors. Given the scope and the ambition of this dimension, external assistance will be needed in the form of policy advice and technical assistance to support the work of the groups. OECD is already providing targeted assistance to the two sectoral groups, while RCC is currently working with other partners, such as UNCTAD and the World Bank Group, to identify potential joint activities.

## 5. Summary Table of Achievements and Expected Results by Dimension

Action	Achievements 2014/2015	Expected Results 2015/2016
<b>Energy</b>		
Facilitate and monitor development and /or implementation of national plans for energy efficiency (NEEAPs) and thereby contribute to achievement of agreed savings targets;  Support adoption of National Renewable Energy Action Plans (NREAP)	Design and instigation by ECS of a comprehensive monitoring system for NEEAPs;  Regular meetings of ECS' EE Coordination Group comprising national administrations, EC, IFIs and selected experts: <ul style="list-style-type: none"> <li>• promotes sharing of best practice in transposition and implementation of relevant EU <i>Acquis</i></li> <li>• identifies options and potential sources of finance for EE investments;</li> <li>• increases knowledge and capacity of national officials;</li> </ul> Increased harmonization of legislative framework for energy efficiency across SEE economies;  Implementation and expansion of the EC/EBRD financed REEP that provides policy advice on ESCOs alongside financing for EE and RE investments contributing to reaching the 9% savings target;  Adoption of NREAPs in Kosovo*, Montenegro and Serbia.	ECT Ministerial Council in autumn 2015 to approve programme of adoption and transposition of the latest EU Energy Efficiency Directive 2012/27/EU  Further strengthening of national capacities to transpose and implement relevant <i>Acquis</i> through the support and TA available via the EE Coordination Group;  Improvement of data collection and analysis functions following implementation of comprehensive monitoring system;  Additional funding for EE and RE investments provided via REEP and other credit lines;  Adoption of remaining NREAPs.
Identify mechanisms to expedite implementation of key infrastructure projects (Projects of Energy Community Interest – PECEI) particularly access to funding	Preparations for transposition of the Regulation 347/2013/EU to remove obstacles and simplify cumbersome permitting procedures for energy infrastructure underway;  Identification of barriers to specific priority	ECT Ministerial Council in autumn 2015 to approve adoption and transposition of the Regulation 347/2013/EU to improve procedures for development and implementation of energy infrastructure;  Review of PECEI list to update priority

Action	Achievements 2014/2015	Expected Results 2015/2016
	<p>investments and preparation of options to resolve these including legislative procedures;</p> <p>On-going use of WBIF to prepare and advance priority energy infrastructure investments.</p>	<p>investment projects;</p> <p>Greater availability of financing under IPA II to support connectivity agenda in energy.</p>
<p>Remove barriers to market integration in energy, mainly in the area of low prices and energy affordability so as to increase availability and consistency of energy supplies</p>	<p>Assessment and discussions regarding proposal to adopt Regulation 543/2013/EU on transparency in electricity markets;</p> <p>Regional Programme “Scaling up Education of Public Sector and Raising Public Awareness on Energy Related Issues in the South East Europe Economies launched. Beneficiaries are:</p> <ul style="list-style-type: none"> <li>• energy managers in public authorities</li> <li>• market surveillance authorities</li> <li>• citizens and students.</li> </ul>	<p>ECT Ministerial Council in autumn 2015 to approve Adoption and transposition of the Regulation 543/2013/EU (new) to facilitate creation of transparent electricity market;</p> <p>Expansion of regional educational programme.</p>
<b>Transport</b>		
<p>Remove physical and non-physical barriers to development of the SEETO Comprehensive Network</p>	<p>Endorsement of the Core Transport Network by the 6 Western Balkan Prime Ministers agreeing priority transport routes for the extension of the TEN-T to the region for:</p> <ul style="list-style-type: none"> <li>• Road</li> <li>• Rail</li> <li>• Inland Waterways &amp; ports</li> <li>• Sea ports</li> <li>• Airports</li> </ul> <p>Identification of key non-physical barriers affecting cross border transport flows on flagship corridors (subset of Core Transport Network) in the Western Balkans and development of draft action plan for all transport modes including:</p> <ul style="list-style-type: none"> <li>• Legislative issues</li> <li>• Technology &amp; IT requirements</li> <li>• Organisational issues</li> </ul> <p>Physical investments</p> <p>Results of World Bank led study on update of the Regional Transport Infrastructure reviewed by national officials and International Financial Institutions under WBIF structures.</p>	<p>Approval and commencement of investment activities on specific Core Transport network projects;</p> <p>Establishment of National Investment Committees and preparation of sectoral pipelines of priority investment projects including the transport sector;</p> <p>Technical and financial Support from EU (IPA) and IFIs secured for specific investments;</p> <p>Detailed design and approval of a regional action plan for removal of non-physical barriers to cross border transport flows on flagship corridors building on results of EC financed study.</p>
<p>Promote further liberalisation of rail services /railway reform (in line with Addendum to MoU)</p>	<p>EU expertise and sharing of best practice via the regular meetings of the SEETO led Railway and Intermodal Working Group feeding into national policy developments in areas such as:</p> <ul style="list-style-type: none"> <li>• Safety and interoperability</li> <li>• Regulations for European freight network;</li> <li>• Implications of EU directives on market access for the railway sector;</li> </ul>	<p>Further strengthening of institutional capacities to ensure greater liberalisation and reform of the railway sector through regular meetings of the Railway and Intermodal Working Group;</p>

Action	Achievements 2014/2015	Expected Results 2015/2016
<p>Track progress in transport policy areas;</p> <p>Improve quality and expand dissemination of research and analysis on key transport issues</p>	<ul style="list-style-type: none"> <li>• Costing of railway infrastructure.</li> </ul> <p>Recommendations from EC-financed assistance project for implementation of the SEETO Work Programme on data collection and harmonisation implemented by SEETO Secretariat as part of preparation of next SEETO Multi-Annual Plan on the Comprehensive Network;</p> <p>New transport demand model and identification of investment requirements to meet demand provided to national administrations available following completion of the World Bank led update on the Regional Transport Infrastructure Study (REBIS);</p> <p>Regular consultations with key public and private transport users organised by SEETO and RCC (ministries of transport, national transport agencies, freight forwarders, port operators, container shipping companies and representative organisations etc.) provide opportunity to brief users on policy changes and implications and to secure feedback on main issues affecting key users;</p> <p>Issues identified to date for further development include:</p> <ul style="list-style-type: none"> <li>• Need for harmonized IT systems;</li> <li>• Streamlining of customs procedures;</li> <li>• Cooperation between port operators and railway companies;</li> <li>• Opportunities to shift to rail as part of low carbon strategies;</li> </ul> <p>Development of curriculum for road safety auditing in line with EU procedures</p>	<p>Enhanced SEETO Multi-Annual Plan based on improved data collection and harmonisation;</p> <p>Further strengthening of public/private dialogue on transport policy issues via meetings of Key Transport Users and cooperation with the International Transport Forum;</p> <p>Wide circulation of final reports on EC-financed assistance project for implementation of the SEETO Work Programme; World Bank REBIS report and RCC/SEETO study on intermodal transport options;</p> <p>Identification of strategic framework for deployment of a regionally coordinated Intelligent Transport System.</p>
<p>Assess issues arising with respect to use of co-modal transport options in region with the objective of promoting an energy efficient and environmentally friendly transport system</p>	<p>Study on intermodality launched by RCC and SEETO and data collection underway.</p> <p>Study will:</p> <ul style="list-style-type: none"> <li>• Assess the potential market;</li> <li>• Examine existing intermodal infrastructure,</li> <li>• Identify areas for growth,</li> <li>• Highlight opportunities and threats for the intermodal transport market in South East Europe.</li> </ul>	<p>Completion of study on inter modal transport options and consultations with policy makers and key transport users;</p> <p>Preparation of study to determine capacity to implement agreed recommendations.</p>
<b>Air Transport</b>		
<p>Prepare regional performance based navigation plan</p>	<p>Performance Based Navigation Plan is one of 5 interconnected studies that should eventually comprise the SEE 2020 Regional Programme on Air Transport;</p>	<p>Agreement on final scope of studies</p> <p>Secure financing necessary and launch studies</p>

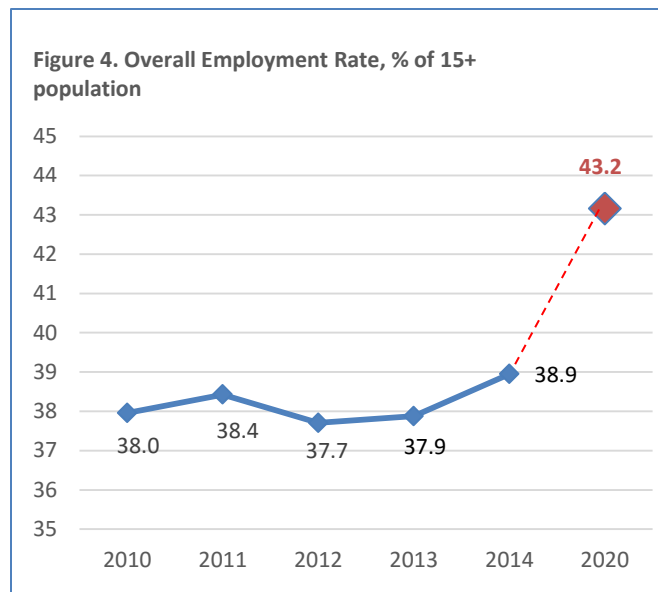
Action	Achievements 2014/2015	Expected Results 2015/2016
	Outline of studies prepared and further consultations foreseen regarding scale, scope and funding requirements.	
Creation of regional pool of experts for National Supervisory Authorities	Parameters of cooperation required to create and maintain pool identified and a Memorandum of Understanding between Civil Aviation Authorities developed.	Finalise signing and adoption of MoU by Civil Aviation Authorities;  Establish initial pool of experts and agree on <i>modus operandi</i> .
Provision of training and transfer of knowledge on key aspects of SES	Increased awareness and knowledge among civil aviation authorities and air navigation service on different aspects of the requirements of the Single European Sky legislative framework following series of RCC/JSPA seminars.	Further strengthening of capacity through on-going delivery of RCC/JSPA seminars
Further development of JSPA Initiative	Various activities on air transport carried out to date by JSPA members on a voluntary basis	Sustainable stream of financing for activities secured.
<b>Environment</b>		
Strengthen capacity of REC, GWP-Med and SWG to provide appropriate support for regional actions under the environment dimension	A Regional Working Group on Environment has been established during May 2015 and an elaborate regional programme was developed and presented to the group for endorsement. Initial commitments from the donors have been obtained for one of the three components of the regional programme dealing with Nexus.	Regional Working Group on Environment formally constituted, commitments secured and regular meetings held  High level political support for Group's objectives and activities secured via endorsements from forthcoming Ministerial meetings in related sectors (agriculture, environment)
Determine feasibility of introducing the Water Energy and Food Nexus management approach at national and trans-boundary levels.  Assess status of Trans-boundary Water Resources Management in Western Balkans in terms of cooperation among economies and related challenges and indicate possible means and tools to assist in addressing these.	Formal dialogue process launched to catalyse actions for the introduction of the Nexus approach, as means to enhance integrated and sustainable management of natural resources in the region and assist towards climate change adaptation  Following preparation and delivery of regional workshops, improved knowledge and awareness regarding content and benefits of the Nexus approach among: <ul style="list-style-type: none"> <li>• SEE Ministries competent for Water, Food, Energy and Environment</li> <li>• NGOs</li> <li>• Private sector representatives</li> <li>• International and regional organisations</li> </ul> Initial identification and contact with potential stakeholders in the field of water management	Greater awareness of Nexus approach secured via seminars/workshops etc.  Identification of suitable, replicable approaches and tools for Transboundary Water Resource Management;  Mapping of level of integration and cooperation on water, energy, land and natural resources;  Development of road map for introduction of Nexus approach.
Design regional programme to improve capacity to instigate climate change adaption measures among range of stakeholders (farmers, agri-business and other water and land users, local governments, CSOs)	Comprehensive regional programme on Environment prepared through a collaborative process among regional organisations. Led by REC, GWP-Med and GWP SEE;  Submitted for endorsement by national	Formal endorsement of regional programme on Environment by national administrations;  Securing of funding for activities;  Agreed work schedule for activities and

Action	Achievements 2014/2015	Expected Results 2015/2016
	governments.	launch of priority activities;  Identification of national priorities for climate change via the ENVSEC initiative.
Preliminary Study on identification of measures for sustainable forest management, that foster economic growth, environmental protection and rural development in the WB economies	The governments have agreed to set up a group dealing with forestry, within the auspices of the SWG RRD and its formal establishment is expected in the third quarter of 2015.	Study to be completed during 2015-16.
<b>Competitiveness</b>		
Establishment of expert working groups in selected sectors (food & beverages and tourism) under the auspices of the SEE IC providing advice and guidance on policy actions.	Establishment of Food and Beverages Expert Group and Tourism Expert Group under EC-financed OECD led Next Generation Competitiveness Initiative  Regular meetings of the Expert Groups that comprise representatives of the public and private sector allows for diverse range of views and input;	
Initial assessment of main constraints and policy barriers to competitiveness in selected sectors and preparation of regional support programme as appropriate	Research and analysis on key issues for the sectors presented and debated by Expert Groups including <ul style="list-style-type: none"> <li>• Skills gaps (main issue of focus)</li> <li>• Mechanisms for skills transfer and skills matching</li> <li>• Identification of high value niche markets</li> <li>• Increasing value added of products/services</li> <li>• Identification of potential synergies of regional offer in both sectors</li> </ul>	Regional programmes agreed and developed to implement first pilot projects on the ground in the tourism and food and beverage sectors.
Initiate greater cooperation among Investment Promotion Agencies to jointly promote SEE 2020 region as a destination for FDI	Working Group on Investment Policy and Promotion established jointly by CEFTA and SEEIC and a scope of work agreed to tackle transparency in FDI attraction policies and measures, investment coordination, and joint investment promotion	Agreement on a common regional roadmap for investment policy coordination and transparency stemming from a regional benchmark study on investment policy coordination in South East Europe developed by UNCTAD.
Conduct SBA Assessment and align SEE 2020 priorities for SME competitiveness	SBA assessments conducted during the reporting period and are currently being systemized within a SBA assessment report to be released by the end of the year.	
Implement a regional Training Needs Assessment (TNA)	TNA has been implemented in the participating economies.	
Support Women Entrepreneurs	Efforts resulted in policy improvement with regard to women entrepreneurship by initiating and developing specific strategies on Women entrepreneurship in the region's individual economies. This matter has also	Main results are expected in three broad areas: at the policy and awareness level, the economies are expected to finalize some of the Women Entrepreneurship strategies and provide direct resources

Action	Achievements 2014/2015	Expected Results 2015/2016
	<p>been addressed through Cetinje Parliamentary Forum Declaration on policy improvement in the area of women entrepreneurship. The second generation of qualitative indicators for women entrepreneurship was created, which will serve as a solid base for policy improvement in this respective area. Furthermore, creation of SEE women entrepreneurs' database in the region has been initiated as a prerequisite for quantitative analysis, which is to represent an important part of future recommendations for policy reforms and monitoring. Women entrepreneurship has also been included in the EU Small Business Act harmonisation process in the region, providing an EU-integration dimension to the process of women economic empowerment in the region.</p>	<p>towards their implementation; at the level of monitoring, WE databases will be finalized and put into use, with the second generation of indicators included; and finally, women entrepreneurship is expected to be mainstreamed within the broader SME development policies in SEE.</p>

## Inclusive Growth Pillar (generating employment opportunities for all)

### 1. Headline target



The baseline and the headline target for this pillar were slightly adjusted due to recalculating an error in the data submitted by one of the economies. The target is to increase the overall employment rate in 2020 (as a percentage of the population aged 15 years and older) from 38.0% to 43.2%.

Figure shows data for the regional headline indicator for this pillar, highlighting the gap between the current situation and the 2020 target.

Employment performance tracks closely the growth performance of the economies. The downturn of 2012 depressed the employment figures as well, with unemployment rising steadily in most economies, while remaining stable in Montenegro and slightly increasing in The Former Yugoslav Republic of Macedonia and Kosovo\*. The unemployment levels are exceptionally high

among the young people with all economies except Albania witnessing youth unemployment rates above 40% (above 60% in Bosnia and Herzegovina and Kosovo\*)<sup>2</sup>. For comparison purposes, the youth unemployment rate in the EU28 in 2012 was 22%.

The policy prescription remains largely the same as noted in last year's Baseline report. Radical structural reforms are needed across the region to address the enduring labour market weaknesses, including the rigid institutional set-up and low flexibility of the labour markets, the continuing sub-optimal investment climate

<sup>2</sup> Eurostat and national statistics, 2012

that exists in most cases, the mismatch between education and the labour market, as well as labour cost factors. It is encouraging to note that all of the ERPs submitted by the governments envisage reforms in most of the areas noted above. Prioritizing active labour market policies, which are currently underdeveloped and underfunded in the region, could bring some relief in the labour markets and could thus be made a policy priority given the well documented and demonstrated positive effect these policies can have. To complement the busy national reform agenda, the regional action plans outlined in this report deal with those aspects that are most relevant in the regional context, such as labour mobility, and best practice dissemination and peer reviews in the areas of employment policy, labour market governance and social economy.

In summary, the overall employment rate in the region would need to increase from 38.9% in 2014 to 43.2% in 2020. The 2014 employment rate ranges from 28.5% in Kosovo\* (estimate) and 31.7% in BiH to 49.6% and 54.3% in Montenegro and Albania respectively, according to data from the national statistics agencies. These rates are well below the current EU rates of around 67%.

## **2. Overview of Objectives**

The overall objective of the actions under this pillar is to generate greater employment opportunities for all sections of society in the SEE 2020 economies by improving employment policies and reducing health inequalities.

Specific areas of focus within the employment dimension include skills development, greater labour market participation by all including vulnerable groups and minorities, labour mobility and the potential offered by developing a larger social economy in the region.

A key objective for the health dimension is to ensure that sufficient attention is paid to the impact of health policies on different aspects of socio-economic development

## **3. Dimension Coordinators for Inclusive Growth**

It was foreseen that the SEE 2020 Social Agenda Working Group would act as the coordinator for the employment dimension. The Group comprises officially appointed representatives from ministries and national bodies responsible for education and employment services from all the SEE 2020 economies as well as international partners such as the EC, World Bank, ETF and bilateral donors. To date, the secretariat and other support services provided by the RCC to the Group have allowed it meet on a regular basis and to conduct in-depth reviews on particular topics such as labour mobility. In addition the Group has provided a very useful forum for consultations with international partners such as the World Bank, IOM and DG Employment on a range of social agenda topics.

However the Group has not yet succeeded in agreeing upon a formal basis for cooperation nor has it secured commitments from national administrations regarding their expected contributions to the Group in terms of personnel and resources.

The long established SEE Health Network to which all SEE 2020 economies belong provides coordination for the health dimension of SEE 2020. The Skopje based Secretariat is currently being established and is expected to receive the first staff members during 2015. The Network continues to receive support from the World Health Organisation and other relevant intergovernmental organisations. SEE Ministers for Health endorsed the mission and objectives of the SEE Health Network, including those relevant for SEE 2020 at their meeting in Skopje in November 2014. While the Network has made good progress in terms of

elaborating a prioritised regional action plan it has yet to secure the necessary financing to all allow many of the activities to proceed.

#### 4. Overview of Progress 2014/2015 and Expectations for 2015/2016

The substantial research and analysis work undertaken under the employment dimension on labour market mobility and the social economy have provided national administrations and the wider community with valuable information on the current status in the region in these policy areas. In addition to its impact on social inclusion by expanding employment opportunities, labour mobility also exerts influence in other SEE 2020 areas such as investment climate and competitiveness. The considerable potential of social economy to generate social innovation and enhance social capital is little understood in the region and this is reflected in the fragmented legislative framework and the lack of support structures for such organisations.

The in-depth analysis conducted during the reporting period has highlighted the value of taking a regional approach to both of these areas and the studies have provided national administrations with a range of recommendations for possible future action - both in the short and longer term. These are now under active consideration, with the recommendations for the labour market mobility more advanced as a draft roadmap setting out priorities and a timeline has been circulated. More detailed work is required under the social economy area to provide such a document. The emphasis in the next reporting period for both topics will shift from analysis to implementing priority actions based on an agreed regional work programme.

A particular focus of the activities under the Health dimension has been to raise awareness across the other SEE 2020 pillars of the inter-linkages between health policy and other socio-economic policies including agriculture, education, environment, rural development, transport and trade. A good basis for cooperation with different regional initiatives has been prepared and the SEE ministers for health have endorsed the overall objectives of the health dimension. The initial wide-ranging regional action programme has been reviewed and a series of priority areas and actions identified. Establishing detailed overviews of the current situation the relevance of health policy in key areas such as cross border trade and labour mobility are among the initial activities planned for 2015/2016.

The delivery of the expected results foreseen for the Inclusive Growth Pillar depends on some critical decisions in the coming months. For the employment dimension, it is vital that the SEE 2020 Social Agenda Working Group is placed on a more formal and sustainable footing. National administrations need to clearly identify those areas where they wish to align national policies with a regional approach, appoint dedicated representatives and provide adequate resources to allow the work to date to be built upon.

For the health dimension, the key issue is availability of financial resources to carry out the proposed priority studies and assessments.

#### 5. Summary Table of Achievements and Expected Results by Dimension

Action	Achievements 2014/2015	Expected Results 2015/2016
<b>Employment</b>		
Improve region's abilities to develop and implement employment policies through strengthening the capacity of the RCC Social Agenda 2020 Working Group Agree on governance structure, work	Social Agenda 2020 Working Group provided a regional contact point and consultative body for key international programmes including: <ul style="list-style-type: none"> <li>DG Employment's Platform on Employment and Social Policies;</li> </ul>	Social Agenda 2020 Working Group established on more formal basis and expected inputs from national administrations agreed  Coordinated inputs from Working Group to international programmes



Action	Achievements 2014/2015	Expected Results 2015/2016
programme and modus operandi ensuring substantial involvement of international partners and programmes	<ul style="list-style-type: none"> <li>• IOM's on labour migration; and</li> <li>• World Bank's development platform.</li> </ul>	
Assess current labour mobility policies and develop regional programme to facilitate greater labour mobility among SEE economies thereby improving job opportunities	<p>Completion of the combined RCC-sponsored regional study assessing the labour mobility and the IOM led study on the legal and regulatory environment for labour mobility provided substantial information and analysis on socio-economic characteristics of migrants and current labour mobility;</p> <p>Proposals under consideration by national administrations to enhance regional labour market mobility aim at:</p> <ul style="list-style-type: none"> <li>• Free movement of SEE/WB6 citizens and workers in the SEE/WB6 region</li> <li>• Free movement of long-term SEE SEE/WB6 region</li> <li>• Regional cross-border social welfare and pension arrangements</li> <li>• Regional return and readmission agreements with third countries</li> <li>• Free movement of EU-citizens (also without reciprocity)</li> <li>• Approximation of the regional and domestic legislation to the EU acquis</li> </ul> <p>Roadmap to prepare economies to improve regional labour mobility including establishment of necessary implementation mechanisms has been proposed to national authorities.</p>	<p>Agreement and adoption of the regional roadmap for promoting labour mobility;</p> <p>Implementation of priority actions of the roadmap initiated as per an agreed schedule;</p> <p>Regional working group on the mutual recognition of professional qualifications set up and work programme agreed.</p>
Assess potential for further development of the social economy and agree programme of actions to improve environment for social economy initiatives	<p>Current policies and regulatory environment for social economy initiatives in the region assessed under RCC sponsored study;</p> <p>Increased awareness of the potential benefits and main challenges among public officials following extensive consultations and presentations of study to national, regional and international bodies;</p> <p>Key recommendations under discussion with national administrations to determine interest and feasibility. These include recommendations for actions in:</p> <ul style="list-style-type: none"> <li>• Improving the legislative framework;</li> <li>• Developing support mechanisms including advocacy, capacity building, finance and institutional development;</li> <li>• Implementing suitable information and communication systems</li> </ul>	<p>Preparation and endorsement of a regional action plan to improve operating environment for social economy;</p> <p>Launch of initial activities.</p>

Action	Achievements 2014/2015	Expected Results 2015/2016
	<ul style="list-style-type: none"> <li>Establishing a regional umbrella to provide cost effective support and share best practice</li> </ul>	
<b>Health</b>		
<p>Agreed programme of prioritised regional actions to support national efforts to improve performance of the health system</p> <p>Increased awareness of relevance of health policies to socio-economic policies in areas such as trade, labour mobility, investment, access to education etc.</p> <p>Enhanced cooperation between the health dimension and other SEE 2020 dimension/pillar coordinators</p>	<p>Ministerial meeting of all SEE health ministers reaffirmed their commitment to cooperation on SEE 2020 objectives;</p> <p>Detailed Regional Programme for SEE 2020 has been finalised by the SEE Health Network</p> <p>Immediate priorities have been agreed:</p> <ul style="list-style-type: none"> <li>Cross border public health</li> <li>Improvements in health system performance</li> <li>Capacity building for governance in health</li> <li>Information and human resources for health;</li> </ul> <p>Initial discussions underway with representatives of transport, environment, ICT, education, local government, trade, rural development and entrepreneurial learning to develop greater links and cooperation.</p> <p>Three memoranda of understanding (MoUs) signed between the SEEHN and the SEE Network on Workers' Health, the UN European Centre for Peace and Development and the European Union Joint Action for Health Workforce Planning and Forecasting.</p>	<p>Mapping of key issues relating to cross border health issues (focus on movement of people and trade);</p> <p>Assessment of opportunities for investments in the health system in the region;</p> <p>Agreed programmes of cooperation on specific topics agreed with selected partners in other sectors.</p>

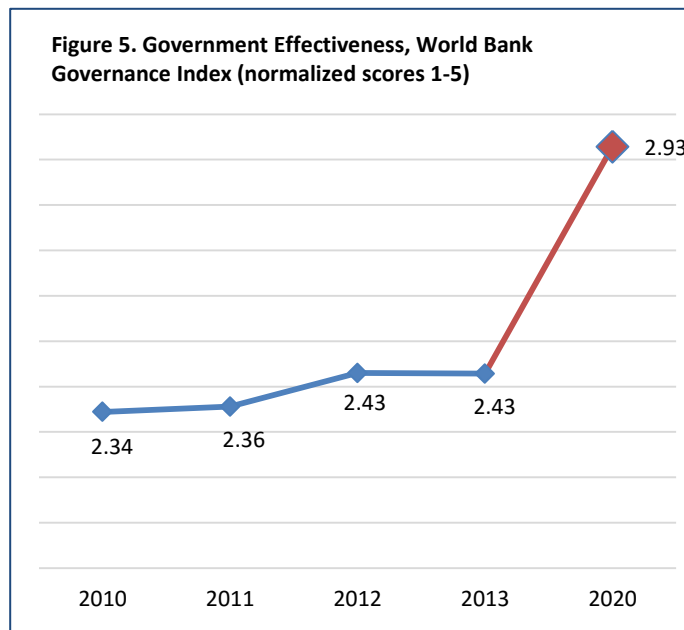
## Governance for Growth Pillar (growth conducive environment)

### 1. Headline target

Good governance is considered a pre-requisite for the achievement of the overall goals of SEE 2020 and thus it is a cross cutting component of the Strategy that underpins the work of the other pillars. It seeks to ensure that the government institutions that implement SEE 2020 are well functioning, transparent and efficient; that corruption is contained and substantial progress is made in the implementation of the rule of law.

The headline target for this pillar is to improve governments' effectiveness as measured by the World Bank's Governance Index from 2.33 in 2010 to 2.9 in 2020. The underlying rationale is that good governance supports the achievement of all other targets and objectives of the SEE 2020 Strategy. Good governance is thus a cross cutting component of the SEE 2020 Strategy underpinning all of the other pillars. The pillar seeks to ensure that the public administration is well functioning and efficient, that credible anti-corruption activities are implemented, and that the judiciary is able to tackle disputes in an efficient and business-friendly manner.

Figure 5 presents the data for the regional headline indicator for this pillar, highlighting the gap between the current situation (2013 is the year with most recent data available) and the 2020 target.



The overall government effectiveness ratings as measured by the Worldwide Governance Index are still the lowest in Europe, with only Croatia crossing the threshold of 3 on the scale from 1 to 5 in 2013. 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 and thus indicates where improvements are required.

In terms of individual economies, the progress is mixed. Bosnia and Herzegovina and Kosovo\* recorded the most significant increase in the index of 28% and 20% respectively, although this can be at least partly attributed to very low starting point. The rest of the economies fared a lot less modestly, with some even recording negative values.

## 2. Overview of Key Objectives within the Pillar

The main objectives within this pillar for the initial period of the SEE 2020 Strategy are to improve the capacity of the public administrations in the region (at central and local level) to deliver government services more efficiently (effective public services); increase transparency and public awareness of the rules governing access to services (anti-corruption); and increase capacity and cooperation across the judicial system in the region (judicial reform).

Public administration reform including judicial reform is one of the important preconditions in the EU accession process with achieving the benchmarks outlined by the European Commission and EU Member States. This area has been identified as a key factor for improving the business climate including the attraction of much needed foreign investment. One of the main aims of the reform is to transform traditional bureaucratic administrations into citizen-oriented ones, aligned with citizens' needs and requirements. This is a complex and intensive task.

### **3. Dimension Coordinators for Governance for Growth**

This pillar contains 3 dimensions:

1. Effective public services – supported by the Regional School of Public Administration (ReSPA) and the Network of National Associations of Local Authorities in South East Europe (NALAS)
2. Anti-Corruption – supported by the Regional Anti-Corruption Initiative; and
3. Judicial Reform – supported by the Working Group on Justice.

During this reporting period, RCC has provided overarching support to all dimension coordinators so as to ensure appropriate integration and synergies across the different activities.

ReSPA has undergone a substantial re-organisation during the reporting period and has had to cope with a severe shortage of human resources. This has impacted on its capacity to actively focus on SEE 2020 and to develop tailored initiatives. However it has succeeded in delivering a number of pertinent training events to public officials from the region.

NALAS' long established management structures have designed a highly relevant regional programme of activities and launched a number of these on a pilot basis. The projects are mainly aimed at local governments/municipalities but some are also relevant for national administrations. It's extensive network throughout the region and links to similar bodies in the EU and beyond contribute to NALAS' capacity to develop innovative, tailored programmes of assistance. However difficulties in securing funding is hampering the roll-out of the full regional programmes.

RAI has incorporated SEE 2020 related activities into its overall work programme and has devised an intensive schedule of activities ranging from detailed research and analysis to capacity building to awareness raising. Several activities have been launched in the current reporting period but RAI has very limited financing available for the forthcoming period.

The functioning of the newly established Working Group on Justice is currently supported by the RCC Secretariat, which has facilitated the extensive discussions necessary to prepare and endorse a regional action plan in the Judicial Reform area. The deliberations of the Working Group will be further enhanced by the creation of the professional networks. However the lack of consistency in terms of membership of the Working Group with different officials attending the meetings impacts on its effective functioning.

### **4. Overview of Progress 2014/2015 and Expectations for 2015/2016**

A combination of pilot activities and initial research has advanced the agenda in this important pillar. Training events for public officials from national administrations and local government, the launch of pilot projects and the targeted distribution of detailed analysis e.g. on methods to fight corruption have been fed into national administrations. The research and analysis conducted to date has provided national administrations with much "food for thought" regarding options for increasing transparency, fighting corruption and strengthening the judicial system. The various studies have also raised awareness of the impact of the problems on the socio-economic development of the region and illustrated the different methods used by similar economies to successfully tackle these.

Comprehensive regional action plans have been developed in each of the three dimensions and have been extensively consulted with the relevant national counterparts and related regional organisations. In the

case of effective public services and judicial reform, while there is broad agreement to the overall plans, further work is underway to elaborate specific activities and a detailed work schedule for each area.

The regional action plans provide an excellent basis for achieving the ambitious target of increasing the region's score on the World Bank's Governance Index. A focused mix of research and analysis, capacity building, networking and technical assistance is foreseen with a lot of emphasis on learning from best practice and sharing experience both from within the region and in the wider EU.

The challenges facing the actors in this pillar include:

- lack of capacity amongst some dimension coordinators to assume a leadership role;
- varying levels of commitments from national administrations to the relevant regional body;
- political sensitivities regarding some of the topics being addressed; and
- a substantial shortfall in funds available to deliver the planned activities.

The latter challenge – lack of financing – is particularly critical for the activities foreseen to strengthen local authorities where NALAS requires a significant tranche of finance if it is to extend its successful pilot activities. RAI will also face difficulties in providing the full range of activities it has foreseen without a substantial injection of funding. Discussions are on-going with potential financiers but this continues to be an area of concern.

It is hoped that following its restructuring and the recruitment of additional resources ReSPA will be able to take a more active role in the development and implementation of the regional action plan for effective public service. Ensuring that the national administrations appoint dedicated officials as the members of the Working Group on Justice and the professional networks being established under its auspices will go a long way towards improving the operating capacity of these important structures.

## 5. Summary Table of Achievements and Expected Results by Dimension

Action	Achievements 2014/2015	Expected Results 2015/2016
<i>Effective Public Services</i>		
Enhancement of public services at national and local level through the development and implementation of a comprehensive regional action plan	Outline regional action plan developed and reviewed by ReSPA, NALAS and RCC  Plan covers 4 main themes;  (i) upgrading policy & regulatory capacity (ii) quality of public services (including introduction of e government) (iii) subsidiarity & coordination between levels (iv) professionalism of public servants;  Funding for several national activities secured;  Detailed elaboration of regional activities underway.	Regional Action Plan endorsed by national administrations and commencement of initial activities.
Deliver tailored training programmes to public	429 public officials participated in variety of ReSPA training events covering topics on:	Extensive training provided to public officials namely via various ReSPA events

Action	Achievements 2014/2015	Expected Results 2015/2016
administration officials from central and local government to enhance knowledge and awareness among public officials regarding specific topics of relevance to SEE 2020.	<ul style="list-style-type: none"> <li>(i) alignment with EU legislation,</li> <li>(ii) human resource management in the public administration,</li> <li>(iii) strategic planning</li> <li>(iv) implementing of e-government programmes,</li> <li>(v) ethical leadership.</li> </ul>	<p>on topics including:</p> <ul style="list-style-type: none"> <li>(i) Public administration reform</li> <li>(ii) EU integration and alignment of national legislation with EU acquis</li> <li>(iii) Human resource management</li> <li>(iv) Ethics and integrity</li> <li>(v) e-Government</li> <li>(vi) Public Private Partnerships</li> <li>(vii) Public Procurement</li> <li>(viii) Regulatory Impact Assessment</li> </ul>
Provision of advice and guidance and sharing of best practice for national and local governments across a range of SEE 2020 related topics; strengthening capacities and identifying specific needs	<p>Analysis and recommendations on public administration reform and tools circulated to (national and local) governments following completion of :</p> <ul style="list-style-type: none"> <li>(i) Comparative study on Methodologies for Preparation of Public Administration Reform Strategies in Western Balkans; and</li> <li>(ii) Comparative Study on Abuse of Information Technology</li> </ul> <p>Research underway on use of e-systems to encourage more active citizen participation in local government and to provide cost-savings.</p> <p>Officials from local authorities benefited from information, advice and training from NALAS on topics including:</p> <ul style="list-style-type: none"> <li>(i) fiscal decentralisation;</li> <li>(ii) use of EU funds;</li> <li>(iii) water management; and</li> <li>(iv) sustainable tourism.</li> </ul> <p>Launch of the NALAS e-Academy and pilot delivery of e-training to local officials in Albania, Kosovo* and The Former Yugoslav Republic of Macedonia</p> <p>Business Friendly Municipal Certification Process now available in Bosnia and Herzegovina, Croatia, Serbia and The Former Yugoslav Republic of Macedonia. Process coordinated through the NALAS network.</p>	<p>Comparative study on regulatory impact assessment completed and consulted throughout the region</p> <p>Completion of comparative study for establishment of the “Decentralisation observatory” to monitor activities in:</p> <ul style="list-style-type: none"> <li>(i) Fiscal decentralisation</li> <li>(ii) Solid waste and water management</li> <li>(iii) Sustainable tourism</li> <li>(iv) Urban planning</li> </ul> <p>Regional network of municipal EU experts strengthened;</p> <p>Expanded range of topics available on NALAS’ e-Academy increasing capacities of local officials;</p> <p>More widespread knowledge and action to improve citizen participation, business friendliness and water management among local authorities via expansion of pilot projects.</p>
<b>Anti-Corruption</b>		
Use of best practice methodologies for assessing corruption risk in public institutions in SEE 2020 economies	Options and recommendation for methodologies for assessing corruption risk circulated to national governments following completion of Comparative Study	Agreement on best practice methodology for corruption risk assessment and corruption proofing
Enhanced “corruption proofing” of legislation in SEE 2020 economies	Recommendation for “corruption proofing” legislation endorsed by national administrations following completion of study on methodologies for anti corruption	National administration supported in implementation of methodology through technical assistance, training and IT tools

Action	Achievements 2014/2015	Expected Results 2015/2016
	<p>assessment of laws;</p> <p>Agreement secured on Regional Programme of capacity building and development of a regional legal instrument on data exchange.</p>	
<p>Greater awareness among civil society of actions to combat corruption and better cooperation across organisations</p>	<p>Awareness raising events regarding “corruption proofing” of laws and methodologies to for corruption risk assessment in public institutions held with regional civil society organisations;</p> <p>Basis for greater cooperation between civil society organisations and national administrations agreed.</p>	<p>Comprehensive mapping of anti-corruption actors in SEE;</p> <p>Development of IT based platform to encourage efficient networking and sharing of information;</p> <p>Negotiations on a regional Legal Instrument on Data Exchange and Conflict of Interest launched;</p> <p>Increased public awareness on need to support “whistleblowers” through publication and presentation of specifically commissioned report.</p>
<b>Justice</b>		
<p>Improve efficiency of courts, enhance quality of justice and improve competences of judges and prosecutors</p>	<p>Comparative study on court backlog reduction systems and case weighting systems drafted and shared with the governments to encourage development of a system of court backlog reduction and improve the efficiency of the judicial system.</p>	<p>Governments to adopt systems for distribution of cases based on the recommendations</p>
<p>Strengthen cross-border judicial cooperation in business related legal and judicial areas (e.g. bankruptcy, mergers and acquisitions, company registration) and alternative dispute resolution mechanisms</p>	<p>Study on mediation systems in the region and EU MS underway (to be presented to governments at end June 2015). Focus is on increasing efficiency by transferring cases to the more business friendly court-related mediation.</p> <p>Draft report on use of e-enforcement on the basis of authentic documents endorsed discussed with national administrations. Further consultations underway to develop tailored recommendations that meet all parties’ requests.</p> <p>Regional cooperation in key areas such as mediation, dispute settlement, prosecution and judicial training enhanced through creation of regional networks of relevant officials namely:</p> <ul style="list-style-type: none"> <li>• Network of Judicial and Prosecutorial Councils (to be established during Q2 2015)</li> <li>• Network of Judicial Training Institutions (to be established during Q2 2015)</li> <li>• Network of Associations of Mediators (to be established by end of 2015)</li> </ul> <p>The networks should enable transfer of</p>	<p>Legal framework for alternative dispute resolution enhanced based on the recommendations;</p> <p>Further improvements and upgrades of the system of e-enforcement on the basis of authentic documents;</p> <p>Regular meetings of the regional networks and launch of capacity development programme to improve abilities to implement international documents and conventions (European Convention on Human Rights and Hague Conventions) , as well as case law of European Court of Human Rights.</p>

Action	Achievements 2014/2015	Expected Results 2015/2016
	experiences between the different institutions and provide platforms for development of common regional activities.	