

## Executive summary

Future economic development and the well-being of citizens in South East Europe (SEE) increasingly depend on greater economic competitiveness. To underpin the drive to improve competitiveness and foster private investment an integrated policy approach is needed. This first edition of *Competitiveness in South East Europe: A Policy Outlook* (hereafter referred to as the “*Competitiveness Outlook 2016*”) seeks to help policy makers in Albania, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, Kosovo, Montenegro and Serbia assess their progress towards their growth goals and benchmark them against i) the good practices adopted by OECD countries and ii) the performance of their regional peers.

This *Competitiveness Outlook 2016* addresses 15 policy dimensions critical to competitive economies that draw on the South East Europe 2020 Strategy (SEE 2020), a regional growth strategy drawn up by the Regional Cooperation Council and adopted by SEE governments in 2013. The qualitative assessments presented herein use scoring frameworks to enable regional comparisons. The participatory assessment process brought together regional policy networks and organisations, policy makers, independent experts and the private sector to create a balanced view of performance.

### Main trends

At the beginning of the 21st century, a protracted growth period which saw GDP rise 5% a year enabled the economies of South East Europe covered in this report to narrow their development gaps with the EU and OECD countries. By 2008, their average PPP GDP per capita was 30.5% of the EU average, up from 23.4% in 2000.

However, the global economic crisis and its aftermath saw their average GDP growth slump to an annual 0.8% between 2009 and 2014. Four economies suffered a marked double-dip recession, while Albania and Kosovo experienced a slow-down in growth. Unemployment rates are among the highest in Europe – in 2013, average unemployment was 24%, compared to 10.8% in the EU. Those trends show that strategic policy action is needed to promote future sources of economic growth, if the six economies are to meet the SEE 2020 per capita GDP target of 39.7% of the EU average by 2020.

### Cross-cutting challenges

While each of the 15 policy dimensions has its own particular obstacles, a number of cross-cutting challenges emerge. All SEE economies could consider addressing them as part of their efforts to increase their economic competitiveness.

- A **strategic approach to policy making** helps governments make more efficient use of scarce resources in pursuit of their policy goals. Examination of progress towards SEE 2020 objectives in the economies’ comprehensive policy strategies reveals wide disparities in policy dimensions.
- Effective policy implementation is hindered by **limited capacity and skills shortages among civil servants**.

- Ministries and implementing agencies **lack co-ordination mechanisms** in many policy areas, which detract from the effectiveness of policy development and execution.
- Most dimensions lack robust **statistical data and monitoring systems**, which restricts scope for evidence-based policy making.
- Despite legislative requirements for forward planning and co-operation between government and parliament, legislation is often rushed through, so by-passing valuable **cross-policy stakeholder consultations**.
- The pervasiveness of the **informal sector** (which accounts for up to 30% of employment in some economies) impinges on tax revenues, the fairness of competition and vulnerable population groups. Measures to coax informal businesses and workers into formality are often limited in scope.
- Autonomous agencies, staffed by skilled professionals, should implement policy in accordance with pre-defined, objective criteria. The lack of **autonomy and professionalism** persists in the region.
- **Sub-national governments** are often underfunded and rely heavily on central government, which impairs their autonomy and ability to implement policy.

### Main recommendations by policy dimension

The comprehensive analyses of the 15 policy dimensions in the *Competitiveness Outlook 2016* give rise to recommendations. Some are listed below. Considering them could help the SEE economies prioritise policy action as they look to the future:

- **Investment Policy and Promotion.** Investment promotion strategies could be implemented more extensively. Similarly, investment promotion agency services could be more comprehensive, particularly when they address linkages between foreign investors and local SMEs. Foreign investors' access to land could be eased.
- **Trade Policy and Facilitation.** Non-tariff barriers to trade (particularly barriers arising from the application of sanitary and phytosanitary measures) could be further reduced and barriers to trade in services addressed in priority sectors.
- **Education and Competences.** The quality and relevance of work-based learning could be improved to equip students with skills and competences relevant to the labour market. In that regard, the teaching profession could be an area of focus, with policies to recruit better candidates, improve remuneration and provide continuous training opportunities for teachers.
- **Research & Development and Innovation.** The governance of RDI policies could be improved so that the work of all the relevant actors is fully co-ordinated. Incentives and support for collaboration between business and academia could be built into RDI policies and private sector R&D expenditure promoted.
- **Digital Society.** The provision of broadband services could be further developed through closer co-operation with the private sector. The development and use of e commerce needs to be fostered by analysing and removing non-legal barriers, such as the lack of information on the potential of e commerce and the high cost of adopting ICT solutions.

- **Cultural and Creative Sectors.** Public-private co-operation could be promoted in the strategic planning of cultural tourism. SEE economies could benefit from integrated approaches to the use of cultural and creative sector policies as development vehicles. Such approaches would foster evidence- and consultation-based strategic policy making in cultural tourism, and in the audiovisual and creative sectors.
- **Transport.** Transport infrastructure development strategies and investment priorities should be aligned with the Core Network Corridors and the Regional Core Network, and focus particularly on the development of multi-modal nodes. Further efforts – to establish sustainable management and maintenance systems, for example – are needed to make existing infrastructure more efficient.
- **Environmental Policy.** Agri-environmental measures could be strengthened and policies to increase sustainable irrigation developed. SEE economies could also advance the water-energy-food nexus approach and intensify efforts to adopt climate change adaptation strategies.
- **Access to Finance.** Investment readiness programmes could be developed to help enterprises better understand and access different financing opportunities. Cadastres, credit and moveable asset registries should also be regularly updated to help support banks in assessing borrowers' credit-worthiness (so facilitating firms' ability to access capital).
- **Tax Policy.** The SEE tax authorities' policy analysis staff and funding capacity could be strengthened and current efforts to modernise and introduce electronic tax filing and payment procedures intensified (to ease and guarantee tax compliance).
- **Competition Policy.** Competition authorities could consider intensifying enforcement as a matter of priority. Guidance for stakeholders on enforcement practices could be improved by publishing explanatory documents.
- **Employment Policy.** Further active labour market policies could be promoted – e.g. youth employment schemes, self-employment programmes and targeted training opportunities for the long-term unemployed. The capacity of public employment services could be enhanced so that they are better able to implement active labour market policies.
- **Health Policy.** The development of effective national health policies is essential in all SEE economies. Health systems will require significant strengthening to achieve universal health coverage.
- **Effective Public Services.** Strategic human resource management seeks to match public servant staffing levels and skills sets with government policy goals. Governments would benefit from implementing their strategies on human resource management.
- **Anti-corruption Policy.** To ensure the effective implementation of anti-corruption instruments, the human and financial resources of anti-corruption institutions could be strengthened. Further efforts to streamline and centralise the network of communication and competence sharing between different anti-corruption institutions could ensure more efficient co-ordination in the fight against corruption.





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