

SOUTH EAST EUROPE 2020:

JOBS AND PROSPERITY IN A EUROPEAN PERSPECTIVE

First draft of the Strategy

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Executive Summary

South East Europe is at an important juncture in its development. Despite the indisputable achievements of the past two decades, the challenges that the region still faces are formidable. The world now lives in the new realities of rapid and radical global change that affects each and every country and region. South East Europe recognises the need for new and bold policy approaches and for joint efforts to address the challenges.

Following the interest expressed by the countries of the region and on the basis of the mandate received by the ministers of the economy, the Regional Cooperation Council (RCC) has prepared the South East Europe 2020 Strategy which lays out the vision of a new regional development pathway for South East Europe. The main goal is to boost prosperity and job creation in the region and at the same time underscores the European perspective of the region's future.

The SEE 2020 Strategy is the outcome of a cooperative consultation process among the countries of the region and the agreements reached in this process. It presents a new and innovative collaborative approach towards addressing some of the acute socioeconomic problems in the region and gives fresh impetus to economic growth and development in the South East European countries, based on closer integrative links and shared European values.

The Strategy pursues a holistic development pattern for the region and seeks to stimulate the key long-term drivers of growth within it: innovation, skills and trade integration. It is centred on a set of development pillars, namely:

- Integrated Growth – promoting deeper regional trade and investment linkages and policies that are non-discriminatory, transparent and predictable.
- Smart Growth – by committing to innovate and compete on value-added rather than labour costs.
- Sustainable Growth – through raising the level of private sector competitiveness, entrepreneurship and greener and more energy-efficient development.
- Inclusive Growth – by bringing to the forefront skills development, employment creation and inclusive labour market participation, health and wellbeing.
- Governance for Growth – by increasing the capacity of public administrations to strengthen the rule of law and reduce corruption, in order to create a business-friendly environment.

SEE 2020 is a strategy for the region as a whole, but also for each and every SEE country. The Strategy targets – and its instruments embody – shared national priorities that are supported by all SEE countries, which are committed to strive for its successful implementation.

The Strategy provides a context for the ambitious targets put forward by the governments for the future of the region and of each SEE country with the objective of unleashing the entrepreneurial growth forces in the region and establishing virtuous development circles.

Success of the Strategy depends on achieving high and sustained economic growth – the foundation of prosperity and job creation – as well as on making progress in catching up with the EU. The SEE countries have a target for accelerating the process of catching up with the more developed part of Europe: by 2020, the average level of GDP per capita in the SEE region should reach some 44% of the EU average, up from 36% in 2010.

At the same time, SEE 2020 has the objective of engineering a pattern of job-rich growth, which will both help improve the labour market situation and contribute to raising living standards. The policy measures and instruments envisaged by the Strategy should contribute to the creation of some 1 million new jobs during the 2010s.

The Strategy also targets a switch from the consumption-led model of growth to one led by investment and exports as a result of accelerated technological development and further competitive gains. The improved competitiveness of South East European tradable goods and services should contribute to a surge in trade flows and to improved external balances: by 2020 the region's total trade turnover should increase by a factor of 2.3, while the average level of the region's trade deficit should drop from 16% in 2010 to 12% in 2020.

The countries in the region are committed to undertake coordinated joint efforts towards achieving these ambitious goals. The Strategy contains a detailed action plan, which includes a range of policy measures and instruments to be carried out by the SEE countries. These instruments address the five policy areas, as delineated by the SEE 2020 pillars, and include coordinated joint practical steps, as agreed in a consultation process involving the key stakeholders. They cover important policy areas such as trade enhancement, investment promotion, regional integration, skills, support for research and development (R&D), stimulating innovative entrepreneurship, the development of the information society, improving resource efficiency, regulatory harmonization within the EU, ensuring high labour participation rate, health, and raising the efficiency of public services.

The nature of these policy measures and instruments implies that national governments will take the lead in their design and implementation. Their implementation amounts to a comprehensive reform agenda that the SEE countries envisage undertaking in the course of the current decade. This reflects the political will of the SEE governments to take a decisive step towards creating vibrant economies

and thriving societies in each and every country of the region.

SEE 2020 implementation will be managed by a well-resourced governance structure with delegated responsibilities, including the Governing Board of the SEE 2020, national administrations, regional structures serving as coordinators of respective policy dimensions, and the RCC. The national administrations represented by the SEE 2020 coordinators and various ministries and agencies will take the lead in guiding implementation of the agreed policy measures in each country. The regional structures will facilitate the direct participation of the respective national ministries in organised consultation processes related to implementation. Progress towards the Strategy objectives will be followed constantly through a comprehensive monitoring system that will include regular implementation reviews and other monitoring instruments to help the Governing Board of SEE 2020 steer the implementation process.

By joining forces in the achievement of common goals and united by shared European values, South East Europe will succeed.

SOUTH EAST EUROPE 2020: JOBS AND PROSPERITY IN A EUROPEAN PERSPECTIVE

1. Changing gears: a new pathway for South East Europe

Learning from the past ...

South East Europe (SEE)¹ is at an important juncture in its development. Over the past two decades, the SEE countries have made great strides in their economic and political transformation, reintegration into the global economy and rapprochement with Europe. The resurgence of economic growth in South East Europe during the 2000s contributed to rising living standards and improving social welfare. During that decade, average annual GDP growth in South East Europe was 3.4%, which resulted in a 40% increase in regional aggregate GDP over the past decade. Robust growth supported an on-going process of catching up: average per capita GDP in the SEE region increased from 28.5% of the EU-27 average in 2000 to more than 36% in 2010.

Despite the indisputable achievements, the challenges that South East Europe still faces are formidable. On average, the South East European economies still lag considerably behind the developed European economies. Production facilities in much of South East Europe are generally obsolete, in desperate need of massive new investment. While they are improving, the living standards of a large share of the population remain unsatisfactory. At 24% in 2012, the average unemployment rates in the region are among the highest in Europe. Progress towards EU membership has been uneven, and some of the countries still face a long and bumpy road towards EU accession. The recent global economic and financial crisis reversed some of the positive achievements of the preceding years.

Many of the economic problems in the SEE region are chronic and to some extent reflect suboptimal patterns of growth. Markets in the region perform in a way that is far from efficient – the result of an unfinished reform agenda during the transition to a functioning market economy. The local business environment is still marred by many impediments that reduce its attractiveness for investment. There is considerable potential for developing further cross-border economic cooperation. The actual model of growth that prevailed during the 2000s was predominantly driven by domestic consumption and led to unsustainable external deficits.

It is becoming clear that South East Europe needs to ‘change gear’ – and indeed change the actual model of growth – by accelerating socioeconomic reform and speeding up measures to modernise

¹ Throughout this document the working regional definition of ‘South East Europe’ is taken to include 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.

and reindustrialise its economy, to create more new jobs and to deliver better living standards for the population. In turn, this calls for concerted policy efforts at both the national and the regional level with the aim of guiding the region towards a new development pathway.

This is a timely initiative, because the region has been lagging behind the development seen in most of Europe and is in desperate need of modernisation, institutional transformation and sustained economic growth. There is also a realisation, often lacking in the recent past, of the need for closer integration not only with developed Europe, but also with other neighbours. A domestic growth strategy will have more chance of success if it is embedded in the system of regional cooperation in all relevant areas. This is also an important condition to bear in mind if EU integration is to proceed apace. The strategy is to cooperate regionally in order to accede to the EU and to speed up job-rich growth and development.

... South East Europe has a new vision for the future ...

In 2010, the European Union and its Member States launched a strategy for sustainable growth for the coming decade, the Europe 2020 strategy, which should shape the transition towards smart, sustainable and inclusive growth. The Europe 2020 strategy is based on common objectives agreed by the Member States, national commitments for its implementation, further widening and deepening of economic cooperation and integration in Europe, and a range of new and bold joint initiatives.

Inspired by the Europe 2020 strategy, the economies of South East Europe endorsed their own '2020 Vision' at the 2011 SEE Ministerial Conference held at the OECD headquarters in Paris, 'Building a 2020 Vision for South East Europe'. This vision was reinforced during 2012 when the SEE Ministers in charge of the economy, met again to adopt 11 regional and 77 national headline targets and chart out a comprehensive cooperation agenda. The RCC was mandated to develop the South East Europe 2020 Strategy as a regional response to Europe 2020 and this mandate was reconfirmed by the Ministers of Foreign Affairs of the South East Europe Cooperation Process at their meeting held on 31 May 2013 in Ohrid (The former Yugoslav Republic of Macedonia).

The SEE 2020 Strategy presented in this document is the outcome of a cooperative consultative process among the countries of the region and the agreements reached in this process.

... and a comprehensive reform agenda ...

South East Europe is now pursuing its own new development pathway, which will build on the lessons learned over the past two decades and will put forward new approaches to address the current challenges and to take full advantage of the existing opportunities. The SEE 2020 Strategy

outlines this new approach, which seeks to give fresh impetus to economic growth and development in the region and to contribute to greater prosperity, the creation of more jobs and stronger ties with the EU, based on closer integrative links and shared European values.

SEE 2020 focuses on stimulating the key long-term drivers of growth for the region – innovation, skills and trade integration, with five main pillars shaping its foundation:

- Integrated Growth
- Smart Growth
- Sustainable Growth
- Inclusive Growth
- Governance for Growth.

Pursuit of the Strategy's objectives amounts to implementation of a comprehensive policy reform agenda both at the national level of each SEE country and at the regional level, in terms of undertaking coordinated joint projects and agreeing to apply a set of harmonised policy measures and instruments. The Strategy envisages that the SEE countries will undertake important policy efforts in the areas outlined above. An important cross-cutting area of coordinated policy reform is that related to the efforts to improve the investment climate and establish an environment conducive to doing business.

The Strategy contains a detailed action plan of agreed joint policy measures and instruments to be undertaken by the SEE countries in the coming years.

... based on shared values and cooperative effort

The SEE 2020 Strategy sets out a vision for a new development pathway for South East Europe that should boost prosperity and job creation in the region, and at the same time underscores the European perspective of the region's future. The Strategy:

- Reflects the shared view of key stakeholders in the region that an approach based on closer, wider and deeper regional cooperation can provide win-win solutions for all partners and be a source of synergy in dealing with current challenges and making the best use of existing opportunities. International experience has shown that joining forces when targeting common problems helps to achieve synergies and better results than trying to 'go it alone'.
- Outlines a new holistic development paradigm that highlights the main pillars of future development in the region, and at the same time recognises the links and interdependencies among these pillars as parts of a single common

approach. Ensuring a clear European perspective in future development is an essential component of this approach. Such a holistic paradigm is essential for concentrating both policy efforts and available resources on the key directions of future development.

- Sets concrete, measurable targets that South East Europe as a whole (and each SEE country) commits to achieving by the programme's horizon of 2020. It defines the key policy measures, instruments and practical steps that will ensure progress towards these targets, and it establishes a clear implementation timeline. While the Strategy targets and instruments outline a joint regional approach, these targets and instruments have been defined on the basis of national priorities put forward by each SEE country. Thus the Strategy seeks to integrate national and regional priorities and measures.
- Recognises that closer and stronger regional cooperation and coordination will be a key factor in the successful implementation of the policy measures and instruments envisaged. By joining forces in pursuing their national and regional priorities, SEE countries will generate synergies and positive spill-over effects, thus amplifying the overall positive effect of the joint action.
- Identifies the bodies that will be responsible for implementation and outlines the monitoring mechanisms along the implementation path. In most cases, it draws on existing regional cooperation bodies and recognises their role in Strategy implementation. The document also identifies areas where further strengthening of regional institutional structures would enhance regional cooperation and contribute to successful implementation of the Strategy's objectives.

The SEE 2020 Strategy is a strategy for the region as a whole; but it is also a strategy for each and every SEE country. Both its targets and its instruments embody shared national priorities that are supported by each and every SEE country. Given the nature of the measures envisaged, most of the Strategy implementation effort will have to be undertaken at the national level. The SEE countries are aware of the responsibilities they shoulder by endorsing the Strategy and are prepared to allocate the national administrative capacity, institutional support and financial resources required for its successful implementation.

At the same time, by establishing a permanent operational platform for regional collaboration, the Strategy will also boost significantly the opportunities for cooperation and coordinated dialogue with the international community and its bodies, including the EU, the World Bank, the OECD and others. Thus the Strategy will not only help consolidate existing initiatives by the international community, but will also establish an environment that is conducive to the development of such new initiatives.

2. Targeting job growth and prosperity for the region

Facing traditional and new challenges ...

South East Europe faces challenges and opportunities that are common to Europe as a whole, as well as challenges and opportunities that are specific to its environment. Many of the context-specific problems are a consequence of a decade of conflict and hostility in the region; others stem from an as yet incomplete reform agenda undertaken during the process of economic and political transformation from plan to market and from autocracy to democracy.

Probably the most acute and common socioeconomic problem in South East Europe is the mismatch between the aspirations of people to have decent jobs and their ability to attain this goal. The dismal labour market situation is part and parcel of certain vicious circles that have marred socioeconomic development in parts of South East Europe. The unsatisfactory patterns of economic growth and job creation are also a consequence of a myriad factors related to economic structure and the slowness of market reforms.

In addition, transition in the SEE region has been characterised by the opening up of significant imbalances, both macroeconomic and structural. Lack of competitiveness and a reliance on consumption-led growth have resulted in widespread external deficits, with concomitant rising foreign debt. High levels of unemployment and inactivity are putting significant strain on the fiscal balances and on all forms of social and economic security. The last five years of crisis have hit this region quite hard and have made the task of returning to growth and development even more formidable. On the other hand, the consequences of the crisis could help shape a new consensus in favour of the reforms so needed in the region.

... with renewed resolve to address them ...

In this context, South East Europe has come up with its own joint initiative – and a joint response to the global and local challenges: the SEE 2020 Strategy. The Strategy puts forward ambitious targets for the future of the region, and also sets out innovative and cooperative ways of pursuing these objectives – approaches that seek to break existing vicious circles and unleash entrepreneurial growth forces in the region. SEE 2020 sets the objective not only of invigorating economic growth in the region, but also of engineering a pattern of job-rich growth that will both help to improve the labour market situation and contribute to raising living standards.

The overall emphasis in the SEE 2020 Strategy is on addressing some of the key chronic social and economic problems in the region. The Strategy defines as its main objective the achievement of high and sustained economic growth. Through stronger regional cooperation and integration with Europe,

this should lead to more jobs being generated and to rising prosperity in the region. In practical terms, in the period 2010–20 the Strategy should allow the following tangible socioeconomic outcomes to be achieved (see Box 1 and Annex Table A1):

- South East Europe should manage to narrow the gap with the EU in terms of its per capita GDP level; by 2020 it should stand at 44% of the EU-27 average.
- Total South East Europe trade turnover should more than double, to reach EUR 210 billion by 2020.
- There should be a shift towards an export-led type of growth; that should help narrow the region's overall trade deficit to some -12% of GDP by 2020.

Achieving these targets should contribute to generating 1 million new jobs in South East Europe by 2020.

Box 1. South East Europe 2020 Strategy: Key Headline Targets

(relative to 2010)

Increase SEE average GDP per capita relative to the EU average: from 36.4% to 44% in 2020

Boost total SEE trade in goods and services: from 94.4 to 209.5 EUR billion in 2020

Reduce SEE trade deficit: from -15.7% (the average in 2008-2010) to -12.3 % of GDP in 2020

(1 million new jobs to be created in the SEE region)

These key targets are part and parcel of a set of headline targets that the governments of the SEE countries jointly agreed during drafting of the SEE 2020 Strategy. To achieve the strategic objectives for the region as a whole, each SEE country has set ambitious targets for its own development path (see Annex, Tables A2 and A3). The Strategy headline targets reflect the expected combined outcome of the targets that each SEE country will seek to achieve by the end of the current decade. The set of targets also reflects the shared vision of South East Europe for the model of economic development that will be pursued in this period.

The headline targets epitomise the nature of the Strategy, whose main strategic objective is to achieve more jobs and greater prosperity in the region by a further opening up of the SEE economies and by seeking to catch up with the EU. They focus the attention of South East European policy makers and stakeholders on a relatively small set of indicators, and that will help to concentrate their efforts. The targets are measurable and within the scope of conventional statistical practices; they

allow easy monitoring of progress towards goals, along with a range of additional indicators (see Annex Table A5).

The Strategy's headline targets are mutually linked and reinforcing. Success of the strategy depends on achieving high and sustained economic growth in the region (the basis of prosperity and job creation) and on making progress in catching up with the EU. Importantly, South East European growth performance should be enhanced by achieving competitive gains, and the Strategy envisages a switch to an export-based type of growth. The Strategy clearly targets improved competitiveness of South East European tradable goods and services. This should promote a surge in trade flows, while at the same time export-led growth should contribute to improved trade balances.

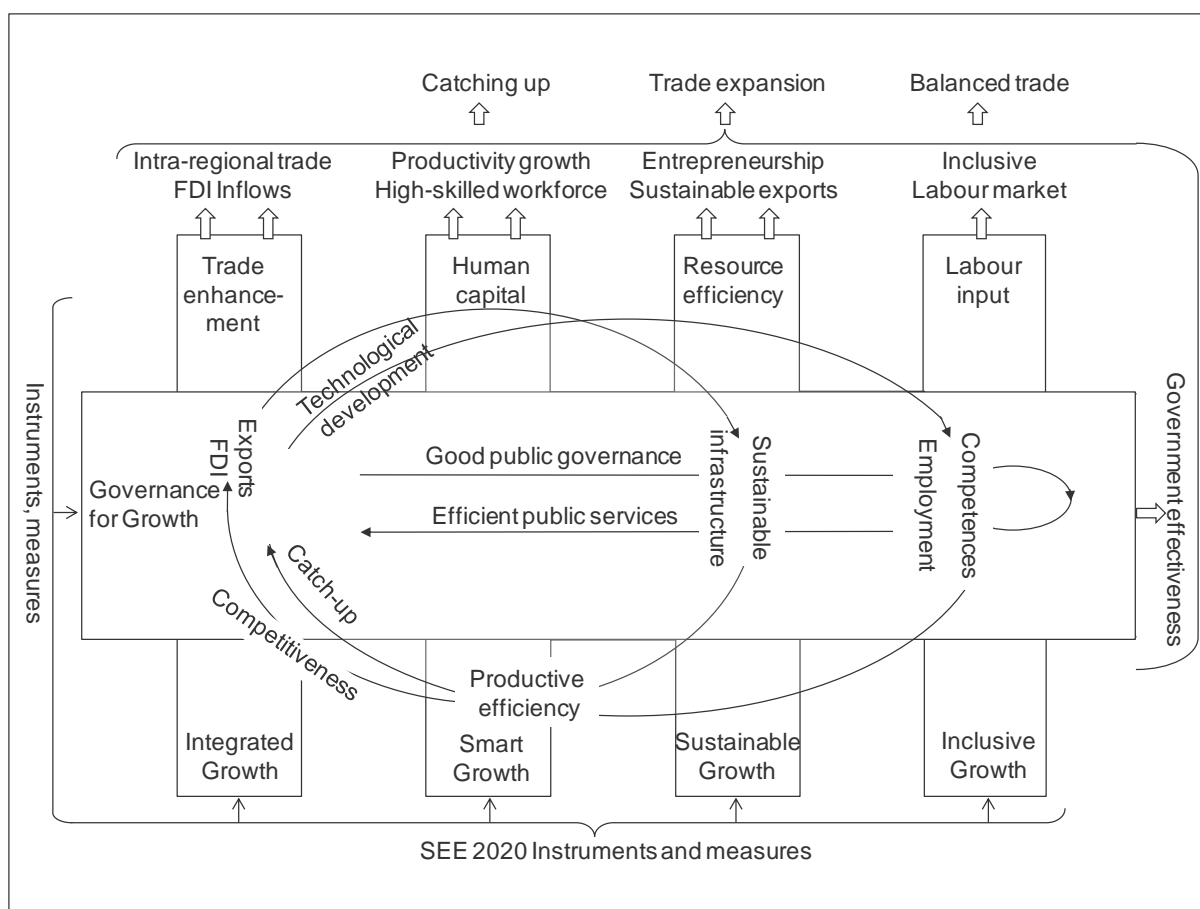
... South East Europe will pursue a new development model ...

The SEE 2020 Strategy outlines a new development pathway for South East Europe to address the most acute socioeconomic problems in the region and to stress the European perspective of the region's future development. In this, it reflects an innovative regional approach that seeks a holistic development pattern for the SEE region, centred on a set of development pillars: Integrated Growth; Smart Growth; Sustainable Growth; Inclusive Growth; and Governance for Growth.

The Strategy will seek to ensure that these key development aspects coexist in harmony, as the logical flowchart presented in Figure 1 illustrates. The five pillars, their objectives, targets and measures are spelled out in more detail in the following sections. The Strategy also contains a detailed action plan, which includes a range of policy measures and practical steps to be undertaken by a broad constituency of stakeholders.

Figure 1

Logical flowchart of the SEE 2020 Strategy



One specific feature of this logical presentation is that four of the pillars (Integrated Growth, Smart Growth, Sustainable Growth and Inclusive Growth) are presented vertically, which indicates that they contribute directly to achievement of the key Strategy targets. The fifth pillar, Governance for Growth is presented horizontally, as a cross-cutting issue and a prerequisite for achievement of the Strategy objectives and for the efficient implementation of the Strategy policy measures and instruments across all pillars. Within each of the pillars, the Strategy sets headline targets and other strategic objectives which, in turn, add to the overall headline targets.

The five Strategy pillars are so designed as to ensure a harmonious growth pattern in the SEE countries. This pattern encompasses the following features:

- Further integration into the European and global economy, through effective participation in the international division of labour, based on improved international competitiveness. Coupled with further overall trade liberalisation and deeper regional trade and investment linkages, along with upgraded and developed transport infrastructure, this should give a strong boost to trade flows from and to the region and will support an export-led pattern of growth (Integrated Growth pillar).

- Promotion of innovation and the knowledge-based economy as the main sources and factors of growth and job creation in the twenty-first century. In turn, knowledge-based development and innovation based on information and communication technology (ICT) are only possible if there is human capital development grounded on modern education and solid skills (Smart Growth pillar).
- Sustainability along a solid growth path. The targeted development pattern should ensure both robust and self-sustaining growth. At the same time, it should be consistent with environmental sustainability, ensure a sustainable pattern of efficient resource utilisation, help move towards well developed energy and transport infrastructure, and enhance the synergies between environment and economy (Sustainable Growth pillar).
- Delivering prosperity to all and ensuring that the whole population reaps the benefits of growth and catching up. The new development path should be job rich, should offer decent employment opportunities for all, and at the same time should provide conditions in which everybody can acquire the knowledge and skills necessary for these jobs. It should secure a reduction in poverty, greater social cohesion and improved health and wellbeing (Inclusive Growth pillar).
- A considerable increase in the efficacy of the public sector, in particular by drawing on good European practices, is a prerequisite if the overall productive efficiency of the economy is to be boosted. The establishment of an environment of transparent and effective public services, free of fraudulent practices, would radically improve the business environment and the investment climate, and this would give a strong impetus to future economic growth. (Governance for Growth pillar).

For each of the pillars, the Strategy provides a set of policy measures and instruments. This is the Strategy ‘control panel’, by means of which the governments of the SEE countries (through the delegated implementation agencies) and the regional bodies and structures with functional responsibility in the respective areas will implement coordinated reforms that have as their target the achievement of the Strategy’s objectives.

... that generates virtuous circles ...

The Strategy will seek to inspire and maintain several mutually reinforcing virtuous circles that will speed up progress towards the desired targets. Some of these virtuous circles are also illustrated in Figure 1.

Trade liberalisation and facilitation should provide a boost to both exports and foreign direct investment (FDI) inflows. Robust export performance, higher investment and FDI inflows will

enhance and speed up the integrative ties with the EU. Invigorated investment activity, including higher FDI, will promote technological modernisation and a general upgrading of the production infrastructure in the region in a sustainable fashion and will contribute to higher total productive efficiency. Encouraging innovation, skills development and the knowledge economy will add further to higher productive efficiency, thus shifting the economy to a path of higher growth. All of the above should help accelerate the process of catching up with the EU and narrowing the existing per capita income gap.

Greater resource efficiency and the generally improved eco-efficiency of economic growth – through upgraded transport and energy infrastructure – should ensure that this growth path is sustainable and environmentally friendly. It will also raise the technological/high value-added content of locally produced goods and services, which will boost international competitiveness and feed back into better growth performance. Greater competitiveness should facilitate the transition to an export-led model for growth and to the improvement of the external balance of South East Europe. Robust and sustained growth is the foundation for rising prosperity, living standards and social welfare. In conjunction with human capital development, such a growth pattern should also result in more jobs and will help to meet this newly emerging demand with employees who have the required education and skills.

Good public governance cuts across all the other development pillars. It is a major factor in boosting the attractiveness of the business environment, thus contributing to higher investment and greater FDI inflows. Anti-corruption is also important in creating a well-educated society and promoting innovation. Good governance is key in promoting sustainable and environmentally friendly patterns of growth.

The comprehensive set of policy measures and practical steps envisaged in the Strategy draws on existing integrative links to establish synergies, positive feedback and virtuous circles which mutually reinforce one another and which contribute to pursuit of the overall Strategy objectives in the most effective way.

... and consolidates the efforts

The key instruments for addressing the existing problems and achieving the Strategy's objectives lie in the hands of national governments, through targeted reforms and policy measures. At the same time, there is a great and still untapped potential to boost growth and prosperity in the region by joining forces through more productive regional cooperation, including intra-regional trade and joint efforts by key stakeholders. This can only be done through comprehensive and well thought-out joint efforts in key areas of economic development. That is the essence of the SEE 2020 Strategy.

The nature of the policy measures and instruments envisaged by the Strategy implies that national

governments will take the lead in their design and implementation. The set of Strategy instruments amounts to a comprehensive and coordinated reform agenda that SEE countries will undertake up to the end of the current decade. These policy measures and instruments reflect the political will of the SEE governments to take a decisive step forward towards establishing vibrant economies and thriving societies in each and every country of the region.

The comprehensiveness of the SEE 2020 agenda also entails direct involvement on the part of regional structures and international stakeholders. The regional structures will facilitate the direct participation of the relevant national ministries, with a clear mandate, organised consultation processes, structured inputs and continuous guaranteed support, including support at the highest political level. In policy areas where there are no operational regional structures to rely on, the RCC has established its own coordination mechanisms to gather proposals and structure processes.

Strategy implementation and monitoring will be a shared responsibility, jointly mandated by the SEE governments, involving national implementing bodies (the relevant ministries and agencies with functional responsibility in the areas covered by the Strategy) and a number of regional structures and bodies associated with these structures, which have delegated functional responsibility in certain areas. Both the implementation and the monitoring of SEE 2020 will require an elaborate mechanism to delineate responsibilities for coordination and development between national public institutions and regional bodies and structures. To ensure more efficient steering and better coordination, it is envisaged that the individual SEE governments will appoint National Coordinators to oversee implementation of the policy reform agenda in their own country and to coordinate the implementation of joint regional measures with the other country Coordinators.

3. The pillars of the new development model

3.1. Integrated Growth

The Strategy targets deeper regional trade and investment linkages ...

The countries of South East Europe have made considerable progress in their reintegration into the European and global economy, as well as in strengthening their mutual regional ties. Since the economic crisis of 2008, the Central European Free Trade Agreement (CEFTA) has been instrumental in fostering open and accessible regional markets, and it has managed to initiate a further important step towards regional cooperation through the further liberalisation of agricultural trade. Active engagement in regional cooperation is an important factor and a driving force in the successful EU accession process.

The objective of the Integrated Growth pillar is to promote deeper regional trade and investment linkages and policies that are non-discriminatory, transparent, predictable and that enhance the flow of goods, investment, services and people within the region. This also contributes to further integration into the European and global economy through efficient participation in the international division of labour, grounded on improved international competitiveness. In particular, the Strategy sets the ambitious target of a two and half fold increase in intra-regional trade in goods and a doubling overall FDI inflows to the region by 2020.

Box 2. Integrated Growth Pillar: 2020 Headline Targets
(relative to 2010)

Increase SEE intra-regional trade in goods by more than 140%
Increase overall annual FDI inflows to the region by at least 160%

... to support an export-led and FDI-driven type of growth in South-East Europe...

These targets are closely linked to the overall strategic goals, which envisage, inter alia, that total trade turnover (goods and services) will more than double over the same period. These are important building blocks of a vision for the rapid, foreign trade-based modernisation of the region, a distinctive feature of which would be a big expansion in intra-regional economic relations.

The foundation for achieving these objectives is the removal of the remaining intra-regional trade barriers, a lasting commitment to pursue policies that support the upturn of inward FDI and further trade-facilitating measures, coupled with the free movement of the (skilled) regional workforce. All this is expected to give a boost to intra-regional trade and to regional cross-border economic cooperation in industry and services.

Considerable progress has already been made in the SEE region to secure the free flow of goods. As tariffs and quotas for trade in industrial products have already been eliminated, the main thing remaining is to complete the (currently only partial) liberalisation of trade in agricultural products. Certain trade-distorting non-tariff barriers will have to be eliminated. The free flow of services necessitates the implementation of already existing commitments.

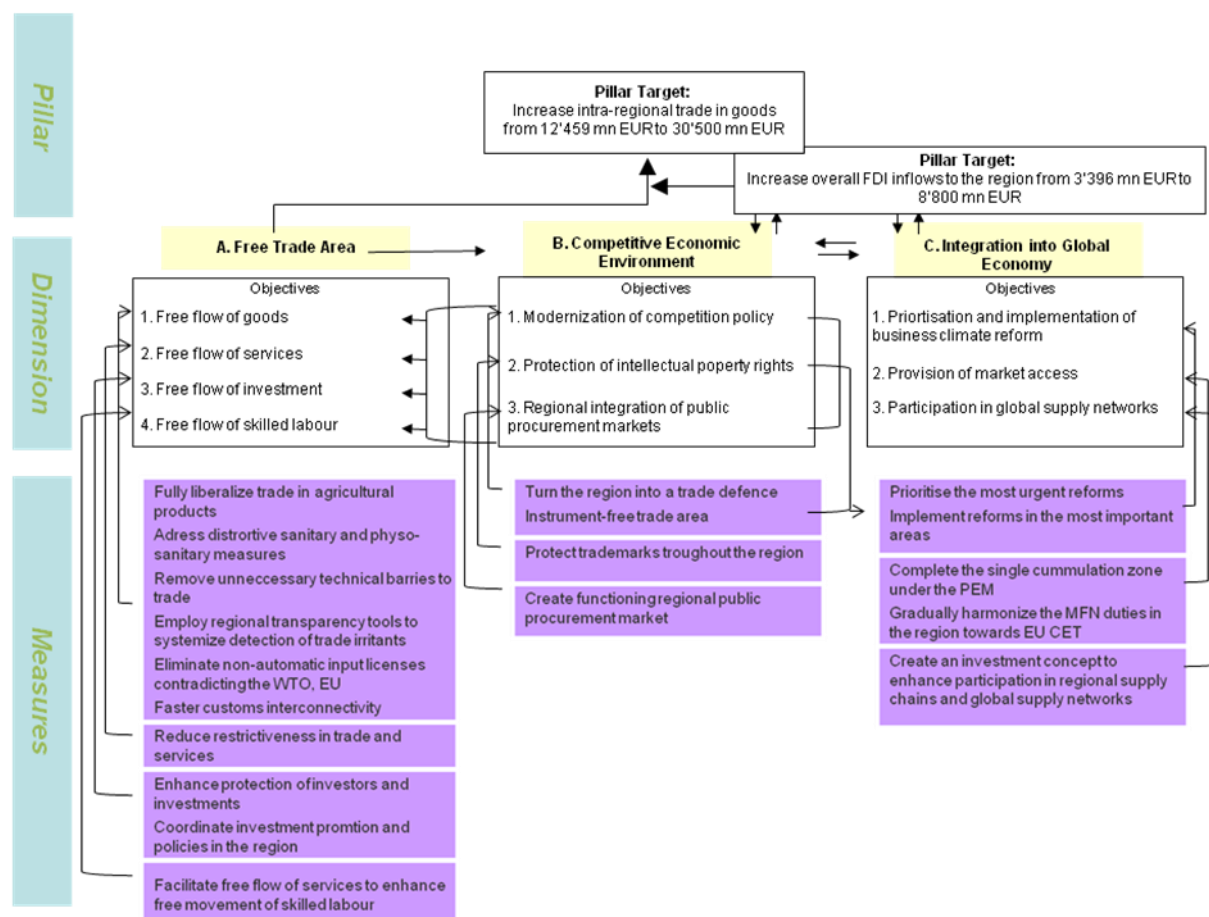
The establishment of a competitive economic environment in the whole region is a key precondition for facilitating inward FDI. The main issues to be addressed here are competition policy, intellectual property rights and public procurement, and these are the areas where the reform efforts need to be directed. Another related factor is the business climate in general, which varies widely across the

region (as the World Bank's Doing Business report testifies). The Strategy envisages improving the region's business climate through appropriate reforms, such as simplifying business licensing procedures, the establishment of one-stop shops, measures to secure the enforcement of business contracts, and related anti-corruption measures.

As well as the promotion of further intra-regional trade, enhanced market access to such major players in world trade as the EU, Turkey and Russia is also of vital importance for all countries in the region. Another aspect of further integration into the global economy is the creation of the conditions necessary for increased participation in global supply networks.

Figure 2

Logical flowchart of the Integrated Growth Pillar



... through policy efforts in its key dimensions

Dimension A 'Free Trade Area'

The signing of the CEFTA 2006 Agreement on 19 December 2006 set the stage for the establishment of a Free Trade Area in South East Europe. Since then, the free flow of industrial goods has become a reality, as tariffs and quotas were abolished. More remains to be done in the trade in agricultural products, which has not yet been fully liberalised. An important component of the SEE 2020 policy effort within this pillar will be directed towards enhancing trade in services among the CEFTA parties.

FDI has been the key factor in economic modernisation in Central Europe, and it is expected to play a similarly important role in the SEE region as well. Facilitating a free and open investment regime throughout the region is of the utmost importance in enhancing the region's competitiveness by attracting both intra-regional and extra-regional inward investment. An upturn in intra-regional trade

cannot be ensured without the easy movement of experts, professionals and skilled labour in the region. This flow of people necessitates the conclusion of agreements on mutual recognition of education and experience, of licences obtained and certificates awarded in selected areas.

SEE 2020 envisages the following:

Key Strategy actions in Dimension A ‘Free Trade Area’²

- *Elimination of tariffs and quotas, completion of liberalisation of trade in agricultural products*
- *Elimination of non-tariff (technical, sanitary and phytosanitary) barriers to trade*
- *Facilitation of trade through employing transparency tools and the elimination of non-automatic import licences contravening WTO and EU practice*
- *Liberalisation of trade in services via reducing restrictiveness in this area*
- *Facilitation of free flow of investment through coordination of investment policies and promotion, and better protection of investors and investment*

Dimension B ‘Competitive Economic Environment’

SEE 2020 addresses three major issues that target the establishment of a competitive economic environment: competition rules, public procurement and intellectual property rights. The blueprint for action in the areas of anti-trust and state aid policies involves full alignment with the EU competition policy acquis and creation of the necessary capacity for enforcement. The CEFTA Agreement stipulates obligations for its Parties to open their public procurement markets to one another and to eliminate discriminatory practices. The completion of regional public procurement market integration necessitates the full liberalisation of trade in goods and services. The Strategy outlines the outstanding policy tasks in this area, including the elimination of existing non-tariff barriers to trade and free movement of skilled labour.

The Strategy also considers adequate protection of intellectual property rights to be a precondition for full-fledged creativity, innovation and invention. The focus for necessary improvements will be the protection of trademarks throughout the region.

Key Strategy actions in Dimension B ‘Competitive Economic Environment’

- *Strengthen competition policy creating a Trade Defence Instrument Free Trade Area in the region*

² The complete and detailed set of SEE 2020 policy measures and instruments is contained in Annex Table A4.

- *Strengthen intellectual property rights through better protection of trademarks*
- *Create a functioning public procurement market in the region*

Dimension C 'Integration into the Global Economy'

Improved market access is a key precondition for a successful integration into the world economy. The European Union is the largest trading partner of the region's countries. Other important partners are the European Free Trade Association (EFTA) members, Turkey and Russia. The EU, EFTA and Turkey are involved in three diagonal cumulation zones, applied by the region by variable scope. Enhanced access to the large markets of the EU, Turkey and Russia is of vital importance for all countries in the region. In addition, the region is in the process of joining the Pan-Euro-Mediterranean Convention (PEM). The Strategy contains concrete measures and steps to improve market access in most of these areas, including an approximation of the region's MFN customs duty rates to the EU's Common External Tariff. Finding a modus vivendi with various diagonal cumulation zones will necessitate consistent and regionally coordinated trade diplomacy efforts. Another set of measures in SEE 2020 seeks to achieve economies of scale in the region by facilitating enhanced participation in global supply chains, in particular through proactive government policies.

Key Strategy actions in Dimension C 'Integration into the Global Economy'

- *Prioritise and implement business climate reforms*
- *Improve market access through completing a single diagonal cumulation zone under the PEM and the harmonisation of MFN duties in the region towards EU CET*
- *Establish an investment concept to enhance participation in regional supply chains and global supply networks*

3.2 Smart Growth

South East Europe has the potential to build a new competitive edge ...

In order to ensure a long-term economic growth perspective the region is in need of changing its development path towards smart growth instead of relying on cheap labour as a major source of competitiveness. Smart growth needs to be fostered in the framework of a "knowledge-based economy" – an economy which is directly based on the production, distribution and use of knowledge and information. Several building blocks are needed for this transformation of the regional economies: In this view, investment in research and innovation, knowledge and information infrastructures, education, training, and creative industries and new managerial work structures are

pivotal to put encourage smart growth. The transformation of the national science and innovation systems in the region towards a modern triple helix model is essential for the production and distribution of new knowledge and also for corresponding knowledge investments.

... driven by knowledge and innovation and based on its human capital

The central objective of the Smart Growth pillar is to promote innovation and foster knowledge-driven growth in the region. These are regarded in the Strategy as the main sources of competitive advantage and value-added creation in the future. The Strategy sets out in the pillar the overarching target of increasing by 2020 average labour productivity in the region by 31% over the 2010 figure. This rise in productivity should be accompanied by an 18% increase in the number of highly qualified persons in the workforce (Box 3). Both these pillar targets support and are logically linked to the overall strategic targets of the SEE 2020 Strategy.

Box 3. Smart Growth Pillar: 2020 Headline Targets
(relative to 2010)

Increase GDP per person employed by 33%
Add 300,000 highly qualified people to the workforce

To achieve these objectives, SEE countries have identified key priority actions that they have committed to undertake in these four policy areas. The Strategy clearly certifies that the future of the region hinges on the success of SEE countries in establishing a conducive environment and adequate supporting conditions for the accelerated development of the knowledge economy. SEE2020 also identifies a set of concrete actions, instruments and measures that countries will pursue in order to achieve these objectives.

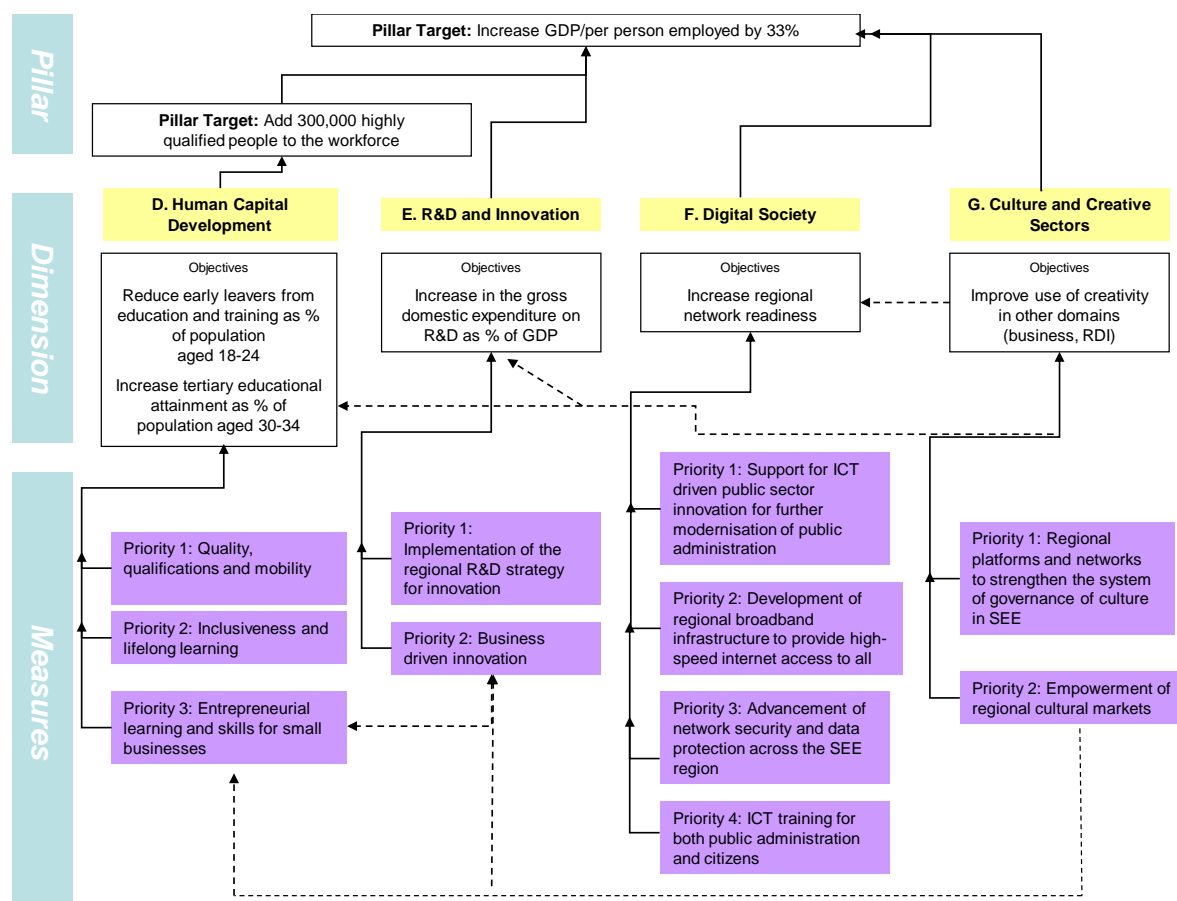
Four dimensions address the pillar objectives. In particular the dimensions R&D and innovation, Digital Society, and Culture and Creative Industries contribute with their priorities on and measures to increase GDP per person employed, while Human Capital Development aims at increasing the number of highly skilled people in the region. The dimension Culture and Creative Industries is also supportive to the other three dimensions: creativity has to be understood as an input into all dimensions of smart growth. In order to allow for a proper monitoring specific dimension targets are also foreseen for each dimension. These targets are either quantitative, as in the case of the Human capital Development and R&D and Innovation dimensions, or qualitative, as for the Digital Society and Culture and Creative Industries dimensions.

At the level of priorities and measures there is also an interaction present between the different dimensions. In particular Business driven innovation and Entrepreneurial leaning and skills for small

business are strongly mutual supportive but also the empowerment of regional cultural markets contributes to business-driven innovation and entrepreneurial leaning.

Figure 3

Logical flowchart of the Smart Growth Pillar



The dimension aims on the one hand at improving the regional knowledge and skill base by addressing two complementary priorities: the first priority 'Quality, qualifications and mobility' will put forward as measures the development of practical competences through work-based learning, the standardisation of qualifications and removing obstacles for their recognition, and the education of teachers. The second priority 'Inclusiveness and Life Long Learning' focuses on increasing participation in education at all levels and the prevention of early school leaving and drop-out from higher education. On the other hand Entrepreneurial learning and skills for small business is equally fostered. The implementation of the measures: 'Entrepreneurship promotion across all levels and forms of learning systems'; 'Progress through partnership' and 'Reinforcing networks, sharing of good practice and peer learning' will start when the Action Plans are adopted by the Governments

(November 2013). The implementation will be steered by the detailed Action Plan, its strategic schedule including governance and monitoring issues as well as Sectoral Work Programmes.

SEE 2020 envisages the following

Key Strategy actions in Dimension D ‘Human Capital Development’

- *Introduce policies to increase equitable access to, and participation in, high quality education at all levels*
- *Implement measures to prevent early-school leaving and ‘drop-out’ and improve completion rates at all levels*
- *Entrepreneurship key competence development at all levels of education and training (curriculum, teacher training, assessment), including a framework of entrepreneurial learning outcomes for the region*
- *Promote the commercial potential of university research efforts through incubator networks, entrepreneurship support and access to finance with particular reference to smart and clean technologies*

... for the surge of innovative ideas and products ...

Dimension E ‘R&D and Innovation’

In order to tap effectively into the regional pool of knowledge and unleash its innovative potential, Western Balkan countries need to invest more and better in research and innovation, prioritizing investments with the direct possibility to leverage wealth generation from other available economic assets, contributing to a “smart specialization” of the region. This, in turn, implies advancing institutional and policy reforms and undertaking strategic investments in four areas: (1) Improve research excellence and productivity: by investing in human capital for research; selectively upgrading and better using available infrastructure; improving the incentive regime for research performance; and advancing the “Bologna Process” and further integration to the European Research Area. (2) Facilitate science-industry collaboration and technology transfer by further aligning the regulation of intellectual property management in public research organizations; developing technology transfer organizations (such as technology transfer offices), financial support for science-industry collaboration, and for the development of proof of concept; and building a closer, structural cooperation with the business community by promoting ‘knowledge transfer activities’. (3) Promote business innovation and innovative start-ups, by improving the business environment, providing mentoring services and financial support throughout the whole innovation process (from prototype and pre-seed to growth and expansion), and guaranteeing a proper supply of technology/science-parks and incubation services that can host and nurture young firms. (4) Strengthen the governance of national research and innovation policies, by continuing capacity

building in key institutions; reforming career development to better reward research excellence, science-industry collaboration and technology transfer; reforming the management of research institutes to promote performance; increasing transparency, accountability and impact evaluation of research and innovation policies.

The Regional Platform on Research and Innovation will promote regional collaboration, and will be tasked to implement the Regional R&D for Innovation Strategy, being at the same time coordinator of the R&I dimension of the SEE 2020. This regionally owned mechanism could also take over the most important activities of the WBC INCO.NET and Steering Platform, after the spring of 2014. It would also aim to complement the financial instruments available in the Enterprise Development and Innovation Facility (EDIF).

Key Strategy actions in Dimension E 'R&D and Innovation'

- *Establish a Research Excellence Fund to strengthen research capabilities in the Western Balkan countries and promote research excellence by providing stable, transparent and merit based support for research.*
- *Promote Networks of Excellence to strengthen excellence on a particular research topic by enabling the creation of a "critical mass" of resources needed for the generation of world class research in selected research fields.*
- *Introduce a Technology Transfer programme with the objective to make better use of the knowledge base for regional economic development through higher levels off industry-science collaboration, marketable research results and value-creation.*
- *Create an early stage start-up programme using both non-financial and financial instruments to support a viable long-term market for innovation finance.*

... grounded on modern information and communication technologies ...

Dimension F 'Digital Society'

The overall objective of the dimension 'Digital Society' is to further enhance the cooperation on economic and social development in South Eastern Europe and reap the full potential of the Information and Communications Technologies to spur innovation, economic growth, regional competitiveness and improved quality of life.

There are extensive commonalities of the e-SEE Agenda+ and the EU's priorities of building a digital single market, fast and ultra-fast internet access, interoperability and standards, boosting trust and security, research and innovation, enhancing digital literacy skills and inclusion, and leveraging the benefits of ICTs for inclusion of most marginalised layers of society.

The proposed priorities and corresponding proposed actions have to be seen as a continuation of the e-SEE Agenda and e-SEE Agenda+. Several major actions are foreseen under this dimension: (i) support to ICT driven public sector innovation for further modernisation of public administration; (ii) development and increase of interactivity and accessibility levels of electronic public services, and on-line availability of interoperable electronic public services nationally and across the region of SEE; (iii) the development of regional broadband infrastructure to provide high-speed internet access to all; (iv) advancement of network security and data protection across the region of SEE; (v) ICT training for both public administration and citizens, and (vi) ICT for e-Inclusion of marginalised groups (women, persons with disabilities, rural poor, Roma, etc.) and transfer of know-how.

Key Strategy actions in Dimension F ‘Digital Society’

- *Renew the Action Plan for Broadband development “bSEE”, and ensure ministerial level endorsement.*
- *Take action to promote competition and enhance the broadband investment environment.*
- *Initiate concrete regional infrastructural projects and pilot projects aiming at the creation of regional broadband infrastructure.*

... and for the advancement of creative industries

Dimension G ‘Culture and Creative Sectors’

The perception of Culture and Creative Sectors as a development driver in South Eastern Europe is at a very early stage throughout the region. Taking into account their potential as a source of growth, Culture and Creative Sectors should become a part of national policies and receive institutional support. A sense of ownership within the existing national or regional organisations and institutions should be increased. Considering the complexity of Culture and Creative Sectors and the different levels of development within the countries of South Eastern Europe, a multi-layered strategy and holistic approach on a regional level are of crucial importance in order to fully exploit their existing potential.

Effective development of Culture and Creative Sectors requires the implementation of a number of activities on different levels, especially having in mind the specific needs and number of elements involved in the creative economy. South East Europe, a region with an astonishingly rich cultural heritage which has long been a hotbed of talent and creativity – both of which are essential ingredients for the development of Culture and Creative Sectors, can profit from a harmonized regional approach. Strategically nurturing Creative Industries in South East Europe will help foster SME growth and entrepreneurship, ultimately improving the business atmosphere and climate in the region. Above all, Culture and Creative Sectors play a key role in the creation and promotion of a regional brand.

The SEE 2020 Strategy will support the cultural and creative sectors, enabling them to increase their contribution to GDP and employment. Due to the complexity of the field, focussing on a small number of priority sectors and actions is of crucial importance.

Key Strategy actions in Dimension G: 'Culture and Creative Sectors'

- *Develop common approaches to rehabilitating regional heritage - Ljubljana Process II*
- *Establishment of the Regional Film Fund (RFF) to complement available funds at the national and European level (EURIMAGES, NORDISK FILM & TV FOND)*
- *Implementation of a regional Design Incubator based on a design network composed of relevant actors from the region*

3.3. Sustainable Growth

... Sustainable growth requires sustainable and accessible transport and energy infrastructure, a competitive economic base and a resource efficient economy ...

The Sustainable Growth pillar aims to boost growth and jobs by maintaining and supporting a strong, diversified and competitive economic base, while becoming more resource efficient which is in line with the EU 2020 strategy flagship initiative 'A Stronger European Industry for Growth and Economic Recovery'. Due to the nature of the problems, complex intervention to improve resource efficiency emerges as a critical component of the SEE strategy. The region needs to achieve a major breakthrough in this area by joining forces and making collective, cooperative efforts. This intervention must also be coordinated with the need to adapt to the impacts of climate change, which also requires significant policy intervention in spatial organisation, resource use and infrastructure.

Currently energy efficiency, transport connectivity and environmental protection vary in their level of development in the different countries of the region. The interconnection between states and access to ports are inadequate to support the free flow of goods and people. Resource utilisation has not been South East Europe's strong point – partly on account of specific features of the region's economic structures, but also because of the absence and poor enforcement of environmental standards and the lack of investment in improving resource utilisation.

Relative backwardness in terms of entrepreneurship is indicated by the relatively small size of SMEs and their lack of innovation and internationalization as revealed by the EU's Small Business Act Fact Sheets. Firms tend to be local market oriented, thus their performance is not measured internationally and the necessary knowledge and skills to trade internationally is widely missing. A shift to a more transparent operation and international cooperation would increase performance in

terms of both output and exports, thus supporting the main headline targets of the SEE 2020 strategy.

Competitiveness can be improved by supporting enterprise development through coordinated legal, financial and policy frameworks, as well as through enhanced corporate linkages. Some other aspects of competitiveness are covered by the Integrated Growth pillar (trade facilitation, trade liberalisation and the investment climate) and the Smart Growth pillar (business innovation policy and education). Sustainable and accessible infrastructure, as well as transparent and coordinated legal and institutional frameworks, can further improve the business environment for economic actors. In the relatively small and segmented geographic space of the SEE region, these conditions can best be established through internationally coordinated action.

Box 4. Sustainable Growth Pillar: 2020 Headline Targets
(relative to 2010)

Increase net enterprise creation (new businesses per year) from 30,107 to 33,760
Increase exports of goods & services per capita from the region from EUR 1,780 to EUR 4,250

Secondary pillar targets:

9% energy saving on final energy consumption;
Achieve national targets for the use of renewable energy

The Strategy sets ambitious targets to be achieved in the Sustainable Growth pillar (Box 4). These are in line with the overall strategy targets and include measurable targets for enterprise creation (+20%) and per capita export development (2.3 times). Two additional indicators have been agreed to measure development in terms of energy efficiency and the environment.

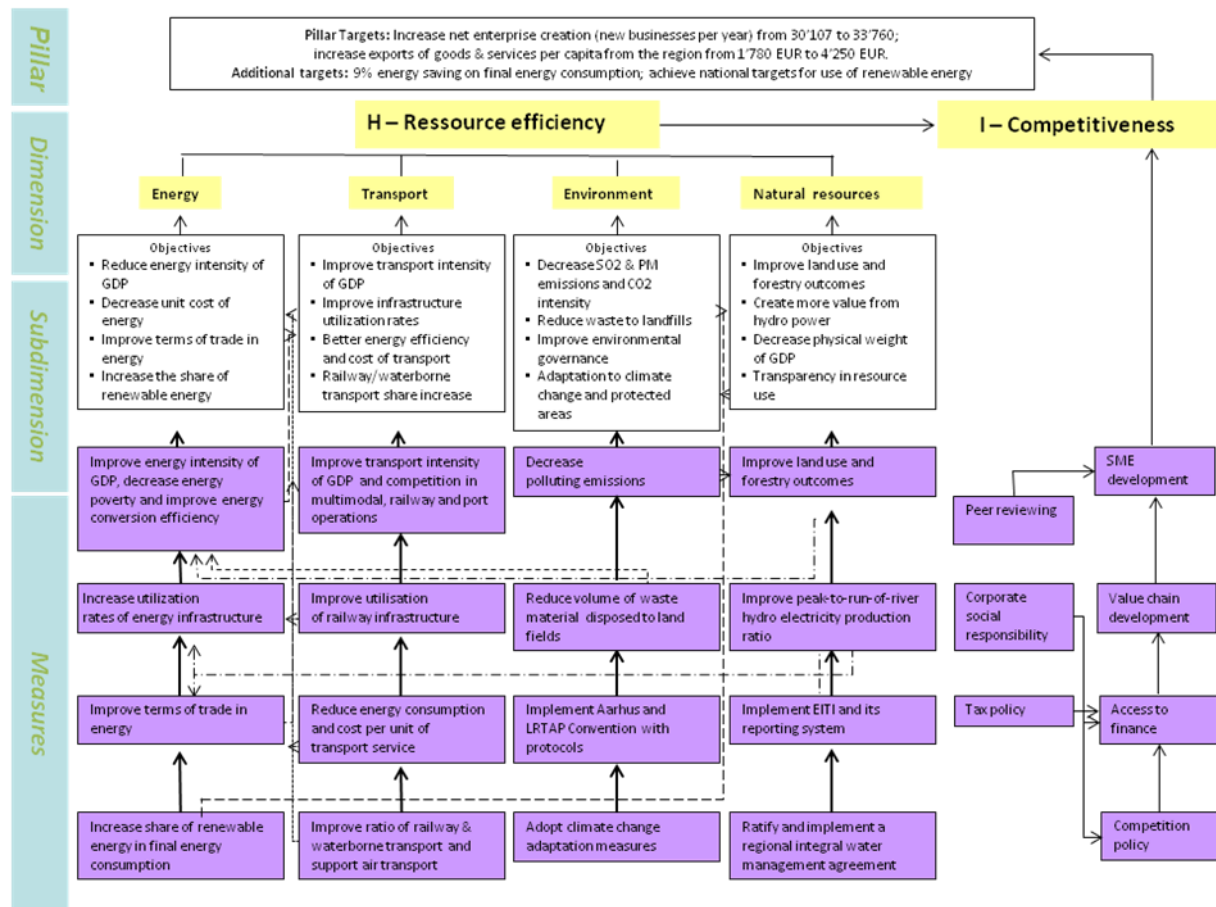
SEE 2020 reflects the countries' commitment to tackle specific sustainability issues ...

The targets of the pillar will be achieved through two dimensions (Figure 4). The four sub-dimensions of 'Resource Efficiency' each include four main measures to reduce energy intensity, support transportation modernisation, increase resource efficiency and reduce pollution in a sustainable way. Improvement in total energy efficiency and reductions in fuel costs per unit are going to affect the transport sector and consequently decrease the unit cost of transport that is, in turn, going to improve the integration of the region into the international economy and foster intra-regional trade. Savings in total energy consumption may have significant environmental benefits. Since the current regional energy mix is more carbon intensive than the European average and also far more intensive in conventional pollutants any reduction in total energy use also reduces environmental impacts.

Measures would significantly reduce environmental risk and thus enhance GDP growth. A breakthrough in resource efficiency would support competitiveness by reducing the cost of production and its negative environmental and social/health impacts, and by providing efficient transport capacities and opportunities for new business.

Figure 4

Logical flowchart of the Sustainable Growth pillar



... through a set of coordinated policy measures in terms of resource efficiency

Dimension H: 'Resource Efficiency'

- The simultaneous impact resulting from improvements in energy efficiency, the reduction of energy poverty, better demand-side management (resulting from the above measures) and the improved operation of existing hydro power plants is likely to facilitate the region's integration into the European energy market and demonstrate the viability of the overall market liberalisation envisaged by the EnCT.

- Harmful environmental impacts – if emissions of traditional pollutants (SO₂, particulates, NO_x) continue – are likely to devastate human and natural capital in the most productive and densest economic areas of the region. The predicted slight improvement in demographics requires a significant and rapid improvement in environmental impacts – something that is also envisaged in the context of EU accession. Carbon intensity in the region is likely to impede export competitiveness and increase the risk of climate change. These risks need to be controlled if the economic development considered in this Strategy is to have a chance.
- Transport efficiency (including transport of biomass and liquefied natural gas) naturally focuses on urban areas, due to population and economic clustering. This facilitates competitiveness in industries based on wood, biodiversity and food processing, as well as related industries constituting a future regional competitive advantage. New, renewable energy-based heat and power facilities with railway and waterborne transport capabilities facilitate future industrial clusters.

The SEE 2020 Strategy also envisages some subsector-specific measures and interventions for each of the four sectors.

Energy Sector

Box 4.1. Dimension ‘Resource efficiency’, Sector Energy

Objectives and targets

*Reduce energy intensity of GDP to the World average
(in 2010 : 0.25 tonnes of oil equivalent per 1000 USD (2005) of GDP)*

Decrease unit cost of energy by improving average electricity thermal generation efficiency to 38% and increasing utilization rates to over 74%.

*Improve terms of trade in energy
(natural gas import price to NBP index and electricity export prices to over EEX average)*

*Increase the share of renewable energy use to country specific rates
agreed in Energy Community Treaty framework*

Development of the Energy Community Regional Energy Strategy Framework with appropriate public participation and stakeholder involvement and facilitates, based on on-going donor support in the context of EnCT, with a focus on energy efficiency, energy poverty eradication and market liberalisation. In that respect, the prolongation of the Energy Community Secretariat operation after 2016 is needed. Taking into account that the region is relatively well endowed with renewable energy resources (hydro energy, biomass, solar, geothermal) a switch to renewable energy is

necessary and feasible. It will not only reduce the environmental impact but is also equivalent to a shift from less productive to more productive resources. Sustainability of biomass use should be particularly taken into account.

SEE 2020 envisages the following

Key Strategy actions in the Energy sector

- *Introduce measures to improve the energy intensity of GDP*
- *Develop and introduce measures to improve utilization rates of thermal plants and the energy network infrastructure*
- *Introduce instruments targeting an improvement in the terms of trade in energy*
- *Introduce measures to increase the share of renewable energy in final energy consumption*

Transport Sector

Box 4.2. Dimension ‘Resource efficiency’, Sector Transport

Objectives and targets

Improve the transport intensity of GDP by reducing transport volume per unit of GDP to 25%

Improve transport infrastructure utilization rates to over 40% of theoretical technical capacity

Better energy efficiency and cost of transport by decreasing energy consumption per unit of transport service to 20% and decrease in TEU transport costs to the EU average

Increase railway / waterborne share to country specific targets

The Regional Multi Modal Transport Action Plan (R-MMTAP) focuses on urban agglomerations where more than two different transport modes interact, and aims to improve efficiency and reduce the costs of switching transport modes. This particularly applies to sea ports (Rijeka, Ploče, Bar, Porto Romano, Vlore) and the Belgrade complex intermodal hub. The transport strategy builds on the projects developed in the context of SEETO (assuming implementation of the SEETO Comprehensive Network Plan and the Single European Sky) and envisages a further integration of its intermodal aspects (e.g. railway links to major airports, free navigation of the Danube, tighter integration between river-to-sea, river, railway, air and road transport in the Belgrade area) and a focus on future transport needs, instead of infrastructure calibration to current transport flows. Intervention in transport also aims to provide tangible support for an increase in intra-regional trade and its integration into the global economy (envisaged within the Integrated Growth pillar) by reducing transport costs, which are currently a critical impediment to trade.

Key Strategy actions in the Transport sector

- *Put in place instruments to improve the transport intensity of GDP*
- *Develop and implement measures to improve the utilization rate of railway infrastructure*
- *Develop and introduce measures for reducing energy consumption and costs per unit of transport service*
- *Put in place measures to improve the ratio of railway and waterborne transport and facilitate air transport (including harmonization of air traffic management)*

Environment Sector

Box 4.3. Dimension ‘Resource efficiency’, Sector Environment

Objectives and targets

Decrease SO₂ & PM emissions per unit of thermal electricity below EU IED threshold and CO₂ intensity to the (tCO₂/TPES) OECD average

Reduce volume of waste to land fields to below 250kg per capita per year

Improve environmental governance by full implantation of Aarhus and LRTAP Conventions

Adaptation to climate change and increase in protected areas (as envisaged in NATURA 2000 framework) and forestation rates over maximal rates from 1980's

The National Adaptation Strategies to Climate Change Impacts (NAS), together with the Regional Environmental Implementation Plan (REIP) aim to streamline on-going activities such as NATURA 2000 areas, implementation of EU environmental *acquis* and National Forestry Development Programme (NFDP) that will become a flagship initiative to meliorate devastated and coppiced forests, enhance reforestation and forestation of unused land, to protect areas from wind and erosion. These initiatives would benefit from regional coordination. These compacts aim to accompany the National Emissions Reduction Plans in order to prevent the further massive deterioration in health in the region and to forestall the additional drain on public resources to deal with the consequences of on-going and cumulative harmful environmental impacts.

Key Strategy actions in the Environment sector

- *Develop and put in place measures and instruments to decrease polluting (SO₂, NO_x and PM₁₀, 2.5) emissions*
- *Develop and introduce measures and instruments to reduce the volume of waste material disposed to land-fills*
- *Implement the Aarhus Convention and LRTAP Convention with all its protocols*
- *Adopt climate change adaptation measures and increase protected and forest areas*

Natural Resources Sector

Box 4.4. Dimension ‘Resource efficiency’, Sector Natural Resources

Objectives and targets

Improve land use and forestry outcomes to 90% of available land in use and 90% of forest under professional management

Create more value from hydro power by increasing share of variable energy to over 45%

Decrease physical weight of GDP (tons of output per unit of GDP) by 20%

Improve transparency in resource use by implementation of the Extraction Industries Transparency Initiative framework

The National Extraction Industries Development Compact (NEIDC) aims to determine the competitiveness and sustainability of existing extraction industries in the region, as well as to consider inevitable closures and to manage the consequences of restructurings and closures. This initiative will especially affect some cities and regions. The intention is also to introduce greater transparency in natural resource use and related investments by, inter alia, introducing the Extraction Industries Transparency Initiative (EITI) to the region.

Key Strategy actions in the Natural Resources sector

- *Introduce measures to improve land use*
- *Develop and put in place instruments to improve variable hydro electricity production ratios*
- *Develop ratify and implement the Regional Integral water management framework agreement*
- *Implementation of the extraction industry transparency initiative (EITI)*

... and enhancing competitiveness by joint international actions

Dimension I: 'Competitiveness'

The 'Competitiveness' dimension comprises seven targets, which cover distinct areas of action. Each includes several implementation measures. The targets, while directly supporting the pillar targets, are also interlinked. Regional coordination in the fields of corporate social responsibility (CSR), competition policy and tax policy support the development of SME policy and access to finances. Linkages projects will benefit from these policy improvements and will also add new policy dimensions to regional activities by developing pilot projects in three selected economic activities. All these actions are added to and supplemented by regional SME policy coordination to intensify cooperation. It will be possible to verify the impact of policy measures thanks to regular peer reviewing based on improved data collection.

Key Strategy actions in Dimension I 'Competitiveness'³

- *Develop regional activities to support SME development, including clustering and FDI-SME linkages*
- *Enhancing regional value chains through sector-specific actions*
- *Regional activities to support greater access to finance*
- *Peer review of SME development and policy, relying on harmonised SME statistics*
- *Coordinated efforts to improve business integrity*
- *Enhanced regional cooperation in the area of competition policy*
- *Enhancing policy coordination in the area of tax policy*

3.4 Inclusive Growth

SEE is committed to advancing from a state of low activity and high social exclusion ...

Labour markets in the SEE region chronically feature low employment and activity rates, particularly among women and the young, as well as high and persistent unemployment. Youth unemployment is exceptionally high by European standards and has further deteriorated during the economic and financial crisis.⁴ In addition, long-term unemployment has been a salient feature of the labour

³ The complete and detailed set of SEE 2020 policy measures and instruments is contained in Annex Table A4.

⁴ In 2012 the unemployment rate in Kosovo was 35%, in Bosnia and Herzegovina around 30%, in Serbia 24% and in Montenegro 20%. Only Croatia and Albania reported an unemployment rate below 20%. At the same time youth unemployment

markets in the region for more than a decade and carries direct consequences in terms of social exclusion and the further obsolescence of skills. Employment in the informal sector is high, with levels estimated at between 30% and 40%. There are significant imbalances between labour demand and supply in the SEE region. Among the main reasons for these unfavourable developments is the lack of skills and competences. Moreover, technological progress creates demand for higher-level skills and this leads to further gaps.

Despite considerable improvements in health care, inequalities exist not only between countries, but also within countries. Demographic ageing is high, and this affects both health itself and the health systems. The burden of preventable, non-communicable diseases – cardio-vascular disease, diabetes, cancer, asthma, mental disorders – is a major health challenge for the region. Empirical evidence suggests a lack of policies and effective approaches to promote health and deliver early interventions to prevent and treat disease. Health systems are still inefficient and ineffective. The SEE Health Network (SEEHN) has identified a substantial number of common weaknesses, such as inadequate access to health services, lack of continuity and quality of care, management inefficiency, lack of financial sustainability, inefficient use of the resources available to health, ineffective primary and secondary preventive and health-promoting services, low capacities of the health workforce, a high level of internal and external migration, etc.

... to a situation where the benefits of growth are shared by all ...

The objective of the Inclusive Growth pillar is to enhance employment through skills development, employment creation and labour market participation by all, including vulnerable groups and minorities. Moreover, it means fighting poverty, modernising labour markets and strengthening training and educational systems. Efforts will be needed to combat poverty and reduce health inequalities, in order to ensure that everybody can benefit from growth.

The key headline target of the Inclusive Growth pillar is an increase in the overall employment rate from 39.5% to 44.4% for the region as a whole by 2020 (Box 5). This target is based on the broadest possible definition of employment, pursuant to the International Labour Organisation (ILO) definition, which includes persons aged 15 and over.

Box 5. Inclusive Growth Pillar: 2020 Headline Target
(relative to 2010)

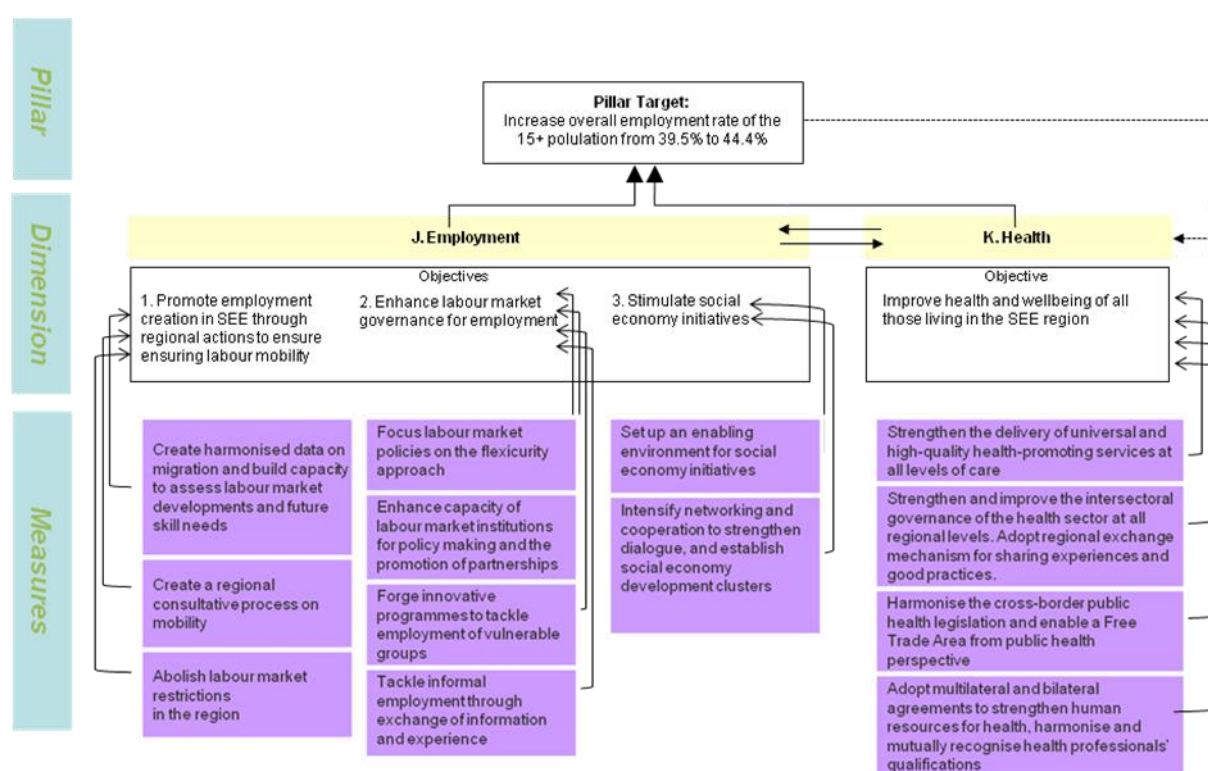
***Increase in the overall employment rate, as a percentage of the 15+ population,
from 39.5% to 44.4%***

was between 50-60% in Bosnia and Herzegovina Kosovo and Serbia and about 40% in Croatia and Montenegro. Long-term unemployment accounts for about 80% in all countries, but Croatia (66%).

The underlying conceptual model of the “Inclusive Growth” pillar is illustrated in Figure 5. The pillar focuses on two specific dimensions of the broader agenda of inclusive growth – employment and health, which were identified as, on the one hand, the most pressing issues requiring immediate action, and, on the other, as areas where the returns on policy effort in terms of increased social welfare will be significant. Within SEE 2020, the countries in the region have committed themselves to undertaking coordinated policy actions, which should ensure significant progress towards greater inclusiveness and social cohesion.

Figure 5

Logical flowchart of the Inclusive Growth pillar



... by undertaking concrete joint actions within the two main dimensions

Dimension J 'Employment'

The 'Employment' dimension addresses labour mobility, labour market governance and the promotion of social economy activities as the main priorities. Labour mobility focuses on the creation of a regional consultancy process on mobility and the abolition of labour market restrictions in the region, while labour market governance prioritises the flexicurity approach, enhancing and strengthening the capacities of labour market institutions and enabling people to acquire new skills to adapt to new conditions, forging programmes for vulnerable groups and tackling informal

employment. The promotion of social economy initiatives is considered another important means of employment creation. A coordinated regional approach to address the existing mismatch between the competences required by the labour market and the skills generated by the educational and training systems of the SEE countries will be essential. Public employment services will play a key role in that respect. Related measures and actions should be closely linked to and coordinated with those envisaged in the “Smart growth” pillar.

The development and promotion of social economy activities is fully consistent with the main labour market and social challenges in the region and is closely linked to the EU economic and social model. The Strategy also suggests possible policy reforms to promote the mutual recognition of technical and professional skills and to align qualifications to the EU framework as well as to legalize all existing migrants. There is considerable scope to follow a jointly agreed, carefully targeted approach to all countries and stakeholders in the region.

SEE 2020 envisages the following

Key Strategy actions in Dimension J ‘Employment’

- *Build regional capacity for harmonized monitoring of migration and mobility with a view to a gradual lifting of labour market restrictions in the region.*
- *Apply modern approaches in labour market governance that stimulate employment, including the flexicurity approach, evidence based policy making, and partnerships for labour market transition.*
- *Tackle informal employment through an exchange of information and experiences, improved inter-institutional and intra-regional cooperation and by testing appropriate policy measures*
- *Promote social economy initiatives: setting up a regulatory framework, networking, sharing know-how and identifying good practices*

Dimension K ‘Health’

The ‘Health’ dimension prioritises the improvement of the health and wellbeing of all those living in the SEE region, by, among other things, harmonising cross-border health legislation, standards and procedures and enabling the creation of a Free Trade Area from a public health perspective. The Strategy suggests moving towards a clearly delineated system of health governance, in which the role of each stakeholder and governing body is well defined at every level. This is of great importance for the efficiency and success of the health system in each SEE country. In addition to well-defined responsibilities, transparency between institutions and in relation to the public is vital, as is accountability in health governance.

Inclusive growth is not only a by-product of GDP growth, but is also closely linked to the Smart Growth and Sustainable Growth pillars of the SEE Strategy. Inclusive growth will only become a reality if there is strong investment in human capital, such as training, social inclusion and the improved health of people, but also infrastructure investment and capacity and institution building in these sectors.

Key Strategy actions in Dimension K ‘Health’

- *Introduce policy measures for improving the health gain of the populations, with a focus on low-income and disadvantaged groups, by strengthening the delivery of universal and high-quality health-promoting services*
- *Strengthen the institutions and improve inter-sectoral governance of the health sector at all levels, including health information infrastructure and regional cross-border information exchange*
- *Harmonise cross-border public health and public health services legislation, standards and procedures; develop mutual recognition and trust to enable the creation of a Free Trade Area from a public health perspective*
- *Strengthen human resources in the health sector, harmonise the qualifications of health professionals in the SEE region, monitor Human Resources for Health (HRH) mobility.*

3.5. Governance for Growth

Public governance is a key cross-cutting issue in the agenda of SEE 2020

Within SEE 2020, the Governance for Growth pillar is considered to be a cross-cutting issue and a prerequisite for the achievement of the Strategy’s objectives and for the effective implementation of the Strategy’s policy measures and instruments across all pillars.

There is ample evidence that institutions – particularly those involved with governance – contribute significantly to development and growth. Positive contributions come from inclusiveness, responsiveness, efficiency and fairness (to mention just a few characteristics). The Strategy addresses those institutions that make a direct contribution to costs, to investments – and thus to growth; but a more indirect contribution to growth and welfare, the rule of law, respect for human rights, democratisation and strengthening of the role of public opinion and civil society also needs to be kept in mind. Regional cooperation in this whole area is important in terms of mutual learning and the adoption of best practice, but even more so in terms of long-term stability. Integrated, smart, sustainable growth requires regional institutional harmonisation, regulatory arbitrage, and policy cooperation and coordination.

There are three main dimensions to good governance considered by the Strategy: ‘Effective Governance’ (especially local governments), ‘Anti-corruption’ and ‘Justice’. The underlying rationale behind this pillar is illustrated in Figure 6.

Logical flowchart of the Governance for Growth pillar

The Strategy sets ambitious targets for public governance ...

Box 6. Governance for Growth Pillar: 2020 Headline Target
(relative to 2010)

... from setting up transparent, well-functioning and efficient public administrations ...

Dimension L 'Effective public services'

The key prerequisite for effective governance is that the administration or bureaucracy should be distanced from politics as far as possible, and that meritocratic criteria should prevail in the assessment of the work of particular public service providers. Modernisation also requires a formalised and unbiased procedure for gaining access to public services. Reliance on e-governance – whereby eligibility for and receipt of public services is determined via an anonymous and simplified procedure – is an important instrument in achieving these objectives.

The Strategy emphasises evidence-based public policy, with much greater reliance on data collection and statistical and other appropriate analysis. That is, a precise ex-ante assessment of the expected results and an ex-post evaluation of the success of the policies chosen, in comparison with possible alternatives. This will also make it easier to justify the choice of a policy target and to evaluate the instruments employed and the efficiency of the agency engaged in implementation.

An important focus of the Strategy is on decentralisation, because of its potential to contribute to economic growth. The Strategy recommends the application of the subsidiarity principle, which allocates responsibility and capacity to the level of government that is best placed to use them. This should result in the enhanced provision of local public goods and more equal regional development. Monitoring and proper implementation of fiscal decentralisation is recognised as a precondition for functional decentralisation, which in itself is the basis for true multilevel governance. The key mechanism by which decentralisation leads to improvement in governance is 'regulatory arbitrage', which means that individual countries adopt best practice because of competitive pressure from their peers. This mechanism has a clear regional importance due to the liberalisation of trade and cross-border finance.

Furthermore, the Strategy seeks smart, efficient and inclusive provision of public services by ensuring that the providers target the right and proper beneficiaries of their services, that they do so at minimal cost (in terms of both resources and number of transactions) and that they make the services available to those who may have difficulty in accessing them. Given the existence in SEE countries of a large number of minorities and potentially marginalised groups according to many criteria, this would also contribute to the targets of another Strategy pillar, Inclusive Growth.

SEE 2020 envisages the following

Key Strategy actions in Dimension L ‘Effective public services’

- *Rely on e-governance especially at the local level to ensure efficiency and a lack of bias*
- *Introduce a procedure for continuous improvement of the competence of public officials*
- *Review the relations between various levels of government to ensure full respect of the principle of subsidiarity*
- *Consider introducing elements of fiscal decentralisation in order to improve the responsibility of local governments*

... to the containment of corruption ...

Dimension M ‘Anti-corruption’

The overall objective of this dimension is to formulate coordinated regional measures that seek to reduce corruption in public administration, so as to improve government effectiveness, enhance the business environment and support the implementation of the other pillars. The need to counter corruption is essential to the broad goal of promoting growth, since corruption is a major deterrent to investment; but there is also a need to ensure that the work carried out in the SEE 2020 Strategy specifically is not undermined by corruption.

The ‘Anti-corruption’ dimension proposes to augment the headline target with a three-pronged set of objectives that seek to strike a balance between encouraging the implementation of concrete policy objectives and achieving broad progress in fighting corruption:

1. Achieve a reduction in the amount of bribes paid by households and businesses to the public administration, as measured by a region-wide but national-level survey based on the methodology of the Transparency International Global Corruption Barometer.
2. Improve the average score on the World Bank’s WGI Control of Corruption index (i.e. one of the elements that go to make up the overall WGI score) in order to do better than the comparator group of countries with similar income levels.
3. Introduce a set of criteria aimed at achieving certified excellence in public procurement procedure and implementation. Public procurement is targeted as a priority area for anti-corruption activities because it is a key area where public funds are lost through corruption, and because a standardised procedure for public procurement would add to the region’s appeal as a single market, particularly among companies that specialise in providing goods for government or delivering public services that have been outsourced by central or local government.

The three types of target are a mix of broad and specific, output and input, national and regional.

They are intended to complement one another, ensuring that each country has an incentive to work on its own anti-corruption strategy (utilising peer pressure within the region to provide momentum to that end), but also giving the individual countries an interest in the progress of the region as a whole.

Countries have drafted their own anti-corruption strategies, and the role of the Regional Anti-corruption Initiative (RAI) is partly to support them in implementation. However, there is considerable potential for the resources of regional initiatives to be utilised for regional cooperation in the area of anti-corruption, with three objectives:

4. To generate greater peer pressure among countries, and hence provide momentum for their national efforts;
5. To provide a forum for sharing experience and building a mutually supportive network of public-sector and private-sector professionals working on aspects of anti-corruption, contributing to the building of a culture of integrity; and
6. To use the implementation of the anti-corruption framework in individual countries to help create a single market with standardised procedures for companies bidding for state contracts through public procurement.

Key Strategy actions in Dimension M 'Anti-corruption'

- Introduce simple, clear, enduring and transparent rules of access to public services
- Increase public awareness through regular reports and by supporting independent agencies
- Rely on competitive procedures and avoid direct deals especially in public procurement
- Introduce regular evaluations of all government programmes and projects and independent auditing

... to major progress in instituting the rule of law

Dimension N 'Justice'

The judiciary

This dimension focuses its activities on achieving a significant improvement in the functioning of the judicial system in SEE. In addition, an independent, efficient and accountable judiciary is also a *sine qua non* precondition for the rule of law, democracy and human rights development, for which reason Chapter 23 of the European Union *acquis communautaire* requires the establishment of an independent, efficient and accountable judiciary.

Ministries of justice need to enhance their capacity by improving their structure and internal management, in order to achieve more efficient workflow processes and results.

Efficiency goes hand in hand with competence. Judicial training centres or judicial academies have become the key training institutions for judges and prosecutors in the SEE region. Nevertheless institutional capacities (in terms of adequate numbers of competent trainers, as well as curriculums) are not yet fully developed.

A sustainable quality of the justice system ensures predictable case law, which supports foreign investment and business growth. Universities could also increase regional cooperation to create regional capacities for implementing legal reforms, to strengthen scientific research and to prepare regional legal publications.

Regional cooperation needs commitment from the institutions in charge of implementing the national judicial strategies. By institutionalising regional networking, fields of regional cooperation could be identified, evaluated and monitored to involve these institutions in setting up and conducting regional initiatives.

Alternative Dispute Resolution (ADR)

The primary reasons for using mediation by 'dispute-wise' businesses are: to save money and time; to provide a more satisfactory process; to allow the parties to resolve the dispute themselves; to reach more satisfactory settlements; to preserve good business relationships between parties in dispute; to provide a more durable resolution than through litigation; to use the expertise of the mediator; and to preserve confidentiality.

Although countries in the SEE region have already tried to develop a mediation market, the demand for mediation is still very modest. All the countries in the region face the same difficulties: low demand for mediation; weak institutional capacities of mediation providers (mediation centres); a regulatory framework with insufficient incentives to go to mediation (or without smart sanctions for dismissing the idea); weak relationships between courts and mediation centres in terms of referrals; and poor demand for a sustainable training system for mediators, judges and lawyers.

Key Strategy actions in Dimension N 'Justice'

- *Introduce a comprehensive and enduring system of education and increased competence in the judiciary*
- *Introduce regulation that supports alternative dispute resolution and their complementarity with the judicial system*

4. Delivering the Strategy commitments: implementation and governance

4.1. Implementation plan

The Strategy envisages a well-defined implementation plan with concrete actions to be taken in the years to 2020

The Strategy has a clear focus on future practical steps to be taken by SEE countries on the set of coordinated Strategy actions, as described in the previous section. These are the policy instruments that SEE countries will apply to steer their economies towards the desired new state.

These instruments address the five policy areas, as delineated by the SEE 2020 pillars, and include coordinated joint practical measures, as agreed by key stakeholders in a consultation process. They cover important policy areas such as trade enhancement, investment promotion, regional integration, skills, support for R&D, stimulating innovative entrepreneurship, improving resource efficiency, regulatory harmonisation with the EU, ensuring a high labour participation rate, and raising the efficiency and effectiveness of public services. The Strategy instruments in these policy areas will serve as the drivers which will trigger the necessary changes in economic behaviour and performance.

An overview of SEE 2020 key policy measures and instruments, broken down by pillars and policy dimensions, is presented in Annex Table A4. The interrelations between Strategy instruments and the Strategy headline targets and other pillar objectives are illustrated in the five logical flowcharts for the Strategy pillars, as discussed above (Figures 2 to 6).

The instruments and measures have been formulated in the context of a comprehensive consultation process involving the governments of the SEE countries, regional bodies entrusted with development of the Strategy, and a range of other stakeholders.⁶

Some of these instruments refer to concrete legislative or regulatory steps undertaken by governments to institute reforms aimed at implementing agreed Strategy actions. Others refer to

⁶ The Strategy policy measures, as formulated in the present document, are the result of several rounds of consultations among relevant SEE stakeholders. In the course of these consultations, stakeholders defined a very broad set of priority policy areas within each Strategy pillar; these were subsequently prioritised. Prioritisation was the outcome of collective expert judgement on the whole set of measures and instruments put forward earlier, plus integration between measures. The process involved judgement on several criteria, including consistency with pillar targets, expected impact, potential for regional synergy, regional coordination capacity, sensitivity to policy intervention. The Strategy document contains only the subset of instruments which were identified as of highest priority for the achievement of the Strategy's objectives. The five pillar reports which accompany the Strategy document contain the broader set of measures and policy priorities, as identified in the course of these consultations.

other policy measures to be undertaken by the national administrations. Yet a third type of instruments refers to concrete and coordinated practical projects that countries have agreed to undertake in Strategy implementation.

Strategy implementation amounts to each country putting these actions into operation. Every such action is therefore addressed to the respective national administrations (the ministries, agencies and other public bodies with functional responsibility in the respective policy area) that will take the lead in guiding the implementation of the agreed policy measures in each country.

The national bodies tasked with implementation will also be responsible for regular reporting to the SEE 2020 governance bodies on progress made. Each policy measure and instrument therefore also indicates the regional bodies that will be responsible for monitoring implementation and for the preparation of implementation reports, as described below.

Strategy policy measures and instruments have a fixed timeline. Timely implementation will be part of the monitoring process.

Annex Table A4 reflects the main operational details and features of the SEE 2020 instruments: the nature of each key policy measure, the timeline over which it is expected to be implemented, the bodies that will be in charge of implementation, the means by which implementation will be verified and, finally, which body within the SEE 2020 Strategy governance structure will monitor implementation.

4.2. Governance and monitoring

A well-resourced structure will oversee and steer Strategy implementation ...

The four main sets of actors participating in the governance structure and the SEE 2020 policy coordination effort are (Figure 7): (i) the national administrations, represented by the SEE 2020 Coordinators and the respective ministries and agencies; (ii) regional structures serving as coordinators of respective policy dimensions (dimension coordinators); (iii) the Regional Cooperation Council; and (iv) the Governing Board of SEE 2020, which brings together the highest political representatives in the region.

Governance of the SEE 2020 Strategy



Governance of the SEE 2020 Strategy

Governance of the SEE 2020 Strategy

Governance of the SEE 2020 Strategy

help coordinate the implementation of SEE 2020 in a particular sector/policy dimension (trade, investment, education, R&D, digital society, culture and creative sectors, competitiveness, resource efficiency, employment, health, public services, and anti-corruption) and to provide a regional platform for policy peer reviews and monitoring of progress.

The Regional Cooperation Council will coordinate the overall effort to implement SEE 2020 and will communicate overall progress to the political level of the countries involved. The RCC will also be responsible for executing the overall monitoring system of SEE 2020, as well as for supporting the national administrations in its implementation and in preparing the meetings of the Governing Board. The RCC will also have a substantial role to play in supporting the dimension coordinators, helping to put new capacity in place and acting as a secretariat to those structures that have limited resources in the initial stages of SEE 2020 implementation.

The Governing Board of SEE 2020 brings together the prime ministers or deputy prime ministers of the SEE 2020 participating economies to review the progress of SEE 2020 implementation on an annual basis and to provide horizontal strategy guidance. The annual meetings of the Governing Board will be prepared by the RCC Secretariat, in cooperation with the SEE 2020 National Coordinators. The RCC Secretary General will present a progress report on implementation of the SEE 2020 Strategy and will propose annual recommendations for endorsement by the Governing Board members. As well as adopting the Annual Report on Implementation (ARI), the Governing Board will issue horizontal policy guidance and annual priorities, which will constitute an integral part of that year's report.

... drawing on regular implementation reviews and monitoring instruments ...

The main monitoring instrument of SEE 2020 will be the ARI. In addition to this annual report, a comprehensive mid-term review will be carried out to assess progress.

Initial inputs to the ARI will be prepared by the dimension coordinators in each of the sectors/policy dimensions, based on the inputs received from the national administrations. These will provide: (i) a regional overview of the sector/policy dimension; (ii) a description of results achieved over the previous year, based on the agreed qualitative and quantitative indicators set out in the SEE 2020 Strategy; and (iii) a work programme for the following year (based on the SEE 2020 action plan) indicating the sector's immediate needs and the main areas for action. Progress will be monitored through the eleven SEE 2020 headline targets and the national targets that underpin them, as well as the set of qualitative and quantitative indicators in each of the policy areas.

The ARI will be prepared by the Regional Cooperation Council using inputs from the dimension coordinators. The ARI will be prepared for the Governing Board of SEE 2020 and will include: (i) a

general assessment of the progress made in SEE 2020 implementation; (ii) the main strategic risks and challenges identified; and (iii) strategy-level recommendations for the coming year. National Coordinators will be involved in the preparation of the ARI.

A mid-term review will be conducted mid-way through the Strategy implementation to provide a detailed assessment of the policy developments and reforms being implemented within the SEE 2020 process.

... in accordance with an agreed review schedule ...

The review of SEE 2020 implementation is expected to take place in annual cycles. Each year, the dimension coordinators will compile inputs from the relevant ministries on progress made in SEE 2020 implementation over the previous year in the respective sectors/policy areas. Based on these contributions, the dimension coordinators will prepare the first inputs for the ARI and will propose activity programmes for the following year, based on the SEE 2020 action plan and implementation schedule. These inputs, including the activity programme, will be reviewed and adopted by the respective ministries by the end of September each year, at the latest.

These sectoral inputs will be consolidated at the strategic level by the RCC, together with a horizontal review of progress. Based on the sectoral inputs, the RCC will prepare an overall ARI on SEE 2020 and will provide it to the Governing Board members each year during the month of November.

The Governing Board will meet in December of each year to review and adopt the ARI and to provide general policy orientation and guidance to the countries.

In the first half of the year, in addition to the on-going implementation of the SEE 2020, and the sectoral work programmes, the representatives of line ministries will meet under the auspices of dimension coordinators to conduct peer reviews, examine progress and monitor implementation.

... in the context of the SEE 2020 Strategy monitoring system

The SEE 2020 Strategy monitoring system will use a mix of quantitative and qualitative indicators to track implementation of the Strategy, and will incorporate the reviews and reports as described above (see Annex Table A5 with the set of SEE 2020 monitoring indicators).

More in-depth qualitative assessments will provide input for the development of more strategic recommendations and will feed into the mid-term (or multi-year) review. The in-depth qualitative assessments, in combination with selected quantitative indicators, will form a South East Europe Competitiveness Outlook (SEE Outlook) which will be undertaken under methodological guidance from the OECD. It will evaluate implementation by assessing the policy settings and institutional

conditions that drive policy reforms at the national and regional levels. The outputs from the SEE Outlook will be used to augment the annual reports.

SEE countries are also prepared to address bottlenecks and challenges in Strategy implementation

SEE 2020 is itself a bold policy initiative based on regional cooperation in pursuit of a common objective. This marks a clean break with the region's past, which was often tainted by mistrust and conflict. It should open a new era of partnership and collaboration among the countries of the region. This is an expression of the actual desires of the majority of the population in the region, as embodied in a new brand of political will on the part of the countries' governments.

As is the case with everything that is done for the first time, SEE 2020 faces difficulties, bottlenecks and challenges. These pose certain risks to Strategy implementation, but the best way of coping with bottlenecks and challenges is to identify them in advance and find ways and means of addressing the associated risks. While it is difficult to envisage all possible risks to Strategy implementation, an initial list (Table 1) focuses on several possible bottlenecks and challenges, and outlines ways of addressing them.

Table 1
Potential bottlenecks and challenges in SEE 2020 implementation

and possible ways of addressing them

Strategic challenges	Risk-mitigation measures
Maintaining support for SEE 2020 among policy makers and the public at large may be difficult	Undertake and maintain an active public awareness-raising and publicity campaign (to be backed by adequate resources)
Difficulties in reaching an agreement between countries on common Strategy measures	Seek and provide additional mediation services and combine with awareness-raising activities
Strategy targets may be too ambitious; failure to meet targets may trigger disappointment with the Strategy	Constantly monitor progress towards Strategy objectives and alert governance bodies of deviations from the targeted path; adjust targets if no other solutions are found
National capacity to design and implement Strategy measures may fall short of expectations	Plan focused capacity-building efforts and activities (to be backed by adequate resources)
Strategy governance structure may turn out to be inadequate for steering Strategy implementation	Adjust governance structure; undertake capacity-building efforts; boost resources allocated to Strategy governance

National financial and other resources allocated to Strategy implementation may turn out to be insufficient for achieving its common objectives	Early on, initiate consultations among governments to agree on the level of resources that is adequate for the agreed joint objectives
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Identifying, monitoring and managing risk will be part of the responsibilities of the Strategy governance structure. In the course of implementation, the list of possible bottlenecks and challenges will be constantly updated and the evolution of these risks will be constantly monitored through the Strategy monitoring system, including through the ARIs. The Governing Board will regularly review cases of elevated levels of risk and may decide to activate some of the risk-mitigation measures.

5. By joining forces, South East Europe will succeed in its revival and drive towards Europe

South East Europe was long characterised primarily by security concerns, coupled with constitutional problems to do with nation or state building. Various regional initiatives and institutions were introduced – either in succession or in parallel; these were very much anchored to outside actors, whether multilateral organisations or the European Union. Many of these initiatives and institutions contributed to the stability and security of the region and to the support of intra-regional cooperation.

In the next phase, intra-regional cooperation needs to be primarily concerned with institutional development, economic growth and increased welfare. The region is lagging behind Europe in terms of per capita GDP levels, and it has low or very low levels of employment and high levels of unemployment and inactivity. The current prospects for growth are quite modest in the medium term. So there is a need to turn the region around both in economic and in institutional terms.

To achieve this, regional cooperation could be quite important. Just one example: industrialisation tends to be significantly dependent on the extent of the market. As the region has been deindustrialised over the past couple of decades, there is a need to increase investments in that sector. Things will be more attractive if both the labour market and the market for products is larger, i.e. regional. That should also be supported by investment in regional infrastructure and in production of energy, and even by investment in human capital.

The region still needs to increase its integration with the outside world in terms of trade, financing and institutional development. Here, the process of EU integration plays a pivotal role. In the past, the region tended to generate obstacles not only to regional, but also to wider integration. This is

now changing, and countries can cooperate and support each other in various ways in their dialogue with the EU. That increases the stake for the EU, as well as for the region itself, and it should work to speed up the process.

The SEE 2020 Strategy has a clear focus on widening and broadening dialogue, cooperation and integrative ties between South East Europe and the EU. This is a key common thread in SEE 2020 that cuts across all Strategy pillars.

The actual development and adoption of the SEE 2020 Strategy is a building block of the regular dialogue that the enlargement countries are having with the EU. The Strategy envisages various forms of dialogue and consultation between the SEE and the EU and its structures continuing throughout its implementation. In particular, the regional monitoring and annual progress review described above, together with the progress made in achieving the national targets, will become part of the reviews carried out in the policy sub-committees within the framework of the stabilisation and accession process, as well as in the Instrument for Pre-accession Assistance (IPA) sectoral committees.

The SEE 2020 targets, particularly the national ones, adopted by the countries in the policy areas of trade, investment, employment, energy, transport, social development, governance and others are pertinent for the Stabilisation and Association Agreement (SAA) process and will benefit from closer scrutiny, especially given the close link envisaged between the SEE 2020 and IPA II support. The sub-committees would thus provide an opportunity to take an in-depth look at these policy areas and to provide clear recommendations at the national level that will support not only the SEE 2020 implementation, but the overall accession process as well.

SEE 2020 was inspired by the EU's own bold initiative, the Europe 2020 strategy. The spirit, orientation and content of SEE 2020 are close to those of Europe 2020. These ties create fertile ground for close cooperation between the SEE and the EU in implementing the two strategies. This could include a wide range of options for related joint initiatives, such as information sharing; policy learning; sharing of good practice; mutual leveraging on each other's initiatives; or undertaking joint initiatives in areas where there is close commonality in objectives. The SEE 2020 Strategy also sets the objective of establishing close cooperation ties between the Strategy governance bodies and the governance bodies of Europe 2020 flagship initiatives.

Overall, the Strategy outlines bold new forms for widening and deepening regional cooperation. The forms of regional cooperation need not be limited to bringing down barriers to business, trade, investment and competition but may also provide a way to enhance policy coordination that is supportive of stability and predictability. This innovative regional approach should generate synergies and positive spillovers which would contribute to a strengthening of each SEE economy. Thus joining forces and working together would help each SEE economy be more efficient in the pursuit of its own

national goals.

ANNEX

Table A1

SEE 2020 Strategy headline targets for South East Europe

	2010	2020
	Baseline	Target
Overall Strategic Goals		
1. GDP per capita relative to the EU average (in PPS), % of EU-27 average	36.4	44
2. Total trade in goods and services (EUR million)	94,413	209,500
3. Trade balance (% of GDP)	-15.7	-12.3
Integrated Growth		
4. Intra-regional trade in goods (EUR million)	12,459	30,500
5. Overall FDI Inflows (EUR million)	3,396	8,800
Smart Growth		
6. GDP per person employed (EUR at PPS)	27,485	36,300
7. Number of highly qualified persons in the workforce (million)	1.7	2.0
Sustainable Growth		
8. Net enterprise creation (new businesses per year)	30,107	33,760
9. Exports of goods and services per capita (EUR)	1,780	4,250
Inclusive Growth		
10. Overall employment rate, % of the 15+ population	39.5	44.4
Governance for Growth		
11. Government's effectiveness, World Bank Governance Index	2.3	2.9

Table A2

SEE 2020 Strategy: 2010 baseline for individual countries

	2010	2010	2010	2010	2010	2010	2010
	ALB	BiH	CRO	KOS*	MKD	MNE	SER
Overall Strategic Goals							
1. GDP per capita relative to the EU average (in PPS), % of EU-27 average	27	28	59	(22) ^{a)}	36	42	35
2. Total trade in goods and services (EUR million)	7,695	12,138	35,400	3,321	7,834	3,118	24,907
3. Trade balance (% of GDP) ^{b)}	-24.0	-25.6	-3.8	-36.6	-23.0	-36.8	-20.4
Integrated Growth							
4. Intra-regional Trade in Goods (EUR mn)	425	3,100	2,474	(872) ^{a)}	1,243	800	3,544
5. Overall FDI Inflows (EUR mn)	793	174	326	366	160	574	1,003
Smart Growth							
6. GDP per person employed (EUR at PPS)	17,839	29,183	40,990	(14,966) ^{a)}	28,029	30,321	25,864
7. Number of highly qualified persons in the workforce	216,000	213,000	504,800	n/a	169,790	56,000	546,290
Sustainable Growth							
8. Net enterprise creation (new businesses per year)	2,045	1,896	7,800	141	8,074	436	9,715
9. Exports of goods and services per capita (EUR)	1,023	(1,232) ^{a)}	4,010	495	1,563	(1,871) ^{a)}	1,381
Inclusive Growth							
10. Overall employment rate, % of the 15+ population	47.1	32.5	41.1	(41.7) ^{a)}	38.7	40.1	37.9
Governance for Growth							
11. Government's effectiveness, World Bank Governance Index	2.2	1.8	3.1	1.9	2.3	2.6	2.4

* 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.

Notes:

a) Numbers in brackets refer to values which were not available (n/a) at the time original SEE 2020 targets were adopted and were supplied by the Vienna Institute for International Economic Studies (wiiw) as advisors to the RCC.

b) Average for 2008–10.

Table A3

SEE 2020 Strategy: 2020 Headline Targets for Individual Countries

	2020	2020	2020	2020	2020	2020	2020
	ALB	BiH	CRO	KOS*	MKD	MNE	SER
Overall Strategic Goals							
1. GDP per capita relative to the EU average (in PPS), % of EU-27 average	38	38	68	(27) ^{a)}	43	51	41
2. Total trade in goods and services (EUR million)	17,500	24,500	80,000	6,000	15,500	6,000	60,000
3. Trade balance (% of GDP)	-14.3	-20.2	-3.3	-17.8	-17.2	-24.0	-14.0
Integrated Growth							
4. Intra-regional trade in goods (EUR million)	1,150	7,100	6,200	(2,000) ^{a)}	2,700	1,200	10,150
5. Overall FDI inflows (EUR million)	2,200	500	1,500	800	600	700	2,500
Smart Growth							
6. GDP per person employed (EUR at PPS)	24,000	40,200	52,000	(20,200) ^{a)}	35,000	37,000	34,000
7. Number of highly qualified persons in the workforce	260,000	255,000	605,000	n/a	204,000	68,000	655,000
Sustainable Growth							
8. Net enterprise creation (new businesses per year)	2,500	2,300	9,300	170	9,700	520	11,660
9. Exports of goods and services per capita (EUR)	2,900	(2,600) ^{a)}	9,000	(1,200) ^{a)}	3,300	(3,950) ^{a)}	3,850
Inclusive Growth							
10. Overall employment rate, % of the 15+ population	54.3	33.9	47.5	(45.8) ^{a)}	43.6	49.6	43.8
Governance for Growth							
11. Government's effectiveness, World Bank Governance Index	2.7	2.1	3.7	2.3	2.8	3.1	2.9

* 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.

Notes:

a) Numbers in brackets refer to values which were not available (n/a) at the time original SEE 2020 targets were adopted.

Table A4

Key instruments of the SEE 2020 Strategy

Pillar 1. Integrated Growth Headline targets: increase intra-regional trade in goods from EUR 12,459 million to EUR 30,500 million; increase overall FDI inflows to the region from EUR 3,396 million to EUR 8,800 million.					
No.	Key Strategy measures/instruments/activities/projects	Timeline	National implementing agencies	Verification mechanism	Regional governance entity
Dimension A: Free Trade Area					
1.1	Elimination of tariffs and quotas, completion of liberalisation of trade in agricultural products	2014	Ministries of trade, Ministries of agriculture	The four-stage verification process ⁷	CEFTA
1.2	Elimination of non-tariff (technical, sanitary and phytosanitary) barriers to trade	2014	Ministries of trade, Ministries of health	The four-stage verification process	CEFTA
1.3	Facilitation of trade through employing transparency tools and the elimination of non-automatic import licences contravening WTO and EU practice	2015	Ministries of trade	The four-stage verification process	CEFTA

⁷ The four-stage verification process:

1. Legislative adoption
2. Implementation
3. Checking the expected outcome, where applicable with the help of quantitative indicators
4. Approval or rejection. In the latter case after the necessary corrective measures the verification begins again from point 1.

The first two stages are reported by the national implementing agencies, the next two stages by the respective regional governance entity.

1.4	Improving customs interconnectivity via introduction of paperless methods in the regional trade	2018	Ministries of trade	Regular checking of quantitative indicator	CEFTA
1.5	Liberalisation of trade in services via reducing restrictiveness in this area	2018	Ministries of trade	The four-stage verification process	CEFTA
1.6	Facilitation of free flow of investment through coordination of investment policies and promotion, and better protection of investors and investment	2016	Ministries of economy	The four-stage verification process	CEFTA SEEIC
1.7	Facilitation of free flow of services in order to enhance mobility of skilled labour	2018	Ministries of trade Ministries of labour	The four-stage verification process	CEFTA
Dimension B: Competitive Economic Environment					
1.8	Strengthen competition policy by turning the region into creating a Trade Defence Instrument Free Trade Area	2018	Ministries of trade	The four-stage verification process	CEFTA
1.9	Strengthen intellectual property rights through better protection of trademarks	2018	Ministries of economy Ministries of justice	The four-stage verification process	CEFTA SEEIC
1.10	Create a functioning public procurement market in the region	2018	Ministries of economy	The four-stage verification process	CEFTA SEEIC
Dimension C: Integration into the Global Economy					
1.11	Prioritise and implement business climate reforms	2014–20	Ministries of economy	The four-stage verification process	CEFTA SEEIC

1.12	Improve market access through completing a single diagonal cumulation zone under the PEM and the harmonisation of MFN duties in the region towards EU CET	2018	Ministries of trade	The four-stage verification process	CEFTA
1.13	Establish an investment concept to enhance participation in regional supply chains and global supply networks	2018	Ministries of economy	Checking the concept, checking the impact at regular intervals, proposals for modification of the concept if necessary	CEFTA SEEIC

Pillar 2. Smart Growth

Headline targets: Increase GDP per person employed from EUR 27,485 at PPS to EUR 36,300 at PPS; add 300,000 highly qualified people to the region's workforce.

No.	Key Strategy measures/instruments/activities/projects	Timeline	National implementing agencies	Verification mechanism	Regional governance entity
Dimension D: Human Capital Development					
2.1	Increasing participation in education at all levels	2014–20	Ministries of education	Monitoring of implementation Ministries of education	ERI-SEE
2.2	Prevention of early-school leaving and drop-out from higher education	2014–20	Ministries of education	Monitoring of implementation	ERI-SEE

				Ministries of education	
2.3	Entrepreneurship key competence development at all levels of education and training (curriculum, teacher training, assessment), including a framework of entrepreneurial learning outcomes for the region	2014–20	Ministries of employment, employment bureaus	Monitoring of implementation Ministries of Employment	ERI-SEE/ SECEEL
2.4	Promote commercial potential of university research efforts through incubator networks, entrepreneurship support and access to finance with particular reference to smart and clean technologies	2014–20	Ministries of employment, employment bureaus	Monitoring of implementation Ministries of Employment	ERI-SEE/ SECEEL
Dimension E: R&D and Innovation					
2.5	Research excellence fund	2014–20	Ministries of science	Monitoring on the basis of manual provided by WISE Facility	Supervising Board of WISE Facility
2.6	Technology transfer programme	2014–20	Ministries of science	Monitoring on the basis of manual provided by WISE Facility	Supervising Board of WISE Facility
2.7	Establishment of a regional fund for non-technical innovation with direct market prospects	2014–20	Ministries of economy	Monitoring on the basis of manual provided by WISE Facility	Supervising Board of WISE Facility

2.8	Rolling out a regional 'triple helix' partnership competition with media coverage	2014–20	Ministries of economy Ministries of science	Monitoring on the basis of manual provided by WISE Facility	Supervising Board of WISE Facility
Dimension F: Digital Society					
2.9	Renew the Action Plan for Broadband Development (bSEE), and ensure ministerial-level endorsement	2014–20	Ministries of information society development/ICT	Monitor the implementation of the Action Plan for Broadband Development	eSEE
2.10	Initiate concrete regional infrastructural projects and pilot projects aimed at creation of regional broadband infrastructure	2014–20	Ministries of information society development/ICT	Monitor the implementation of the Action Plan for Broadband Development	eSEE
Dimension G: Culture and Creative Sectors					
2.11	Regional Forum for Cultural Policy and Management Intelligence (including a system of baseline statistics on culture and creative industries in the region, comparable to EU indicators)	2014–20	Ministries of culture Ministries of economy	Establishing on a statistical system on culture and creative industries	RCC TFCS

2.12	Regional Design Incubator	2014–20	Ministries of culture Ministries of economy	Monitoring of implementation by Ministries of Culture; Economy	RCC TFCS
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Pillar 3. Sustainable Growth

Headline targets: Increase net enterprise creation (new businesses per year) from 30,107 to 33,760; increase exports of goods & services per capita from the region from EUR 1,780 to EUR 4,250.

Secondary pillar targets: 9% energy saving on final energy consumption;

Achieve national targets for the use of renewable energy

No.	Key Strategy measures/instruments/activities/projects	Timeline	National implementing agencies	Verification mechanism	Regional governance entity
Dimension H: Resource Efficiency – Sector Energy					
3.1	Introduce measures to improve energy intensity of GDP (including: closing uncompetitive energy-intensive industries; introducing efficient heating stoves to residential market, including through the National Energy Poverty Eradication Strategy; improving energy conversion efficiency by closing/repowering existing steam cycle thermal power plants and replacing heat-only boilers in district heating systems)	2014–20	Ministries responsible for communal infrastructure; Ministries of economy; Ministries responsible for energy and environment	Monitoring implementation and target indicators	Energy Charter OECD / IEA

3.2	Develop and introduce measures to improve utilisation rates of thermal plants and energy network infrastructure (by demand-side management to decrease peak demand; improve security of supply and quality of district heating services; active supply-side management of fuel wood; return ownership of electricity transmission system operators to generators)	2014-2016	Professional associations City authorities	Monitoring implementation and target indicators	USAID
3.3	Introduce instruments targeting improvement in the terms of trade in energy (by facilitating natural gas import and improvement in transit infrastructure; reduce barriers of entry to and enhance competition in oil product markets; negotiate regional agreement on integral water management)	2014–16	Ministries of foreign affairs Ministries responsible for water management National anti-monopoly or competition authority	Monitoring implementation and target indicators	RCC EnCT Secretariat
3.4	Introduce measures to increase the share of renewable energy in final energy consumption (by: melioration of coppice forests and forestation; introduction of energy-efficient wood stoves; efficient railway and waterborne transport; and maximise renewable energy in district heating services and large thermal power stations)	2014–20	National forest authorities City authorities Railway authorities	Monitoring implementation and target indicators	KfW, GIZ
Dimension H: Resource Efficiency – Sector Transport					
3.5	Put in place instruments to improve the transport intensity of GDP (including: introduce direct tax on road vehicles per	2014–16	Ministries of finance	Monitoring implementation	UNECE IMF

	unit of weight; introduce policy measures to enhance competition to multimodal, railway and port operators)		Ministries of economy Transport professional associations	and target indicators	SEETO
3.6	Develop and implement measures to improve the utilisation rate of railway infrastructure (by: improving coordination in railway services safety and reliability of railway infrastructure; implementing regional railways cooperation and liberalisation projects; standardise double '2xTEU' air-draft at railways)	2014–20	Railway authorities Transport professional associations	Monitoring implementation and target indicators	UNIFE
3.7	Develop and introduce measures for reducing energy consumption and costs per unit of transport service (including: introduce natural gas in commercial road and waterborne transport; increase share of electrical transport with energy recovery; increase share of electrical transport and facilitate cycling in urban transport; implement the Single European Sky and the Joint Service Provision Area (JSPA) initiatives)	2014–20	City authorities Ministries of transport Railway authorities	Monitoring implementation and target indicators	SEETO ICPDR Danube Convention
3.8	Put in place measures to improve the ratio of railway and waterborne transport and facilitate air transport (by: upgrading Danube Convention to allow commercial services of all vessels at all ports and free river-to-sea navigation; ensuring railway links to all commercial airports in the region; integrating Belgrade intermodal transport hub)	2014–20	Ministries of finance Ministries of transport Ministries of foreign affairs City of Belgrade	Monitoring implementation and target indicators	SEETO Danube Convention

Dimension H: Resource Efficiency – Sector Environment					
3.9	Develop and put in place measures and instruments to decrease polluting (SO ₂ and PM 10, PM 2.5) emissions (by: phasing out fossil fuels from district heating services and lignite from power generation; increasing the share of electrified transport in total transport)	2014–18	City authorities Ministries of energy Ministries of environment	Monitoring implementation and target indicators	REC EU EEA NGOs
3.10	Develop and introduce measures and instruments to reduce the volume of waste material disposed to land-fills (by: phasing out lignite from power generation; gasification of organic waste; recycling of waste materials)	2014–20	Ministries of energy Ministries of environment Ministries of finance City authorities	Monitoring implementation and target indicators	REC NGOs EU EEA
3.11	Implement the Aarhus Convention by implementing Convention principles in all relevant national legislation, and LRTAP Convention by ratifying and implementing all its protocols	2014–15	National parliaments Ministries of foreign affairs	Implementation Report in the Aarhus Convention framework LRTAP Convention Implementation report	Aarhus Convention Secretariat LRTAP Convention Secretariat NGOs
3.12	Adopt climate change adaptation measures (by: the National Adaptation Strategy to Climate Change Impacts and establishing regional coordination on climate change impacts as well as significant increase in protected and forestation areas)	2014	Ministries of environment Ministries of interior	Monitoring implementation and target indicators	REC EU EEA
Dimension H: Resource Efficiency – Sector Natural Resources					

3.13	Improve land use (by: measures to eliminate unused land such as introduction of land tax for unused land; undertaking reforms of land property rights to improve sustainable wood harvest; implement an appropriate framework for SME and cooperatives)	2014–16	Ministries of finance Ministries of agriculture and forestry Forestry professional associations	Monitoring implementation and target indicators	FAO UNECE
3.14	Develop and put in place instruments to improve peak-to-run-of-river hydro electricity production ratio (by a regional integral water management framework agreement; demand-side management in electricity distribution; increasing flexibility in new thermal power plants; implementing the EU Water Directive)	2014–15	National electrical utilities National water authorities EITI framework organisations	Monitoring implementation and target indicators	RCC USAID
3.15	Regional integral water management framework agreement ratified and implemented	2014–2015	Ministries of foreign affairs NGO community	Framework agreement ratified and implemented	RCC
3.16	Implementation of the Extraction Industry Transparency Initiative (EITI) and a reporting system regarding natural resource and transit rents	2014	Ministries of economy NGO community Chambers of commerce Associations of employers	EITI membership and reporting	EITI NGO community
Dimension I: Competitiveness					

3.17	Develop regional activities to support SME development including clustering and FDI-SME linkages (by: increasing the frequency of SBA assessment; encouraging internationalisation of SMEs; regional FDI-SME linkage programmes; dialogue on the Entrepreneurship Action Plans)	2014–20	Ministries of economy, SME development and investment promotion agencies	Monitoring implementation and target indicators	SBA coordinators Supported by OECD (IC for SEE), RCC, SEECEL, ETF
3.18	Develop regional value chains through sector-specific actions including pilot projects (by: carrying out regional value chain analysis; creating regional working groups on key sectors; identifying sectoral constraints to growth and productivity; implementing a regional pilot project to enhance competitiveness in each key sector)	2014–20	Ministries of economy and SME development agencies	Monitoring implementation and target indicators	SEEIC; OECD RCC Secretariat; SBA Coordinators
3.19	Undertake joint regional activities to support greater access to finance and capital market integration (by: implementing regional financial instruments (EFSE, EDIF); facilitating regional events for early stage ventures; regional investment readiness actions for capacity building; regional capital market integration)	2014–20	Ministries of economy Ministries of finance	Monitoring implementation and target indicators	EDIF Platform Advisory Group Supported by SEEIC, EIF, OECD, RCC, EIB, World Bank
3.20	Introduce peer reviewing of SME development and policy relying on harmonised SME statistical reporting (by: setting up a database on enterprises; peer reviews on SME development and SME policy; six-monthly updates)	2014 (database) 2014–20	Ministries of economy Ministries of finance SME development agencies	Monitoring implementation and target indicators	SEEIC supported by RCC, OECD (IC for SEE)
3.21	Coordinate efforts for improving business integrity by CSR ranking and best practice (by: developing regional guidelines on business integrity and regional CSR ranking of companies;	2014–20	Ministries of economy Ministries of justice	Functioning regional forum on CSR	SEEIC Supported by RCC, OECD (IC for SEE)

	fostering best practice on reform implementation)			Improvement in regional CSR ranking	
3.22	Promoting cooperation in the area of competition policy (establishing network of competition authorities and a coordination body; develop regional guidelines on the transparency of state aid; developing common methodology of peer reviewing)	2014–20	Ministries of economy Ministries of justice	Regular meetings of coordination body Monitoring implementation	SEEIC Supported by RCC, OECD Investment Compact
3.23	Coordinate tax policy by implementing guidelines of good practice (develop good practice guidelines on tax policy measures; negotiate guidelines for double taxation agreements)	2014–16	Ministries of economy Ministries of finance	Monitoring implementation	WB WG on Tax Policy and Admin. supported by OECD and RCC

Pillar 4. Inclusive Growth

Headline target: Increase overall employment rate of the 15+ population from 39.5% to 44.4%.

No.	Key Strategy measures/instruments/activities/projects	Timeline	National implementing agencies	Verification mechanism	Regional governance entity
Dimension J: Employment					
4.1	Building regional capacity to develop and use harmonised data and information on migration and develop capacity for assessment of labour market developments and future skill needs	2015	Ministries of labour	Reporting Legislation	RCC
4.2	Creation of a regional consultation process on mobility with a view to addressing the migrant needs, to maximise the development impact of mobility and to promote circular migration	2015	Ministries of labour, public employment service, migration	Reporting	RCC

			centres		
4.3	Abolish labour market restrictions in the region		Ministries of labour	Reporting	RCC
4.4	Enhance capacity of labour market institutions for evidence-based policy making and delivery and for promotion of relevant partnerships for labour market transition and employment with education and training providers, social partners and other stakeholders	Starting from 2014	Ministries of labour	Legislation Reporting	RCC
4.5	Forging innovative programmes to tackle regional challenges such as female and youth employment and labour market exclusion of certain vulnerable groups (e.g. ethnic minorities)	Starting from 2014	Ministries of labour	Reporting	RCC
4.6	Labour market policies to focus on the flexicurity approach involving comprehensive lifelong learning strategies, effective active labour market policies and modern social security systems	2014–20	Ministries of labour Ministries of economy	Legislation Reporting	RCC
4.7	Tackling informal employment through exchange of information and experiences, improved inter-institutional and intra-regional cooperation and testing appropriate policy measures	2014–20	Ministries of labour Ministries of economy	Reporting	RCC
4.8	Set up an enabling environment for social economy initiatives including legal and regulatory framework; policies, strategies and actions; incentives, support mechanisms and capacity building	From 2014 ongoing	Ministries of labour Public employment service		
4.9	Networking and cooperation for strengthening dialogue, sharing knowledge and resources and establishing social economy development clusters				
Dimension K: Health					

4.10	Adopt and implement a regional model for delivery of universal and high-quality health, promoting services at all levels of care with an emphasis on a strong primary care sector for improving the health gain in the SEE region, with a particular focus on low-income and disadvantaged groups (such as Roma)	2015–16	Ministries of health	Reporting	SEEHN
4.11	Strengthen health institutions and improve the intersectoral governance of the health sector at national, regional and community levels following the HiAP approach; and including capacity building for health information infrastructure and introducing e-health. Adopt a regional information exchange mechanism for sharing experiences and good practices in cross-border public health, health care and mobility of health workforce	2015–16	Ministries of health	Reporting	SEEHN
4.12	Adopt multilateral and bilateral agreements to harmonise the cross-border public health and public health services legislation, standards, procedures and develop mutual recognition and trust to enable the creation of a Free Trade Area from a public health perspective	2020	Ministries of health	Reporting	SEEHN
4.13	Adopt multilateral and bilateral agreements to strengthen human resources for health, harmonise and mutually recognise health professionals' qualifications and monitor the human resources for health and their mobility	2016	Ministries of health	Reporting	SEEHN

Pillar 5. Governance for Growth

Headline target: Increase government effectiveness (World Bank Governance Index) from 2.3% to 2.9% by 2020.

No.	Key Strategy measures/instruments/activities/projects	Timeline	National implementing	Verification mechanism	Regional governance
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			agencies		Entity
Dimension L: Effective Public Services					
5.1	Clear subsidiarity: review the current relationship between various levels of government and delineate the respective competences	2014	Ministries	Parliament, NGOs	RCC, regional NGOs
5.2	Fiscal decentralisation: review the extent to which local governments can raise their own finances to pay for the local public goods	2014	Ministries	Parliament, NGOs	RCC, regional NGOs
5.3	Improved competence: improve the curricula that support meritocratic capacities of the administration	2014–20	Universities	Independent agencies	RCC, regional professional associations
5.4	e-governance: introduce as extensively as possible the use of impersonal, electronic access to public services	2015–16	Governments (esp. local)	Administration, NGOs	RCC, other regional cooperation mechanisms
Dimension M: Anti-corruption					
5.5	Transparent rules: move away from discretion to rule-based political and administrative decision making by adopting public, simple and enduring rules, especially in the area of public procurement	2014–15	Ministries	Parliaments, independent bodies, research institutions	Inter-ministerial, regional business and trade unions, NGOs

5.6	Competitive procedures: make as mandatory as possible for all government procurement to be competitive with as few barriers to participation as possible (given the nature of the tender)	2014	Ministries	Parliaments, interested parties, independent agencies	RCC, Inter-ministerial, regional cooperation, NGOs
5.7	Revision and control: introduce regular audits by independent agencies and require ex-ante and ex-post evaluations	2014–20	Judicial and security agencies, independent agencies, NGOs	Financial audits, ex-post evaluations	RCC, other regional bodies
5.8	Public awareness: researchers, whistle-blowers, media and other agencies should be actively supported and their findings considered and given ample publicity	permanent	NGOs, civil society, whistle-blowers, NGOs	Public opinion polls, research institutions, regular reports	Regional research and media
Dimension N: Justice					
5.9	Improved efficiency and competence: review the quality, efficiency and competence of judges and the courts	2014–15	Ministries of justice, universities, professional organisations	Professional organisations, independent evaluations	Regional professional cooperation
5.10	Support ADR: introduce or improve the legislation on ADR and enable proper legal and institutional cooperation with the judiciary and the enforcement system	2014–15	Ministries of justice, Ministries of internal affairs, professional organisations	Parliament, regular surveys and research	Inter-ministerial, regional professional cooperation

Table A5

SEE 2020 verification and monitoring indicators

Indicator description	Description	Source
0. General macro-level indicators		
Economic convergence with the EU	% of country GDP per capita PPS with respect to EU 27 average (Headline target)	Eurostat/National Statistics System
Total trade in goods and services	(Headline target)	National Trade Statistics
Current account balance/GDP	EUR (Headline target)	National Statistics System
Real GDP growth (%)	% rate of real annual GDP growth	National Statistics System
Fiscal balance/GDP	%	Eurostat/National Statistics System
1. Integrated Growth		
Annual growth rate of intra-regional trade in goods based on exports.	% (Headline target)	National Trade Statistics
Annually calculated difference between the growth rate of intra-regional trade (based on exports) and the growth rate of the region's total external (extra-regional) trade (based on exports).	Percentage points	National Trade Statistics
Annual growth rate of intra-regional trade in agricultural goods based on exports.	%	National Trade Statistics
The number of eliminated trade distortions based on an annual inventory of standardized types of trade distortions in the region.	Absolute figure	Ministries of trade
The number of eliminated trade distortive non-automatic import licenses in the region which are in contradiction with the WTO, EU and CEFTA, based on an annual inventory of these import licenses.	Absolute figure	Ministries of trade

Indicator for measuring annual progress towards paperless customs in the region.	Proportion of paperless customs in total customs procedures, %	Natinal customs authorities/Ministries of Trade
Annual growth rate of intra-regional trade in services based on exports.	%	Balance of Payments statistics
Annual inflow of FDI, in million euro.	Headline target	National statistics
Annual change in per capita inflow of FDI in the region and in individual countries of the region, in euro.	%	National statistics
Total FDI	EUR (Headline target)	Balance of Payment Statistics, Central Banks/IMF
Annual measurement of the expansion of capacities for commercial arbitration mechanism in the region (fora, experts, etc.).	Absolute figures	Ministries of trade, Ministries of Justice
Annually measured share of winners from the region's countries relative to the national market based winners (and winners from outside the region, if applicable) in public tenders in each country of the region.	%	Ministries of Economy
Real growth in goods trade (broken down by sector/group)	%	National Trade Statistics
Annually calculated difference between the growth rate of total external export of the region and the growth rate of world trade (based on exports).	Percentage points	National statistics, UN or World Bank trade statistics
Nominal growth in goods trade (broken down by sector/group)	%	National Trade Statistics
Trade Restrictiveness Index	No indication in the OECD	World Bank
Logistics Performance Index	Survey of operators on the ground (global freight forwarders and express carriers)	World Bank
Ease of Doing Business, a) for each country of the region, b) an average calculated from the ranking of the individual countries of the region.	Ranking	World Bank

FDI per capita	EUR	Balance of Payment Statistics, National Central Banks/IMF
2. Smart Growth		
Growth of GDP per person employed	Headline target	National Statistical System
Increase of highly qualified people within the workforce	Headline target	National Statistical System
Number of new highly educated people	Human resources	Labor Force Surveys
Percentage of labor force with high education	Human resources	Labor Force Surveys
Labour productivity	Human resources	National Statistical System
S&E and SSH graduates per 1000 population aged 20-29 (first stage of tertiary education)	Human resources	National Statistical System
S&E and SSH doctorate graduates per 1000 population aged 25-34 (second stage of tertiary education)	Human resources	National Statistical System
Population with tertiary education per 100 population aged 25-64	Human resources	National Statistical System
Participation in life-long learning per 100 population aged 25-64	Human resources	National Statistical System
Youth education attainment level	Human resources	National Statistical System
Public R&D expenditures (% of GDP)	Finance and support	National Statistical System
Venture capital (% of GDP)	Finance and support	National Statistical System
Private credit (relative to GDP)	Finance and support	IMF
Business R&D expenditures (% of GDP)	Firm investments	National Statistical System
IT expenditures (% of GDP)	Firm investments	National Statistical System

Non-R&D innovation expenditures (% of turnover)	Firm investments	National Statistical System
SME innovating in-house (% of SMEs)	Linkages and entrepreneurship	National Statistical System
Innovative firms collaborating with others (% of companies)	Linkages and entrepreneurship	National Statistical System
Firm renewal (SME entries plus exits) (% of SMEs)	Linkages and entrepreneurship	National Statistical System
Public-private co-publications per million population	Linkages and entrepreneurship	CWTS
Patents per million population	Throughputs	National Statistical System
Trademarks per million population	Throughputs	National Statistical System
Technology balance of payments flows (% of GDP)	Throughputs	World Bank
SMEs introducing product or process innovations (% of SMEs)	Innovators	National Statistical System
SMEs introducing marketing or organizations innovations (% of SMEs)	Innovators	National Statistical System
Employment in medium-high and high-tech manufacturing (% of workforce)	Economic effects	National Statistical System
Employment in knowledge-intensive services (% of workforce)	Economic effects	National Statistical System
Medium and high-tech manufacturing exports (% of total exports)	Economic effects	UN
Knowledge intensive services exports (% of total services export)	Economic effects	UN
New-to-market sales (% of turnover)	Economic effects	National Statistical System
New-to-firm sales (% of turnover)	Economic effects	National Statistical System
eSEE Agenda Plus indicators	ICT Infrastructure	Administration sources
Broadband access by firms (% of firms)	Finance and support	National Statistical System

3. Sustainable Growth		
Growth of enterprise creation	Net enterprise creation as measured by WDI (Headline target)	World Bank
Number of SBA assessments	Increased frequency to two years	RCC, OECD
Number of cross-border clusters, economic zones, export promotion actions	Increased cross-border economic activity	National Statistical System, RCC
Number of FDI-SME linkages	Increased economic activity	OECD, National Statistical System
Growth of output, employment and exports in selected industries	Support economic growth	OECD, National Statistical System
Number of functional pilot projects		OECD
Number of new start-ups	Support economic growth	National Statistical System
Number of venture capital funds	Support economic growth by finances	National Statistical System, National implementing body
Volume of equity financing	Support economic growth by finances	National Statistical System
Number of items in database on enterprises	Policy support	National Statistical System
Number of peer reviews of SME development	Policy support	OECD, National Statistical System
Number of High Growth Enterprises	Supports headline target of increasing exports	National Statistical System
Number of exporting enterprises	Supports headline target of increasing exports	National Statistical System
Country's position in CSR ranking	Policy support, business integrity	OECD
Number of successful competition cases closed	Policy support, competition policy	National implementing body
Number of peer reviews completed in the area of competition policy	Policy support, competition policy	National implementing body
Number of SMEs filling in tax returns	Policy support, tax policy	National implementing body
Number of tax fraud cases	Policy support, tax policy	National implementing body
Growth of Exports of Goods and Services per capita	(Headline target)	National Statistical System
Global Competitiveness Index	international comparison of business environment	WEF
Total GHG emissions (including emissions per capita and per GDP measurement unit)	Provides background structural information	National Statistics Office /IEA

GHG emissions by sector	Provides background structural information	National UNFCCC Focal Point
Share of renewable energy sources in gross final energy consumption	Secondary pillar target	National statistical office/National energy balance sheet
Primary energy consumption	Gross Inland Energy Consumption excluding all non-energy consumption use of energy carriers	National statistical office /National energy balance sheet
Energy dependence	Net imports of energy commodities divided by the sum of gross inland energy consumption and bunkers	National statistical office /National energy balance sheet
Gross inland energy consumption by fuel	Provides background information and provides opportunity to cross check,	National statistical office /National energy balance sheet
Electricity produced from renewable energy sources	Share of electricity produced from renewable energy sources in gross national electricity consumption	ECS/National energy balance sheet
Share of renewable energy in fuel consumption of transport	Percentage of biofuels in total fuel consumption in transport	ECS/National energy balance sheet
Combined heat and power generation	Share of combined heat and power in gross electricity generation	National energy balance sheet
Energy intensity	Gross Inland Energy Consumption divided by the GDP measurement unit	National energy balance sheet/Statistics system
Expected energy saving in 2020	Secondary pillar target	ECS/GIZ
Implicit tax rate on energy	Energy tax revenues in relation to final energy consumption	National energy balance sheet/Statistics system

Average conversion efficiency of combustion fuel into electricity	Critical indicator of technical efficiency and competitiveness of power generation as well as national competitiveness potential	National statistical office / power generation companies
Average conversion efficiency of combustion fuel into heat	Indicates efficiency of heating in urban areas. Affect labor costs and energy poverty. In relation with the indicator „Rate of space district heating and hot water services by renewable energy“ provides information on efficiency of renewable energy use.	National statistical office/ District heating companies
Number of households using solid fuel heating stoves as main source of heat	Households consumption Survey	National Statistics Office
Import prices of natural gas	National statistics using reports from custom office. Indicator to be compared with appropriate international indicators (NBP)	National statistical office
Average export prices for electricity	National statistics using reports from custom office. Indicator to be compared with appropriate international indicators (EEX)	National statistical office
Equivalent utilization rates for installed thermal power generation capacity	Equivalent utilization rate based on total installed capacity	National statistical office / power generation companies
Equivalent utilization rates for available gas pipeline transport capacity	Equivalent utilization rate based on total installed capacity	National statistical office / gas transmission system operators
Rate of district heating and hot water services by renewable energy	Provides information of the renewable energy penetration	National statistical office
Share of electricity transport in total transport	Support indicator to assess dynamics of electrification of transport	National statistical office
Transport intensity of GDP	Transport service (ton –km) per unit of GDP	National statistical office

Enabling Trade Index (rank)	Comprehensive ranking system	WEF
Utilization rate of theoretical throughput capacity of major commercial railways	Equivalent utilization rate based on total installed capacity	National statistical office / Railway regulators
Energy consumption per unit of transport service	Energy consumed in transport per ton-km	National statistical office
Rratio of railway and waterborne transport in total transport	Target ratio is going to be country specific as geographical conditions of each country are different.	National statistical office
Runway utilization rate (takeoff / landing per day)	Equivalent utilization rate based on total installed capacity	National statistical office / Air trafic control authority
SO2 and NOx emissions per unit of thermal power electricity	Indicates compliance with the EU environmental acquis that are part of the EnCT	National statistical office / PRTR reporting
PM (10, 2.5) emissions per unit of thermal power electricity	Indicates compliance with the EU environmental acquis that are part of the EnCT	National statistical office / PRTR reporting
Waste material disposed to land-fields per capita	Demonstrates recycling and gasification of waste	National statistical office
Percentage of population informed about their rights from the scope of Aarhus convention verified by appropriate survey	This aspect to be added to the regular households consumption survey	National statistical office
Percentage of population informed about their rights from the scope of LRTAP convention verified by appropriate survey	This aspect to be added to the regular households consumption survey	National statistical office
Volume of protected areas (NATURA 2000, national parks, etc) and annual forestation	In square kilometers and in % of territory	National statistical office
Land use rate	Land use structure per mode of use	National statistical office
Variable hydro electricity production ratio	Ratio of variable production in total hydro	Power generation utility

	electricity production. Demonstrates market value of hydro power portfolio. It also indicates structural capabilities of the electrical system.	
Tons of wood produced per hectare of forest / orchard area per year	Indicator of wood yield and quality of forest / land management	National statistical office
4. Inclusive Growth		
Employment rate: age +15, total, by gender	(Headline target)	Eurostat
Employment rate: age 20-64, total, by gender	Employed in % of working age population 20-64 years	Eurostat
Youth unemployment rate total, by gender and by educational attainment	% of labour force 15-24 years	National Labor Force Survey
Persons with low educational attainment by age and gender	% of total population in the relevant age group	National Labor Force Survey
Long-term unemployment total, by gender and by educational attainment	% of labour force	National Labor Force Survey
Services sector share in GDP	% of GDP	National Statistics
Services sector share in employment	% of total employment	National Labor Force Survey
People living in jobless households	% of people aged 0-59	EU SILC, Household Surveys
People severely materially deprived	% of total population	EU SILC, Household Surveys
Expenditures on active labour market policies	% of GDP	National Statistics, PES, Ministries of Labour

Net enrolment ratio in elementary school	enrolment of the official age-group for a given level of education expressed as a percentage of the corresponding population	Eurostat
Literacy rate	The proportion of the adult/youth population aged 15 years and over which is literate	World Bank
Early school-leavers	% of the total population aged 18-24 who have at most lower secondary education and not in further education or training	Labor Force Survey
Preliminary health indicators (under consultation)		
Increase of life expectancy at birth	(Headline target)	European Health for All Database , WHO European mortality database
Life expectancy at current rate	Life expectancy at current rate (= annual rate during 2006-2010) as measured by % increase in Healthy life years at age 65 disaggregated by sex (and where possible by place of living and household wealth)	European Health for All Database
Infant mortality	Infant mortality per 1000 live births, disaggregated by sex and household wealth	Civil registration
Reduce premature mortality by 2020	(Headline target)	European Health for All Database
Age-standardized overall premature mortality rate: age 30-69, by gender	Age-standardized overall premature mortality rate for four major noncommunicable diseases (cardiovascular diseases (ICD-10 codes 100-199), cancer (ICD-10 codes C00-C97), diabetes mellitus (ICD-10 codes E10-E14), and chronic respiratory disease (ICD-10 codes J40-47))	European Health for All Database , WHO European mortality database
Tobacco use	Age-standardized prevalence of tobacco use among	Global Health Observatory

	persons aged 18+ years	
Alcohol consumption	Age standardized per capita alcohol consumption among persons aged 15+ years within a calendar year (litres of pure alcohol)	Global Health Observatory
Overweight and obesity among adults	Age-standardized prevalence of overweight and obesity in persons aged 18+ years (defined as a body mass index > 25 kg/m ² for overweight and > 30 kg/m ² for obesity disaggregated by age and sex,	Global Health Observatory
Overweight and obesity among adolescents	Age standardized prevalence of overweight and obesity among adolescents (defined as BMI-for-age value above +1 Z-score and +2 Z-scores relative to the 2007 WHO growth reference median, respectively	HBSC Survey
Provide universal coverage and the right to health	(Headline target, defined as equitable access to effective and needed services without financial burden)	European Health for All Database
Private household's health expenditures	Private household's out-of-pocket expenditure as a proportion of total health expenditure	Administrative reporting system, household surveys, National Health Accounts
5. Governance for Growth		
Government effectiveness	As measured by the WBI World Governance Indicators (Headline target)	World Bank Institute
Corruption Perception Index	Perceived level of corruption as determined by expert assessments and opinion surveys	Transparency International
Transparency International Global Corruption Barometer	Amount of bribes paid by households and business	Transparency International

	to the public administration	
Control of corruption	As measured by the World Bank Worldwide Governance Indicators	World Bank Worldwide Governance Indicators
Excellence in public procurement	Implementation of criteria aimed at achieving certified excellence in public procurement. Criteria to be drawn up by multi-stakeholder group	