Competitiveness and Private Sector Development

Competitiveness in South East Europe 2021

A POLICY OUTLOOK

Pocketbook

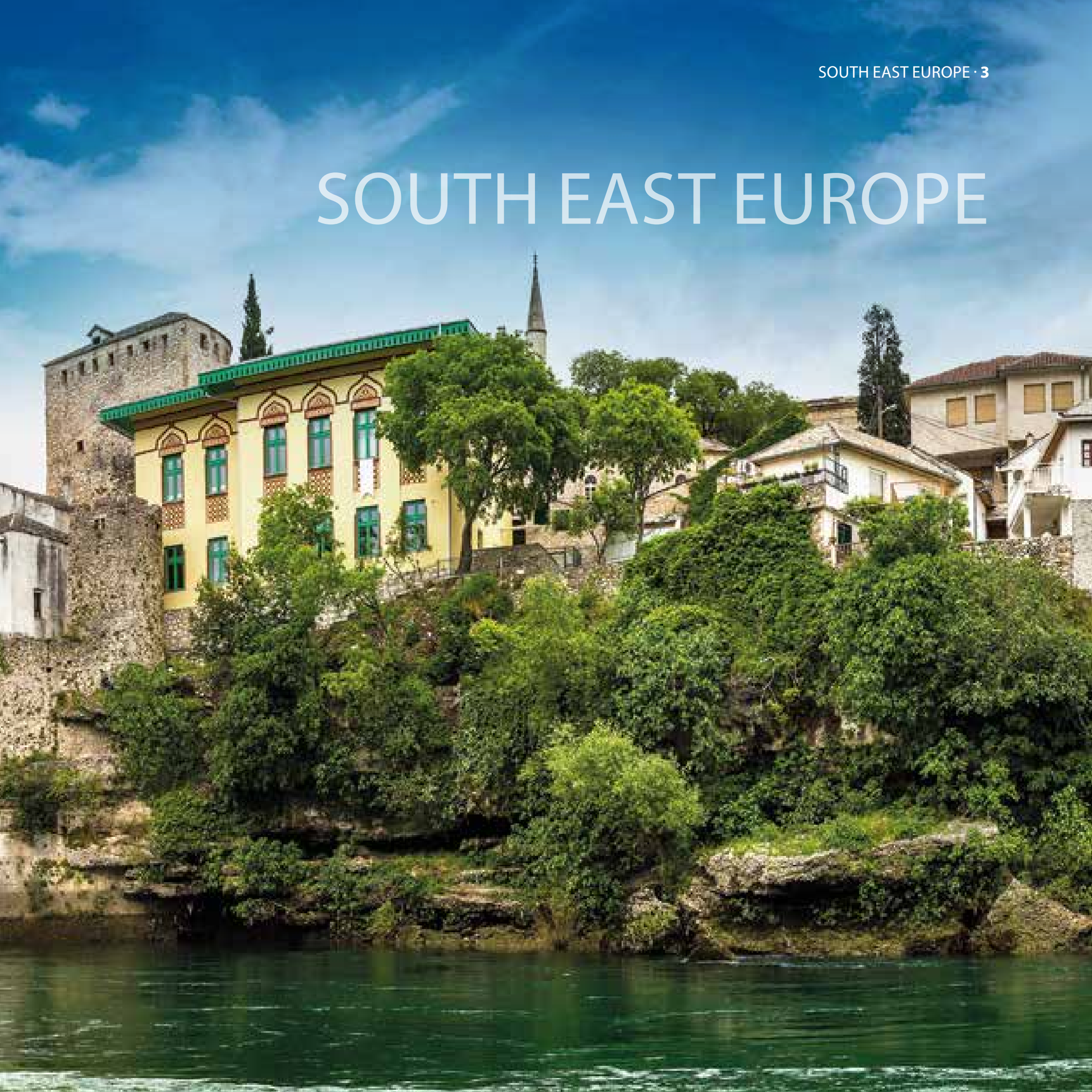
OECD

BETTER POLICIES FOR BETTER LIVES

SOUTH EAST EUROPE

POLICY DIMENSIONS

SOUTH EAST EUROPE



OECD SOUTH EAST EUROPE REGIONAL PROGRAMME

A partnership for prosperity and stability

The OECD South East Europe regional programme supports economies in the region in the design and implementation of reforms in favour of stronger growth, higher investment and full employment.

This support has ranged from policy analysis and monitoring to policy design, capacity building and implementation support.

The OECD has also been active in facilitating policy dialogue at technical and high political level and in transferring good policy practices across various policy areas from OECD member states to the SEE region.

The co-operation between the OECD and key regional stakeholders is based on a strong dialogue at the technical and political level, and on its capacity to produce impartial, high quality analyses.

As a result of the joint work with regional counterparts, the programme has produced evidence-based policy reports with actionable recommendations for future policies and helped design and implement reforms to strengthen private sector development, competitiveness and to raise living standards.

www.oecd.org/south-east-europe

A TOOL FOR MONITORING PROGRESS IN BUILDING COMPETITIVE ECONOMIES

The regional publication series, *Competitiveness in South East Europe: A Policy Outlook*, provides a comprehensive assessment of competitiveness-enhancing reforms in the six Western Balkan economies: Albania, Bosnia and Herzegovina, Kosovo*, Montenegro, North Macedonia, and Serbia. It:

- is composed of **16 policy dimensions** key to economic competitiveness.
- tracks **progress** on policy design and implementation
- enables Western Balkan six economies to **benchmark** their policy outputs and outcomes among themselves, OECD and EU peers.
- uses **OECD** and **international good practice** to design sustainable economic reform agendas that enable policy makers to achieve greater competitiveness for their economies.
- supports the domestic policy cycle ensuring **stronger co-ordination and consistency** between policies and identifies policy priorities.
- integrates the **perspectives of government and non-government stakeholders** in order to identify the primary economic challenges and develops tailored policy reforms to address them.

For the first time in this edition of *Competitiveness in South East Europe: A Policy Outlook*, economy-specific profiles complement the regional assessment, and provide each Western Balkan six economy with an in-depth analysis of their competitive potential as well as policy recommendations tailored to their specific challenges to inform their structural economic reforms and sustainable development agenda.

* This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

METHODOLOGY

Scope

To increase an economy's competitiveness, policy reforms should not be pursued in isolation. Instead, they should seek a **comprehensive approach with co-ordinated actions** across a variety of policy areas, enabling them to build on one other.

In order to achieve this holistic policy-making process, the Competitiveness Outlook 2021 used a **collaborative assessment approach encompassing 16 policy dimensions**. These dimensions are grouped under four key pillars that are crucial for strengthening competitiveness.

A holistic view of competitiveness

Pillar	Policy dimension
I. Business environment	1. Investment policy and promotion
	2. Trade policy
	3. Access to finance
	4. Tax policy
	5. Competition policy
	6. State-owned enterprises
II. Skills and capacity	7. Education policy
	8. Employment policy
	9. Science, technology and innovation
	10. Digital society
III. Economic structure	11. Transport policy
	12. Energy policy
	13. Environment policy
	14. Agriculture policy
	15. Tourism policy
IV. Governance	16. Anti-corruption policy

Methodology

The Competitiveness Outlook's methodology is designed to provide an **evidence-based assessment** of progress in the design and implementation of policies related to overall economic competitiveness. The assessment is based on more than 350 indicators that have been tailored to each of the 16 policy dimensions and evaluated using a highly participatory process that involved **more than 750 local stakeholders.**

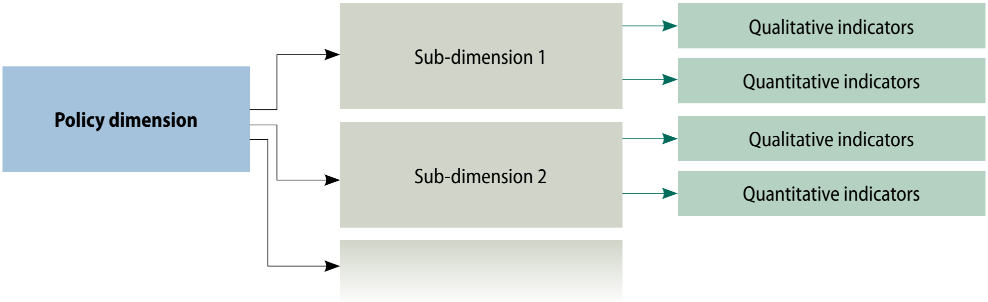
The overall assessment approach

Each policy dimension is divided into several sub-dimensions that highlight the key elements of that policy area. The sub-dimensions in turn are composed of qualitative and quantitative indicators, which capture the design, implementation and performance of policies, processes and institutions.

To reflect the latest trends in OECD economic policy research and good practice developed since the previous *Competitiveness Outlook* (2018), **new qualitative and quantitative indicators** have been included across the 16 assessment frameworks.

Moreover, the assessment has been designed to inform economies on their progress towards achieving the **UN Sustainable Development Goals**.

The indicators in the *Competitiveness Outlook's* 2018 edition were taken as a basis for this publication and further refined in order to increase the focus on critical areas and to integrate additional OECD tools. The set of indicators used for each of the 16 policy dimensions can be found in the "assessment framework" sections included at the beginning of each chapter.



Scoring structure of qualitative indicators

Qualitative indicators assess whether competitiveness-enhancing policy settings, strategies, processes or institutions exist and, if so, the extent to which they have been adopted, implemented, monitored and updated. Each qualitative indicator is assigned a numerical score that reflects the level of policy development and implementation in order to facilitate the comparison of performance among the Western Balkan six economies.

Policy dimension and sub-dimension average scores are attributed by calculating the simple average across the relevant qualitative indicator scores. Indicators are not weighted because the relative importance of each indicator may be different to different stakeholders. Average scores should therefore be interpreted with caution and taken only as a rough estimate of overall policy development.

Level 5	• Level 4 plus independent impact evaluation • Results of monitoring and impact evaluation inform policy framework design and implementation updates towards OECD good practice
Level 4	• Level 3 plus evidence that the framework is monitored and, if necessary, adjusted accordingly
Level 3	• Level 2 plus some concrete indications that the policy framework is effectively being implemented
Level 2	• Framework specifically addressing the policy area concerned is solidly in place, officially adopted by the government or parliament (where applicable) • The framework includes policy features which are necessary to make it impactful
Level 1	• Existing draft or pilot policy framework with signs of government activity addressing the policy area concerned
Level 0	• No framework (e.g. law, institution, project, initiative) exists addressing the policy topic concerned

PARTICIPATORY ASSESSMENT

Assessment process

The Competitiveness Outlook's methodology is complemented by a **participatory assessment process** which has been designed to foster peer learning, to create consensus on reform priorities and to facilitate stakeholder co-ordination.

The participatory basis of the publication is reflected in the **high number and diversity of stakeholders** included in the assessment and the Competitiveness Outlook meetings and roundtables. The involvement of these stakeholders strengthened the analysis in terms of data collection.

In turn, the stakeholders engaged in **gainful exchanges** among themselves and with the OECD on concrete policy issues.

Involved stakeholders:	**8** Western Balkan Government Co-ordinators
	128 Western Balkan Policy Dimension Contact Points
	95 Western Balkan Statistical Office Contact Points
	More than 550 Western Balkan Government Officials
	6 local expert consultant agencies
	Representatives from the private sector, academia, civil society and international donor organisations
Meetings and roundtables:	**77** assessment kick-off meetings
	27 fact-finding meetings
	6 economy-specific stakeholder meetings
	1 regional stakeholder meeting

Competitiveness Outlook 2021 development milestones

Design phase (October 2019 – March 2020)

1. The OECD developed the qualitative and quantitative questionnaires to assess each of the 16 policy dimensions. This process constituted extensive research to ensure that the latest international and OECD good practice were incorporated into the assessment frameworks for each policy dimension.

Evaluation phase (April – November 2020)

2. The Western Balkan six Governments conducted a self-assessment and the OECD carried out an independent assessment in parallel. Remaining information and data gaps were filled through virtual fact-finding meetings with relevant government stakeholders as well as local non-government stakeholders.

Consolidation phase (December 2020 –March 2021)

3. The results of the government self-assessments were consolidated. Key findings and initial policy recommendations were presented at seven stakeholder meetings (one for each Western Balkan six economy and one regional meeting). The meetings brought together Western Balkan government officials as well as international donor representatives and ambassadors from a number of interested EU and OECD countries. The consolidated assessment and first policy recommendations for each policy area were discussed with the meeting participants and formed the basis for completing the draft economy profiles and regional chapters of the *Competitiveness Outlook 2021* publication.

Review and publication phase (January – June 2021)

4. The 6 draft economy profiles and 16 regional chapters were shared with Western Balkan government officials and experts across the OECD, the European Commission, and regional expert organisations for comprehensive review. Subsequently, the OECD prepared the report for publication.

5. **Competitiveness in South East Europe**
A Policy Outlook 2021

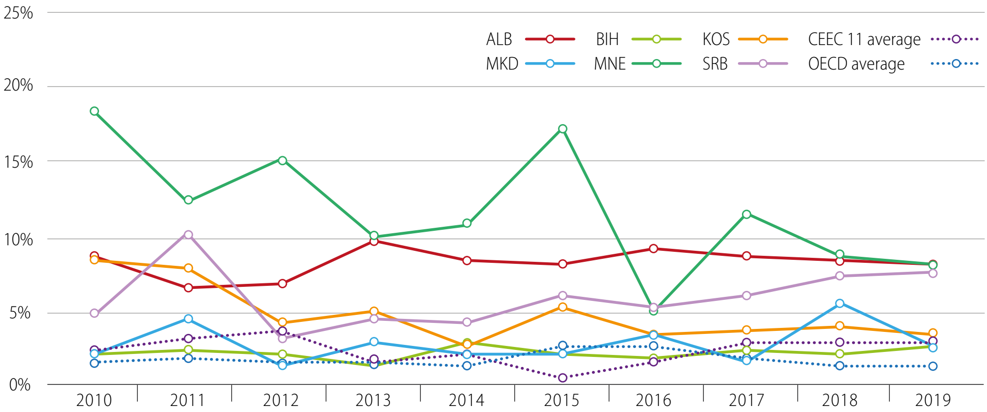
POLICY DIMENSIONS

INVESTMENT POLICY & PROMOTION

Investment is an essential component for economic growth and sustainable development, and a sound investment policy and promotion framework can influence an economy's overall competitiveness. Non-discriminatory principles, limited barriers to investment, property rights protection and strong mechanisms for settling investment disputes underpin a quality investment environment. Meanwhile, continuous efforts to promote and facilitate investment can enable both foreign and domestic investors to establish or expand their activities with ease and thus contribute to a hospitable investment environment.

KEY STATISTICS

FDI inflows as a percentage of GDP (2010-19)

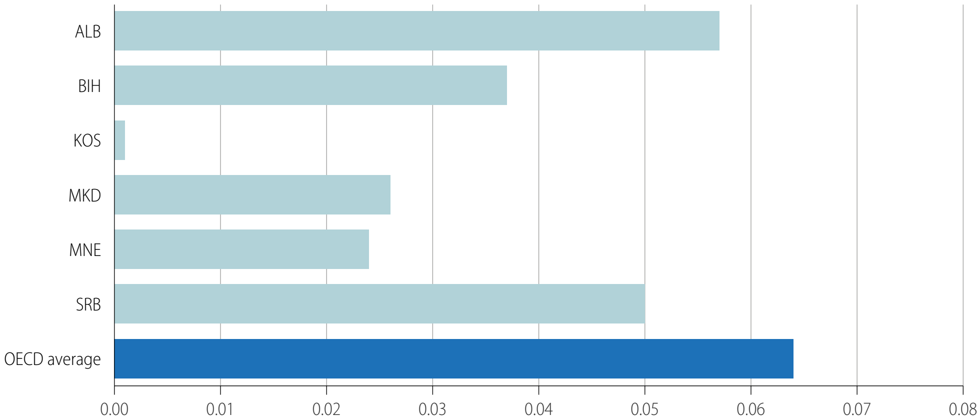


Note: CEEC 11 –Bulgaria, Czech Republic, Estonia, Croatia, Hungary, Latvia, Lithuania, Poland, Romania, Sloak Republic, Slovenia.
Source: UNCTAD (2020), World Investment Report 2020 International Production Beyond the Pandemic; World Bank statistics for Kosovo.

Foreign direct investment (FDI) is a crucial element for promoting international economic integration and can provide economies with financial stability, encourage economic development and enhance the well-being of societies. This is especially the case for the Western Balkan six region, where FDI accounts for a higher portion of gross domestic product (GDP) (between 2.7% and 8.4% in 2019) than the OECD average (1.5%), indicating that Western Balkan economies rely on foreign investment as a catalyst for economic growth.

Overall, the Western Balkan six economies have established solid legislative frameworks that have become the building blocks for open and favourable investment climates. They all benefit from solid institutional frameworks and well-crafted strategies for investment promotion and facilitation with dedicated investment promotion

OECD FDI Regulatory Restrictiveness Index (2020)

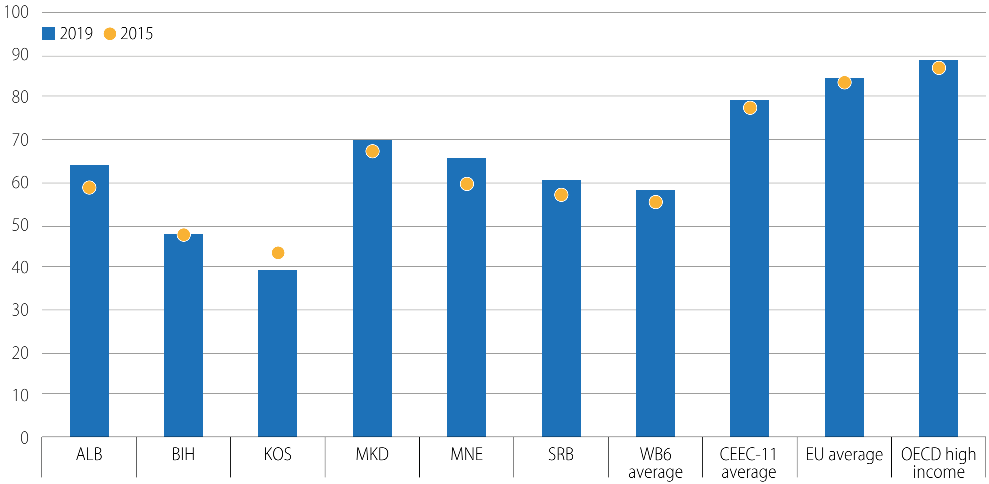


Note: Restrictions are evaluated on a 0 (open) to 1 (closed) scale. The OECD FDI Regulatory Restrictiveness Index only covers statutory measures discriminating againstforeign investors (e.g., foreign equity limits, screening and approval procedures, restriction on key foreign personnel, and other operational measures). Other important aspects of an investment climate (e.g., the implementation of regulations and state monopolies, preferential treatment for export-oriented investors and special economic zone regimes) are not considered. Data reflect regulatory restrictions in December each year.
Source: OECD (2020), OECD (2021), FDI Regulatory Restrictiveness Index (database), www.oecd.org/investment/fdiindex.htm.

agencies (IPAs) that conduct the core functions of investment promotion and facilitation. Several economies have also strengthened their investor incentive and aftercare services to simplify procedures for foreign investors.

Based on the OECD's FDI Restrictiveness Index, the Western Balkan six economies have considerably open regulatory frameworks, especially when compared to the OECD average, that are not considered barriers to foreign investment, while the Worldwide Governance Indicators reveal a relatively good performance for the region in regards to regulatory quality.

Regulatory quality in the WB6 : the Worldwide Governance Indicators (2015-19)



Note: This dimension of the Worldwide Governance Indicators reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. Percentile rank among all economies, ranging from 0 (lowest) to 100 (highest) rank. EU includes all EU Member States in 2015-2019 period. CEEC-11= Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia. OECD high income definition: The World Bank defines a high-income country as one with a gross national income per capita exceeding USD 12 056.
Source: World Bank (2020), *The Worldwide Governance Indicators (WGI)* project, http://info.worldbank.org/governance/wgi/.

ACHIEVEMENTS

- **Most economies have continued to update investment legislation since the last assessment,** aiming to improve the predictability of their regulatory framework and aligning their legislation with EU standards.
- **Several economies have significantly improved the efficiency of their commercial procedures and substantially reduced backlogs** by introducing key justice reforms including rationalising the courts network, modernising infrastructure, adopting modern information technologies, and promoting mediation as an alternative dispute resolution method.
- **All the economies have progressively introduced IP-specific legislation over the past decade** and several economies have established strategies and guidelines to develop and improve the legislative and institutional framework for IP enforcement as well as establish inter-institutional co-operation.
- **The large majority of Western Balkan six economies have made significant progress in establishing and implementing strategies and support programmes to reinforce linkages between local firms and multinational companies** through financial support, facilitating contacts between local suppliers and MNEs, trainings, and information exchanges.
- **All Western Balkan six economies have well-identified targets in terms of economic sectors and markets for FDI attraction** and most of the economies have also developed dedicated approaches to investment targeting in special economic zones.
- **Several economies have substantially increased funding and resources of their IPAs** by reinforcing staffing levels and expanding their IPA mandates.

REMAINING CHALLENGES AND RECOMMENDATIONS

- **Continue reform efforts to improve the efficiency of the judiciary** by further reinforcing the ability of commercial justice to handle conflict resolution and enforcing contracts through the training of judges to deal with commercial and IP cases, as well as strengthening the resources and capacity of IP agencies.
- **Streamline investment legislation and improve its predictability** by reinforcing transparency and ensure well-structured, inclusive public participation in policy-making, including in regards to public-private dialogue on green investment.
- **Improve the clarity of the investment regime, notably for foreign investors** by establishing negative lists of the sectors that are prohibited or restricted for foreign investors, gathering all relevant regulations into a single, regularly updated platform and improving the definition of indirect expropriation in legislation to reinforce investor property protection.

- **Ensure the effective participation of the IPAs in investment promotion and facilitation, as well as in defining priority sectors and economies,** by ensuring that they have sufficient resources to fulfill their mandates, supporting previous investors with ongoing projects, and creating a stable investment landscape for new investors through adapted policies and incentives.
- **Simplify and clarify tax incentive regimes for investors** by reinforcing transparency, facilitating control by a single relevant authority, and including all tax incentives in the main tax law.
- **Continue to strengthen the frameworks for alternative dispute resolution** and encourage their use by businesses.
- **Integrate green growth priorities into existing strategies on investment promotion** and create awareness raising campaigns to promote the region as a green investment destination.

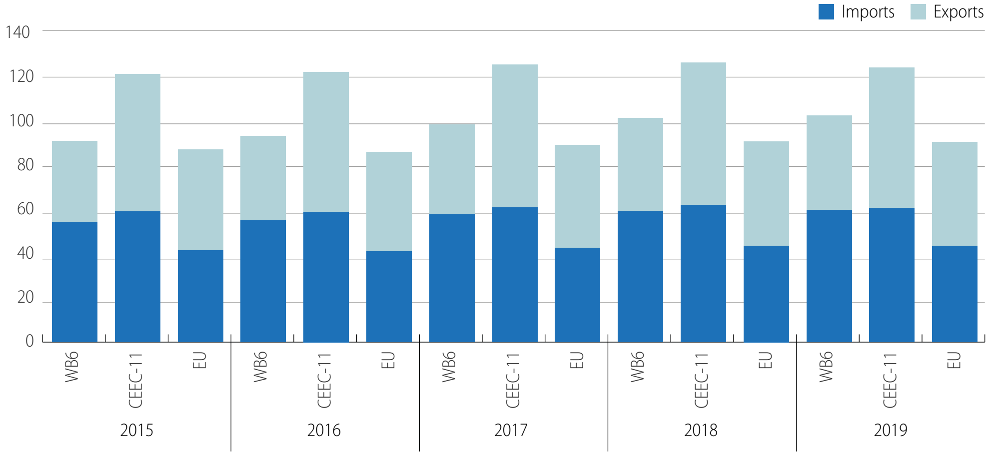
TRADE POLICY

Decades of multilateral, regional and unilateral efforts have significantly reduced traditional trade barriers such as tariffs. It is now non-tariff barriers that have the highest potential to hinder trade. A trade policy that facilitates cross-border economic activity can promote the competitiveness and growth of an economy. Trade liberalisation measures provide access to larger markets, leading to greater economies of scale and efficiency gains. Better market access leads to greater competition from international firms in domestic markets. In addition, transparent and well-designed policies facilitate

KEY STATISTICS

Key trends in external trade in goods and services (2015-19)

Imports and exports of goods and services (% of GDP)



Note: CEEC-11=Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia.
Source: World Bank (2021), World Development Indicators (database), http://data.worldbank.org/data-catalog/world-development-indicators.

access to global value chains (GVCs), which are very effective ways to integrate into the global economy, connect to modern technologies and skills.

In the period 2009-19, the total foreign trade in goods and services of the Western Balkan six economies grew steadily, largely due to an increase in exports initiated after the economic crisis of 2009. The share of trade in the region's GDP reached 110% on average in 2019, compared to 80% in 2009.

Despite this increase and the fact that the region is on par with the EU average, it remains below the Central and Eastern European economies (CEEC-11).

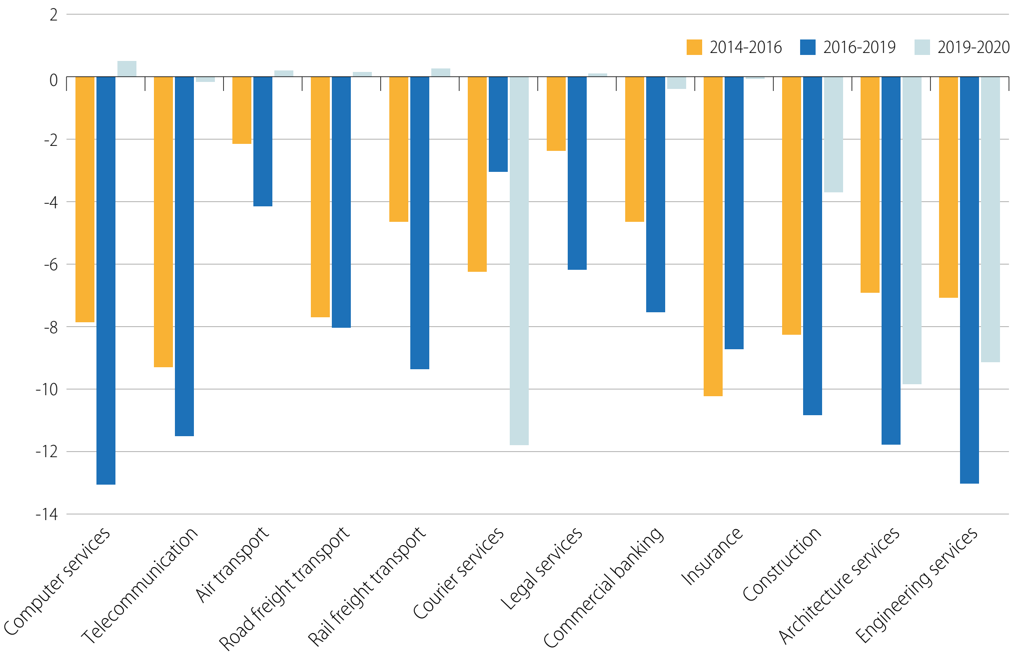
The Western Balkan six have recognised the significance of sound trade policies for themselves and for the region. Public-private consultations (PPCs) on trade-related regulatory policies have been strengthened, albeit to varying degrees. Trade has also seen greater regional co-operation through new trade agreements and deeper co-operation on trade facilitation. In the area of services, the conclusion of Additional Protocol 6 to the Central European Free Trade Agreement (CEFTA) in December 2019 has spurred reforms to remove restrictions on activities of CEFTA service providers and has created momentum for further liberalisation of services markets.

Analysis of the OECD's Services Trade Restrictiveness Index (STRI) shows that the region's efforts have led the Western Balkan six to continuously lower their degree of regulatory restrictiveness since 2014, which places them in the more open (and therefore attractive) bracket for trade in services and digitally enabled services, compared to OECD countries and key partners.

The OECD Services Trade Restrictiveness Index (STRI) is a unique, evidence-based tool that provides information on regulations affecting trade in services across all OECD member countries and key partners. The STRI lists the regulations which may constitute barriers to

Western Balkan six economies' evolution on the services trade restrictiveness index (2014-2020)

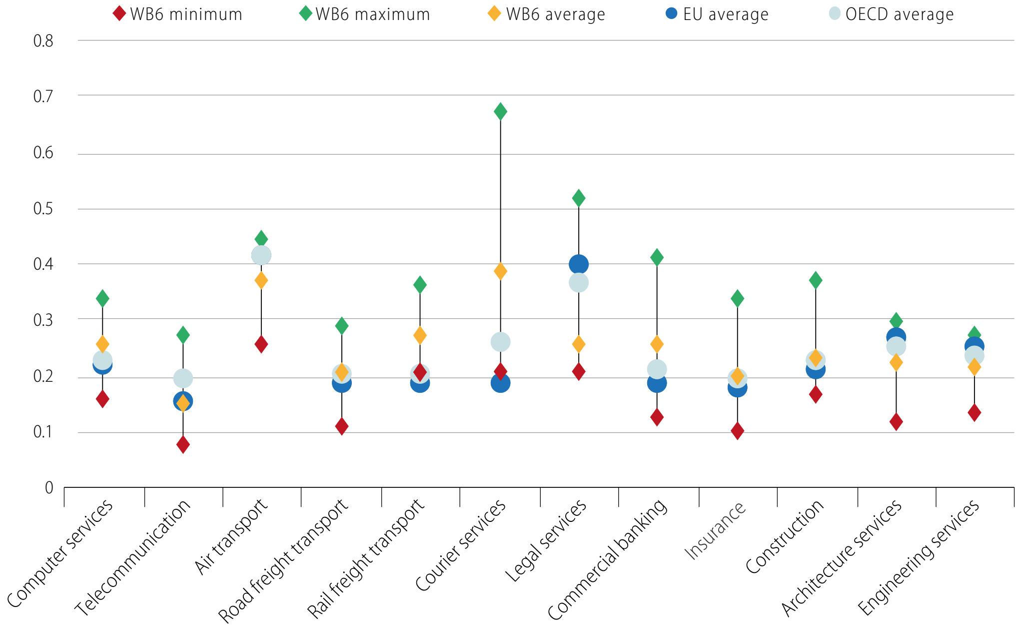
% change



Note: negative values indicate a reduction in the restrictiveness of the economy's trade regulatory environment.
Source: OECD (2020), Services Trade Restrictiveness Index Regulatory Database, http://oe.cd/stri-db.

trade in services or which could facilitate this trade. The STRI toolkit can support policymakers to scope out reform options, benchmark them relative to global best practice, and assess their likely effects.

Services trade restrictiveness index – Western Balkan six economies (2020)



Note: (0=no restrictions, 1=fully restricted); Bulgaria, Croatia and Romania are not OECD members nor OECD STRI key partner economies and therefore are not covered by STRI indices; key partners to the STRI project are Brazil, the People's Republic of China, Costa Rica, India, Indonesia, Kazakhstan, Malaysia, Peru, the Russian Federation, South Africa and Thailand.

Source: OECD (2020), Services Trade Restrictiveness Index Regulatory Database, http://oe.cd/stri-db.

ACHIEVEMENTS

- **Trade policy institutional frameworks are functioning well and have been strengthened since 2018.** Inter-institutional co-ordination of trade policy formulation is solid in most Western Balkan six economies.
- **The Western Balkan six economies are well integrated commercially with their main trading partners.** The six economies continue to develop their networks of bilateral and multilateral trade agreements. However, they do so at various rates and the efforts focus mainly on the region and the EU.
- **Significant improvements have been made in opening up trade in services.** The conclusion of Additional Protocol 6 to CEFTA in December 2019 has spurred reforms to remove restrictions on the movement, recognition of qualifications and activities of CEFTA service providers and has created momentum for further liberalisation of services in the region.
- **All six economies have taken steps to strengthen their framework for e-commerce.** All six made efforts to align their sectoral regulations with the EU e-commerce directive and have worked to remove non-legal barriers to the adoption of e-commerce, including raising awareness among small and medium-sized enterprises (SMEs).
- **Regulations on digitally enabled services largely reflect international best practices.** The six economies' regulatory environments are more open than those of the OECD member states' average and on par with the best performers among the EU member states.

REMAINING CHALLENGES AND RECOMMENDATIONS

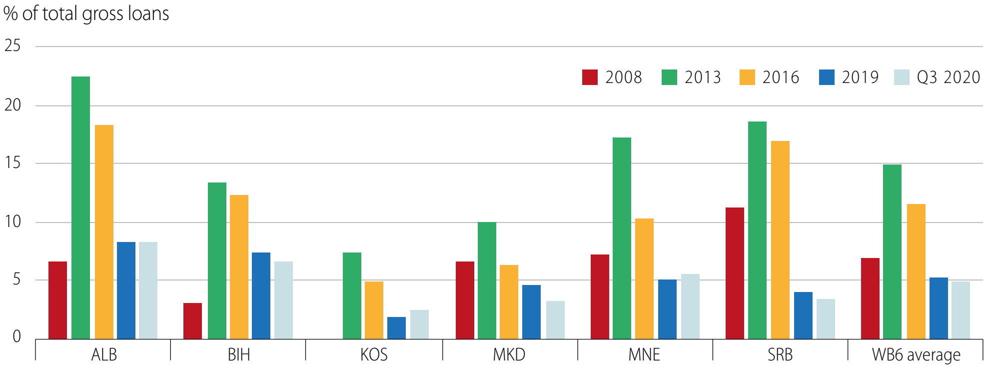
- **Establish mechanisms for evaluating and monitoring public-private consultations** to regularly assess the degree of openness and transparency of consultations in economies that do not have such tools.
- **Further improve public-private consultation mechanisms** by publishing summaries of consultations on draft legislation more systematically. Similarly, a policy to promote public consultations could be put in place to invite stakeholders, especially SMEs – which are usually more reluctant or unaware – to become more involved in the legislative process as well as raising perceptions of their capacity to participate in the regulatory decision-making process.
- **Continue to expand the network of bilateral and multilateral free trade agreements (FTAs).** Despite the region's progress in integrating into the global network of FTAs, Bosnia and Herzegovina and Serbia have not advanced in their accession procedures to the WTO. In absolute terms, the six economies have focused a great deal on trade integration with the EU and themselves, but efforts must now be made to open up trade routes to new markets.
- **Broaden efforts to open trade in services sectors.** Improvements have been made among the Western Balkan six economies to open services trade through regulatory efforts and the conclusion of the CEFTA Additional Protocol 6 in December 2019. Nevertheless, some service sectors remain difficult to access for foreign service providers. STRI analysis in this section has provided some insights into where domestic reforms could help to attract new businesses and improve competitiveness.
- **Pave the way for a regional common market with harmonised regulations** by adopting a twin-track approach: increasing regulatory homogeneity while reducing their degree of restrictiveness. Doing so would allow the Western Balkan six economies to benefit from a revitalised post-COVID-19 trade in services.
- **Strengthen the regulatory environment for e-commerce and digitally enabled services** to adapt them to the new post-COVID-19 reality by considering economy-specific recommendations.

A well-functioning financial system and a dynamic private sector are key catalysts for economic growth and competitiveness. Promoting external financing sources such as bank or alternative financing instruments is crucial for supporting the private sector in accessing sufficient capital to operate, expand and innovate. In addition, well functioning capital markets will not only support near term recovery in the post-COVID-19 period, but also long-term resilience in the corporate sector.

There have been positive signs regarding non-performing loans (NPLs), which can impinge on banks' willingness and ability to provide credit. NPL levels reached the pre-financial crisis level (around 5% in the Western Balkan six) in quarter 3 of 2020, following a peak of around 15% in 2013.

KEY STATISTICS

Non-performing loans in the Western Balkan six economies (2008-2020)



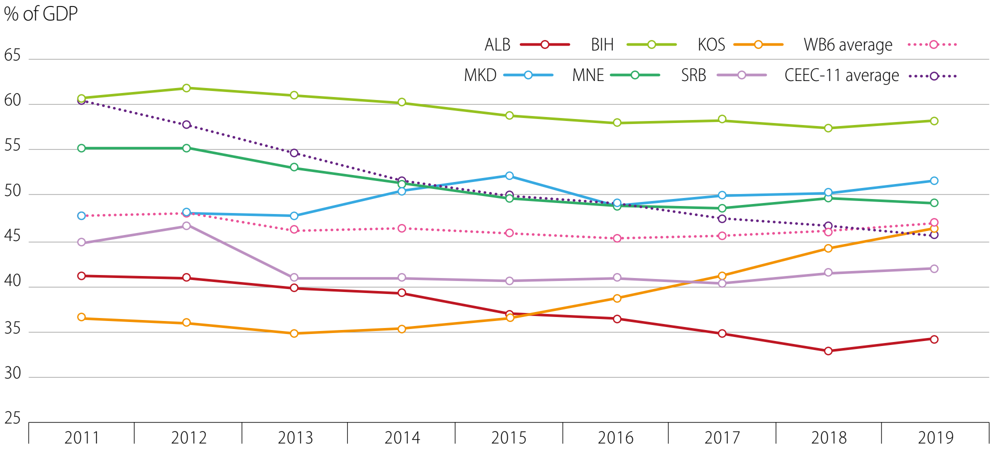
Note: World Bank data are not available for Kosovo for 2008.

Source: World Bank (2020), *World Development Indicators*, https://datacatalog.worldbank.org/dataset/world-development-indicators; statistical institutes; EC quarterly report (EC, 2021).

The Western Balkan economies have made progress in improving access to finance by increasing the activity of the region's stock markets and business angel networks, updating the legislative framework for institutional investors, crowdfunding and factoring, and increasing access to asset registration and credit registries.

Domestic credit to the private sector as a share of GDP has remained at similar levels since 2011 as typical bank financing options remain difficult for businesses to attain. The region still needs to adapt collateral requirements to the needs of the businesses while ensuring financial stability for banks. Moreover, despite an existing framework for alternative financing tools such as factoring and leasing, the Western Balkan six governments need to make the most of the existing alternatives.

Domestic credit to the private sector in WB6 economies (2011-2019)



Note: No data available for North Macedonia for 2011. The data for Bosnia and Herzegovina are expressed cumulatively at the state level, based on data for the banking sectors of Republika Srpska and Federation of Bosnia and Herzegovina. The CEEC-11 countries are Bulgaria, Croatia, the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, the Slovak Republic and Slovenia.
Source: World Bank (2020), *World Development Indicators*, https://datacatalog.worldbank.org/dataset/world-development-indicators.

ACHIEVEMENTS

- **Western Balkan six economies have made progress regarding asset registers since the last assessment.** For example, half have improved the accessibility of their asset registers through online searching options and increased the availability of necessary documentation through new e-services.

- **All Western Balkan six economies have increased the coverage of their public credit registries since the last assessment,** with Albania marking a notable 17.3% increase in coverage, the highest in the region.

- **All Western Balkan six economies have dedicated legislation regarding leasing services while five of the economies possess legal frameworks to regulate factoring options,** with several economies having taken positive steps to improve factoring legislation and promote its use.

- **All Western Balkan six economies established initial or supplementary national credit guarantee schemes** to mitigate the impact of the COVID-19 crisis and increase the liquidity of SMEs.

REMAINING CHALLENGES AND RECOMMENDATIONS

- **Transition from temporary credit guarantee schemes to permanent structures, for those economies without existing mechanisms.** By building upon the preliminary framework established during the pandemic, these schemes can continue to play an important role in enabling the flow of credit to the productive sectors.
- **Implement regulations with fixed thresholds.** Fostering the use of intangible assets as collateral would ease small business' access to traditional financing. Economies may also lower security interest for non-fixed assets to encourage the use of intangibles as collateral and provide incentives for businesses to expand.
- **Support the market penetration of factoring and leasing.** This could be done by increasing awareness raising programmes and providing incentives to smaller firms.
- **Continue efforts to build a business environment with diverse financing sources.** Given the limited success in attracting venture capital in the region, supporting crowdfunding by adopting dedicated legal frameworks could be a more feasible approach.
- **Promote access to equity capital through the stock market.** To stimulate capital market development, Western Balkan six governments could encourage listing state-owned enterprises to help obtain critical stock market size and visibility among international institutional investors.
- **Consider strengthening connectivity in the region.** Strengthening the use of the existing SEE Link can help increase the liquidity of markets in the long term.

Tax systems should be designed to encourage economic growth in a sustainable and inclusive way. This implies creating rules that aim to increase prosperity and productivity among citizens, which entails managing several trade-offs. While Western Balkan six economies' tax revenues have increased as a share of GDP since the last assessment, the regional tax-to-GDP ratio remains below the OECD, EU and CEEC-11 averages, ultimately limiting the region's prospects for economic growth and ability to improve their infrastructure.

Tax reforms should find a balance between fostering equity, achieving budgetary efficiency and circumventing distortive effects, while accounting for various distributional effects.

KEY STATISTICS

Tax revenues by tax type (2019)

Note: To calculate the OECD average tax-to-GDP ratio for 2019, 2018 data was used for Australia and Japan; CEEC 11 – Bulgaria, Czech Republic, Estonia, Croatia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia.

Source: OECD (2019), Global Revenue Statstics Database, https://www.oecd.org/tax/tax-policy/global-revenue-statistics-database.htm, Competitiveness Outlook 2021 questionnaire.

Tax and benefit policies that contribute to fostering wealth redistribution will be conducive to economic growth within each Western Balkan six economy and across the region. By implementing efficient management practices and transparent institutions, governments reduce compliance costs for individuals and businesses, lower administration costs, and create trust in the tax system.

The Western Balkan six economies have made progress in strengthening their general taxation framework and tax administration by increasing international co-operation, harmonising with international standards on tax policy, implementing micro-simulation models and strengthening their tax administrations. However, contrary to most OECD economies, the Western Balkan six economies significantly rely on revenues from social security contributions and taxes on goods and services to fund their health system and public spending programmes. Further development of tax policy measurement tools, such as enhanced tax revenue statistics, efficient tax rate analysis and strengthened tax expenditure reporting are necessary to improve Western Balkan six tax policies. Tax policy frameworks may also benefit from continued efforts to strengthen tax administrations to achieve efficient management practices and transparent institutions as well as reconsiderations of corporate tax benefits.

ACHIEVEMENTS

- **The Western Balkan six economies have strengthened their involvement with the international tax community in recent years** and have taken significant steps to align their systems with current international tax trends.
- **All economies except Kosovo have joined the Inclusive Framework on Base Erosion and Profit Shifting (BEPS)** and have launched a series of initiatives on BEPS minimum standards, administrative assistance and exchange of information.
- **The Western Balkan six economies have strengthened their use of micro-simulation models** to assess the distributive effects of tax reforms; they also use models to forecast tax revenues.
- **The Western Balkan six economies have made significant efforts to strengthen their tax administrations since the last report.**
- **The Western Balkan six economies provide an investment-friendly environment** with low corporate income tax (CIT) rates and generous cost and profit-based tax incentives.
- **Most of the Western Balkan six economies have implemented broad response packages to combat the effects of COVID-19 on their economy and citizens,** in line with measures carried out in OECD countries.

REMAINING CHALLENGES AND RECOMMENDATIONS

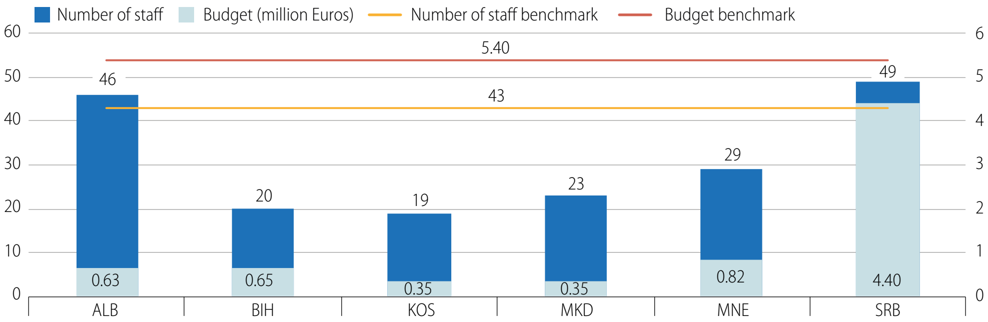
- **Continue COVID-19 support with targeted tax and subsidy measures,** while focusing future efforts on measures to spark an economic recovery.
- **Expand the use of micro-simulation models to forecast tax revenues** and to assess the distributive effects of tax reforms.
- **Increase tax revenues by evaluating options to broaden the VAT base** and encouraging the registration of informal businesses and workers in the formal economy. Further streamlining taxpayer services and tax filing procedures would help increase tax compliance.
- **Diversify the tax mix** to help finance public spending programs and healthcare systems, and rebalance the taxation of labour income away from high employer and employee social security contributions by introducing progressive personal income tax (PIT) rate schedules.
- **Strengthen the design and progressive PIT rate schedules** to target high earners more effectively and provide relief for low earners. Weighing the advantages and disadvantages of a differentiated taxation of capital and labour income can reduce the incentive for entrepreneurs to incorporate.
- **Avoid the use of generous profit-based tax incentives in a context of a low standard statutory CIT rate.** Implementing regular and systematic tax expenditure reports can also help economies manage their investment tax incentives and link management with other public spending programmes.
- **Continue efforts to strengthen tax administrations** to broaden the tax base and develop strong procedural safeguards to guarantee the independence of tax administrations.
- **Define an action plan in case of international consensus on a global minimum tax** and carry out a cost-benefit analysis on the merits of retaining a worldwide taxation system for resident corporations. This includes fostering regional co-operation and co-ordination on common tax issues within the region.

Competition, the process of rivalry between firms, is seen as the driving force of well-functioning markets. An operational, and effectively enforced, competition law that safeguards the competitive process will facilitate and even enable productivity growth and will help distribute wealth more evenly. Policies that lead to markets operating more competitively, such as enforcement of competition law and removal of regulations that hinder competition, can result in faster economic growth.

The legislative frameworks for competition in the Western Balkan economies are in line with international good practices. The competition authorities of the six jurisdictions have appropriate powers to investigate and to sanction possible anti-trust infringements,

KEY STATISTICS

Number of staff working on competition and budget of competition authorities in Western Balkan six competition authorities (2019)



Note: The benchmark refers to the average of the 15 competition authorities in small economies that participated in the OECD CompStat database. See the Methodology and assessment process chapter for information on the Competitiveness Outlook assessment process. For Montenegro, the budget also covers the additional competence of the authority for state aid control.

Source: Information collected from Western Balkan six authorities through the Competitiveness Outlook 2021 assessment.

such as restrictive horizontal and vertical agreements and exclusionary or exploitative practices by dominant firms. Moreover, their institutional setting appears positive in terms of independence, accountability and procedural fairness. However, they lack adequate financial and human resources to fulfill their full potential and implement their enforcement powers.

Most Western Balkan six competition authorities do not have adequate financial and human resources to fully execute their mandates. According to the CompStats database, except for two economies, the number of staff in Western Balkan six competition authorities is lower than in comparable economies. The budgets of competition authorities in the Western Balkan six economies are also extremely low compared to international averages.

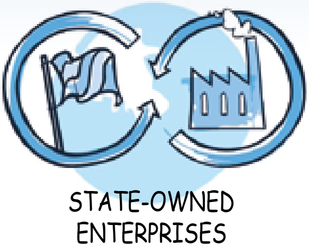
A competition authority needs a minimum level of qualified officials to be able to fulfil its tasks, which include monitoring all sectors of the economy, conducting complex investigations, and analysing existing and draft legislation to advocate the removal of competition restrictions. Similarly, adequate economic resources are necessary to attract skilled officials and retain them over time. At the same time, effective enforcement increasingly requires the use of costly digital devices, which are often indispensable for collecting and analysing evidence.

ACHIEVEMENTS

- **The legal and institutional competition frameworks of the Western Balkan economies are largely aligned with best international practices,** in particular with the European Union competition rules. Domestic competition authorities are independent bodies and vested by law with appropriate powers to confirm and sanction competition infringements.
- **Moderate advances have been made in providing stakeholders with guidance** on competition authorities' practices and in removing or preventing restrictions to competition in laws and regulations.
- **All Western Balkan six competition authorities have engaged in competition advocacy,** which is a necessary complement to competition enforcement to avoid legal constraints and promote a competition culture. Most competition authorities in the region have sent formal opinions to policy makers to urge them to remove competition restriction in laws and regulations. All regularly offer training activities and events to increase competition awareness among citizens, firms and institutions, and to explain the benefits of competition.

REMAINING CHALLENGES AND RECOMMENDATIONS

- **The six competition authorities are committed to enforcing competition rules and advocate against competitive restrictions in laws and regulations.** However, they lack the necessary financial and professional resources to perform their wide range of duties in the most effective way.
- **The implementation of competition decisions is still insufficient, particularly for cartels.** The competition authorities of Albania and Serbia lead the way in strengthening their enforcement records, and there are promising signs in the other jurisdictions, but the current number of decisions, and most importantly the amount of sanctions, is still limited.
- **Sanctions for infringers are not high enough to deter firms from engaging in anti-competitive conduct.** Moreover, the fight against cartels requires competition authorities to make full use of their investigative powers, including unannounced inspections of premises. Some competition authorities have not yet carried out inspections, while others have started very recently.
- **Provide competition authorities with adequate and predictable financial and professional resources.** The current competition budget and the number of specialised staff appear insufficient for them to perform their duties effectively. A substantial increase in the budget of Western Balkan six competition authorities seems necessary to align them with other comparable competition authorities.
- **Prioritise boosting cartel enforcement and imposing high fines.** Cartels are the most clear-cut and undisputedly harmful competition infringements and affect every economy. The efforts of the competition authorities of the Western Balkan six economies should be focused on detecting cartels and imposing heavy fines on infringers to deliver a strong message that firms engaging in collusion risk being severely punished.
- **Continue to participate in the OECD CompStats database.** This will enable a quantitative analysis of the actual enforcement activity of the Western Balkan six competition authorities as well as providing a benchmark for the findings against other competition authorities that share similar characteristics.



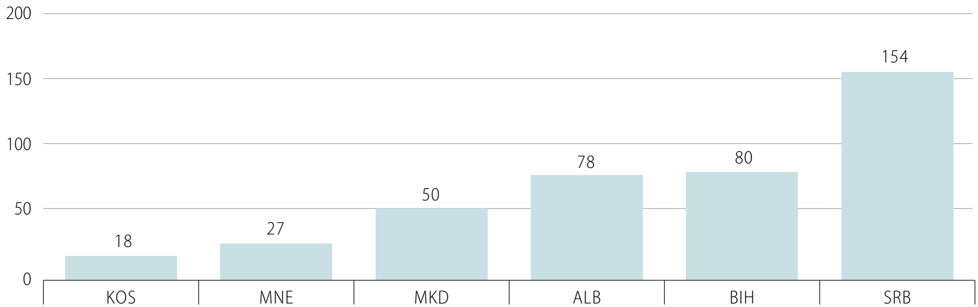
State-owned enterprises (SOEs) are an integral part of the Western Balkans' economic architecture. Ensuring that they operate efficiently, transparently and on a level playing field with private companies is key for the economic development and competitiveness of the region.

The Western Balkan six have over 500 SOEs, which are highly concentrated in sectors that both the general public and companies depend on for their everyday operations.

The number of enterprises owned by each central-level government ranges from 18 to just over 150. The state's presence in the marketplace is, unsurprisingly, more pronounced when enterprises are owned by other levels of government. For instance, in

KEY STATISTICS

Number of central government SOEs in WB6 economies



Note: For Bosnia and Herzegovina, the estimated number of SOEs reflects the portfolios of both the Federation of Bosnia and Herzegovina (FBiH) (53 SOEs) and Republika Srpska (RS) (24 SOEs). It is based on figures reported in (OECD, 2018) as well as data provided by the Republika Srpska Share Fund in the context of the current assessment. The figure is an estimate because the data provided by the FBiH for the current assessment aggregated SOEs at all levels of government, without distinguishing between the different levels.

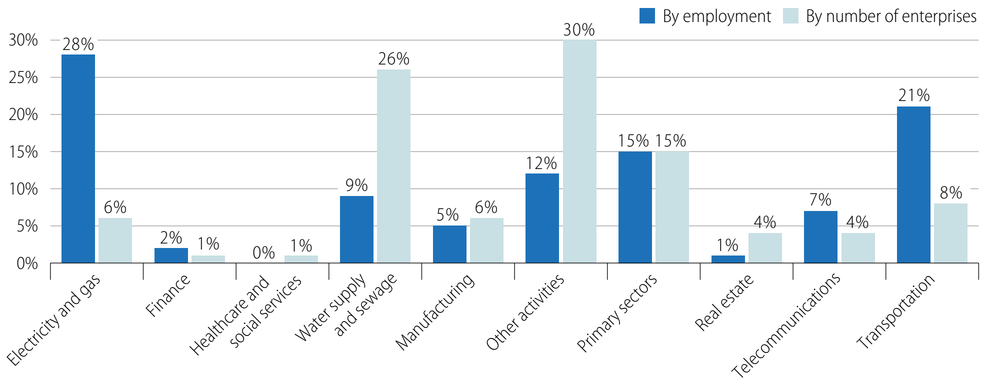
Source: Author's calculations based on data provided by the economy or entity authorities in the context of the Competitiveness Outlook 2021 assessment; OECD (2018), Competitiveness in Southeast Europe: A Policy Outlook 2018, https://doi.org/10.1787/9789264298576-en.

Bosnia and Herzegovina, an estimated additional 334 enterprises are owned by cantons and municipalities, while in North Macedonia an estimated 265 enterprises are owned by municipalities.

The presence of SOEs in systemically important sectors, notably electricity and gas, water supply and sewage, transportation and telecommunications, further demonstrates their economic and societal importance.

There has been very limited progress in state-owned enterprise policies, reflecting limited efforts by the economies' authorities to reform state ownership practices. For instance, in three economies, some preliminary steps have been taken to professionalise the state shareholding function, through proposals to establish dedicated state ownership units. However, the region's authorities have not taken any significant efforts to clarify the financial and non-financial objectives of SOEs, or to strengthen accountability to the public and to SOE minority shareholders.

Sectoral distribution of SOEs across the Western Balkans



Note: SOEs' sectoral distribution is based on central government SOEs for Albania, Kosovo, Montenegro and Serbia, and includes sub-national SOEs for Bosnia and Herzegovina and North Macedonia. For Bosnia and Herzegovina, the classification of SOEs according to sector (based on the below-referenced IMF report) has been updated to align with the classification used in this regional overview.

Source: Calculations based on data provided by the authorities in the context of this assessment, except for Bosnia and Herzegovina, for which calculations are based on (IMF, 2019), State-Owned Enterprises in Bosnia and Herzegovina: Assessing Performance and Oversight, https://www.imf.org/en/Publications/WP/Issues/2019/09/20/State-Owned-Enterprises-in-Bosnia-and-Herzegovina-Assessing-Performance-and-Oversight-4862.

ACHIEVEMENTS

- **Preliminary steps have been taken to professionalise the state ownership function** in some of the region's economies, through proposals to establish dedicated state ownership units.
- **Reforms of individual SOEs have been undertaken in some economies,** often clarifying the sources of underperformance and establishing clearer performance objectives.
- **Small steps have been taken to improve SOE board appointment processes.** For example, basic qualification criteria have been introduced in some economies, as well as requirements for independent directors on boards.
- **Across the region, the legal and regulatory treatment of most SOEs** is broadly in line with the treatment of private companies.

CHALLENGES AND RECOMMENDATIONS

- **Most of the region's public authorities have not developed ownership policies** outlining why the state owns companies and what it expects them to achieve. All Western Balkan six economies would benefit from improvements to the institutional arrangements for state ownership and, where applicable, the development of ownership policies that outline why the government owns companies and what it expects them to achieve.
- **Non-state minority shareholders are an important element of the region's SOE landscape.** Across the region there is scope to improve minority shareholders' legislated rights (applicable to all companies, including SOEs). In addition, the state should take steps to review and improve communications with the private minority shareholders of SOEs. SOEs should be accountable to, and create value for all shareholders.
- **Review the compliance of all SOEs with existing disclosure requirements.** In most of the region's economies, at least the largest SOEs are subject to strong requirements for financial reporting to a central entity. However, there are gaps in compliance in some cases, for example a significant proportion of SOEs are not reporting on time at all.
- **Fully corporatise SOEs that engage in commercial activities.** While the majority of SOEs in the region are incorporated as limited liability or joint-stock companies, in most of the region's economies there remains a subset of SOEs incorporated according to separate enterprise-specific (or SOE-specific) legislation. The existence of a separate legal form of "public enterprise" for some SOEs in several economies may distort the playing field with private companies.

EDUCATION POLICY

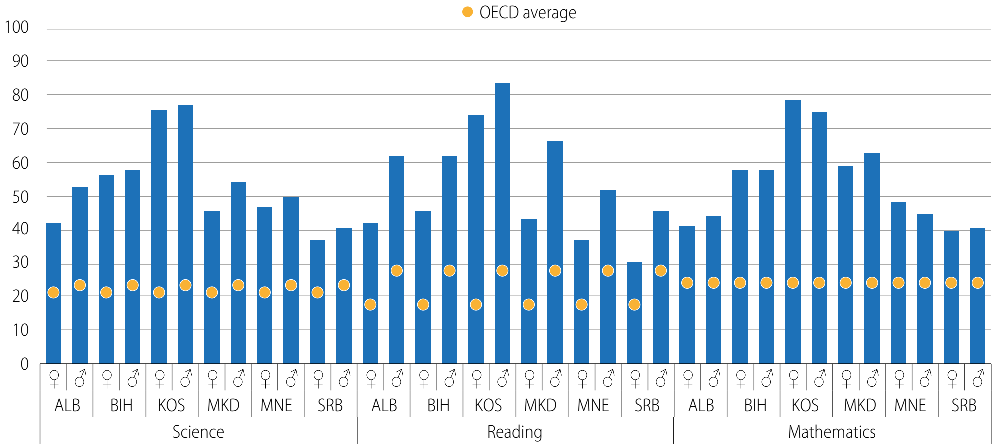
Education is foundational for an economy's competitiveness as it forms the basis of its human capital and allows individuals to develop the skills needed to adapt to changes in the labour market. Theories of economic growth have pointed to education and human capital as key determinants of long-term growth.

Strong and inclusive education systems are essential for the development of the Western Balkan six economies. A qualified workforce is indispensable for an economy's integration into global value chains and production processes, and is a boost to labour productivity and therefore overall competitiveness. As a vector of social inclusion, education is also essential for ensuring social cohesion.

KEY STATISTICS

PISA 2018 low achievers in science, reading and mathematics by gender

% of students scoring below Level 2



Source: OECD (2020), PISA 2018 database, www.oecd.org/pisa/data/2018database.

The Western Balkan six economies have made progress in reducing the number of early school leavers, as well as efforts to strengthen work-based learning and vocational education and training.

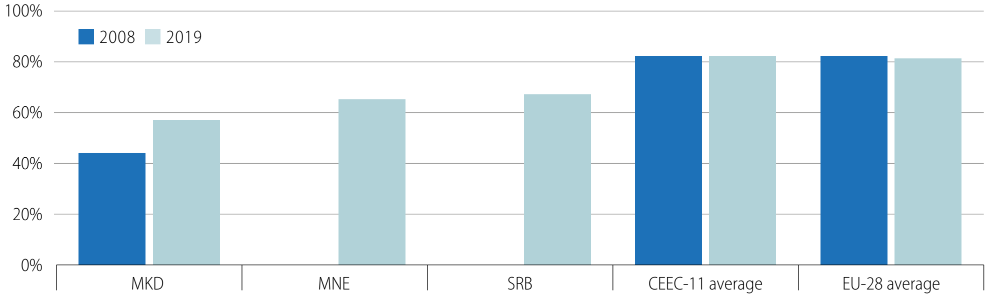
However, the 2018 PISA assessment's results show that students in the Western Balkan six economies lag behind their counterparts from OECD members in each domain (reading, mathematics and science) assessed, as they have significantly higher shares of low performers in each domain (on average, one in two students assessed compared to one in five in OECD countries).

Labour market outcomes of higher education are also a challenge, as the employment rate of recent graduates in the Western Balkan six economies with available data is around 17% below the EU and CEEC-11 averages and youth unemployment is a major challenge for the region.

Despite efforts to improve the governance of their education systems, the Western Balkan six economies still face challenges related to data collection and the measurement of the education system's performance.

Employment rates of recent graduates in the EU and Western Balkan six economies (2008 and 2019)

Employment rates of recent graduates (aged 20-34) not in education and training (%)



Note: Recent graduates refers to those with an upper secondary, post-secondary non-tertiary or tertiary education (ISCED 3-8) who have graduated within 1-3 years. Data for Albania, Bosnia and Herzegovina, and Kosovo are not available. CEEC-11 average calculated based on individual statistics for Bulgaria, Croatia, the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, the Slovak Republic and Slovenia.

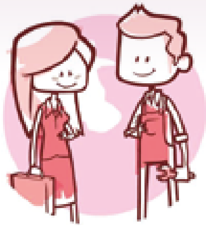
Source: Eurostat (2020), *Employment rates of young people not in education and training by sex, educational attainment level and years since completion of highest level of education*, https://ec.europa.eu/eurostat/web/products-datasets/-/edat_lfse_24.

ACHIEVEMENTS

- **The Western Balkan six economies have significantly reduced the share of early school leavers** since the last assessment (-5.1% from 2013 to 2018), with the sharpest decline in Albania (-13.2%) and Kosovo (-8.8%).
- **Enrolment rates in pre-primary education have increased** since the last assessment. However, the regional average gross enrolment rate (53%) remains inferior to the EU (98%) and OECD (81%) averages.
- **Work-based learning has been strengthened** through the introduction or piloting of dual education models in most Western Balkan six economies. This should equip students with more practical education and allow for a smoother transition into the labour market.
- **Nearly all Western Balkan six economies have developed education management and information systems (EMIS).** These systems should serve to collect data and report on key education indicators in a holistic manner, in order to assess the performance of the education system as a whole and identify areas for improvement.

REMAINING CHALLENGES AND RECOMMENDATIONS

- **Ensure that students in vocational education and training are equipped with core skills.** PISA 2018 results have shown a significant gap in performance between students in vocational and general programmes (on average, vocational programmes had 31% more low performers than general programmes). Given that students in vocational programmes often come from disadvantaged backgrounds, ensuring that they have the same core skills and knowledge as students in general programmes is essential for preparing them for the challenges of further education, work and life.
- **Improve the labour market relevance of higher education.** Employment rates of recent graduates are low in the Western Balkan six economies compared to the EU and CEEC-11 countries. Improved data collection on labour market insertion, as well as engagement with labour market stakeholders, should lead to better labour market outcomes for graduates.
- **Further incentivise continuous professional development for teachers.** PISA 2018 results indicate that the share of teachers participating in professional development activities in the Western Balkan six economies (39% of those assessed recently participated in a professional development activity) is below the OECD (53%) and EU (51%) averages. Additional incentives and stronger structures to promote teachers' participation in professional development would help teachers improve the qualifications and competencies of the Western Balkan six economies' teaching workforces.
- **Provide incentives for equity in higher education.** Current support measures for disadvantaged students are mainly focused on publically funded scholarships and grants, but largely exclude higher education institutions themselves. Incentivising support measures such as scholarships or tuition fee exemptions for students from disadvantaged backgrounds would help advance equity in access to higher education.
- **Strengthen data collection across the education system.** Data collection is a cross-cutting challenge for the education systems of Western Balkan six economies, as many key indicators in various areas are not observed nor reported on. Data collection should be comprehensive and should lead to systematic analysis of results in order to inform future policymaking.

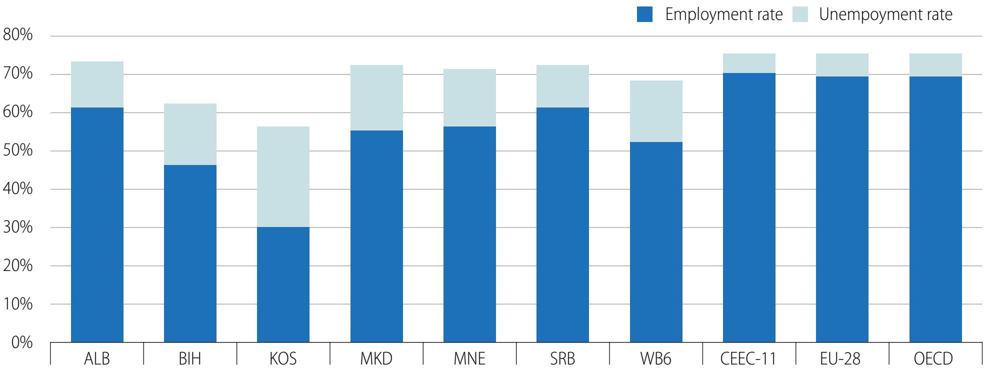


EMPLOYMENT POLICY

Employment is central for economic development and social inclusion. Having a good employment regulatory framework and employment policies, with the institutional capacity to implement them, is likely to enhance the quantity and quality of employment, promote skills development, and allow labour market participation for all, including vulnerable groups and minorities. Effective labour market governance is paramount to ensuring high-quality jobs as well as developing flexible, socially inclusive, and proactive labour markets. Good skills governance could provide the expertise needed by the labour market while also permitting individuals to pursue their aspirations and exploit their potential. Effective activation policies for jobseekers and other disadvantaged groups could bring more people into the labour force and into jobs.

KEY STATISTICS

Employment and unemployment rates among 15-64 year-olds (2019)



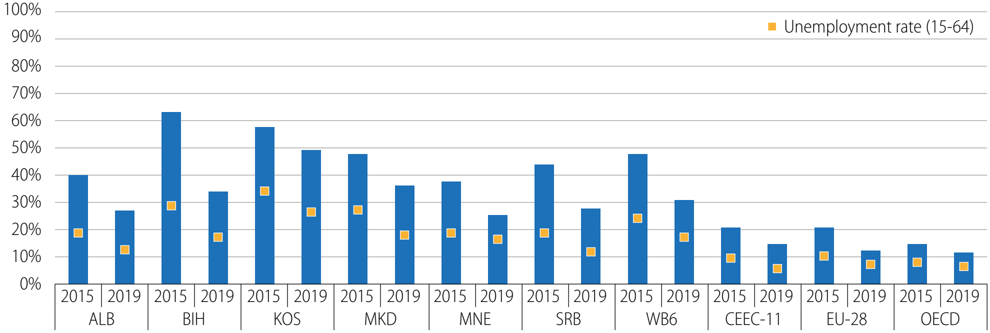
Note: The CEEC-11 countries are Bulgaria, Croatia, the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, the Slovak Republic and Slovenia.

Source: Eurostat (n.d.), *Labour Force Survey* for EU, Montenegro, North Macedonia, Serbia; Instat (2020), *Women and Men in 2020* for Albania, ASK (2020), Labour Force Survey 2019 for Kosovo; BHAS (2019), *Labour Force Survey 2019* for Bosnia and Herzegovina; OECD average: OECD (n.d.), *Labour Force Survey*.

In the Western Balkan six economies, labour market outcomes have improved with increased employment and reduced unemployment among both men and women. However, employment rates in the region are still below OECD and EU averages and unemployment rates are much higher. Similarly, youth unemployment rates decreased on average by almost 36% between 2015 and 2019, although they remain high compared to OECD and EU averages. These high unemployment rates are combined with skills shortages. Tackling skills gaps and skills shortages is paramount for economic development. Most Western Balkan six economies have already made significant progress in analysing skills mismatches and have started to set up strategies to reduce them. Recent improvements have been made to help young people gain work experience. However, further improvements are needed in the education system as well as progress in the school-to-work transition and adult learning.

Youth unemployment rates in the Western Balkan six (2015 and 2019)

15-24 year-olds



Note: Youth unemployment rate data for Albania, Bosnia and Herzegovina and Kosovo as well as Western Balkan six average refer to the second quarter of 2019, as these are the latest available data. The unemployment rate data for Bosnia and Herzegovina in 2015 refer to the 15+ age group. The CEEC-11 countries are Bulgaria, Croatia, the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, the Slovak Republic and Slovenia.

Source: Youth unemployment rates: Eurostat (n.d.), *Labour Force Survey* for EU, Montenegro, North Macedonia, Serbia; WIIW / World Bank (2020), *Western Balkans Labor Market Trends 2020* for Albania, Bosnia and Herzegovina and Kosovo; OECD (n.d.), *Labour Force Statistics* for OECD average. Unemployment rates (15-64): Eurostat (n.d.), *Labour Force Survey* for EU, Montenegro, North Macedonia, Serbia; Instat (2020), *Women and Men in Albania 2020* for Albania; ASK (2020), *Labor Force Survey in Kosovo*, 2019; BHAS (2019), *Labour Force Survey 2019*.

ACHIEVEMENTS

- **Some economies have increased labour market flexibility and improved regulatory frameworks for non-standard forms of work.** The regulatory frameworks for occupational health and safety have been improved. Some economies have also started to improve inter-agency co-operation and work methods.
- **Tripartism plays a more important role in regulating employment-related issues,** with the economic and social councils consulted about key issues, such as the minimum wage.
- **Most economies have made significant progress in analysing skills mismatches** and have started to set up strategies to reduce them. Recent improvements have been made to help young people gain work experience.
- **Women's employment and activity rates have risen significantly,** although they remain below the EU and OECD averages.
- **The capacities of the region's public employment services (PESs) have improved,** with the introduction of tools to profile the unemployed and individual job seekers' action plans. Improvements have also been made in targeted active labour market programmes (ALMPs), and in co-operation with local social services.

REMAINING CHALLENGES AND RECOMMENDATIONS

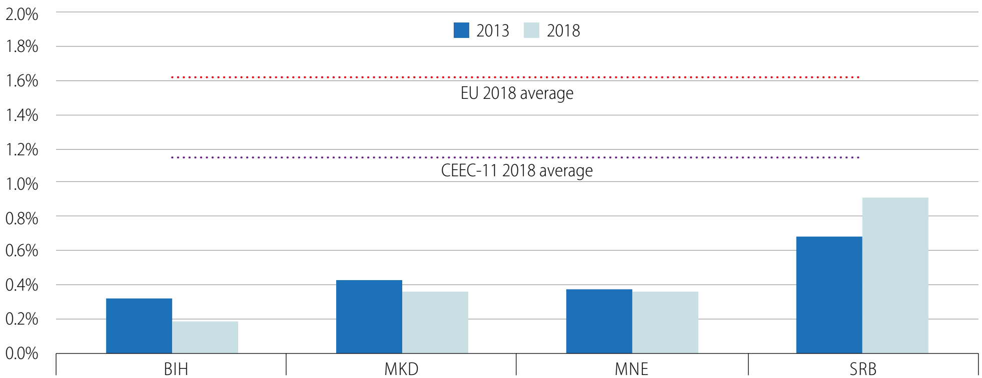
- **Develop the regulatory framework for non-standard forms of employment, reduce incentives for informal employment and ease the transition from informal to formal employment.** Rates of temporary employment, self-employment and informal employment are comparatively high to the EU, CEEC-11 and OECD averages. In addition, the informally employed have been particularly negatively affected by the COVID-19 pandemic.
- **Strengthen the institutional capacities of labour inspectorates.** Labour inspectorates still generally have limited capacity, and tackling informal employment remains a key challenge. The economies should consider increasing the number of inspectors, providing clear guidelines, improving work organisation, and increasing transparency of labour inspectorates.
- **Improve tripartite social dialogue, and strengthen the capacity of the economic and social councils.** Workplace representation and collective bargaining remain weak, with some variation across economies. Social dialogue should be strengthened at branch and company levels. Economic councils should be equipped with basic resources to conduct labour market and sector analyses.
- **Improve vocational guidance for both young people and adults.** Further improvement of the education system is needed to produce the skills employers need. More efforts are necessary to improve school-to-work transition mechanisms which are not very effective and increase participation in adult learning. This would help tackle skills shortages and skills gaps.
- **Conduct regular analyses of earnings structures and assess the impact of the minimum wage on both poverty reduction and informal employment.** Unemployment benefits and means-tested minimum income schemes are not very generous and job-search requirements are not well implemented. Where relevant, the design of unemployment benefits should be revised to link them to previous earnings and avoid them being used as a pathway to early retirement.
- **Continue to strengthen the capacities of PESs,** regularly monitor their activities and outcomes, and strengthen their role in increasing skills among jobseekers and workers threatened by industrial restructuring. Low PES budgets for staff and ALMPs limit the effectiveness of activation policies.

Effective science, technology and innovation (STI) policies, processes and organisations are essential aspects of the toolbox available to policy makers to boost the knowledge economy. STI policy spans across the entire innovation value chain, ranging from the creation of fundamental knowledge in basic and applied sciences and technology, to the transfer of knowledge, fostering production and organisational innovation. If well-designed, STI policies embed targeted financial and human capacity-building measures for research and innovation, and incentivise the exchange of knowledge between the public and the private sector, ultimately facilitating the commercialisation of innovation and increasing productivity.

KEY STATISTICS

Gross domestic expenditure on R&D (GERD) (2013 and 2018)

% of GDP



Note: Data for Albania and Kosovo are unavailable. EU and CEEC-11 averages are calculated as simple averages. EU average includes 27 EU Member States . CEEC-11 = Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia.

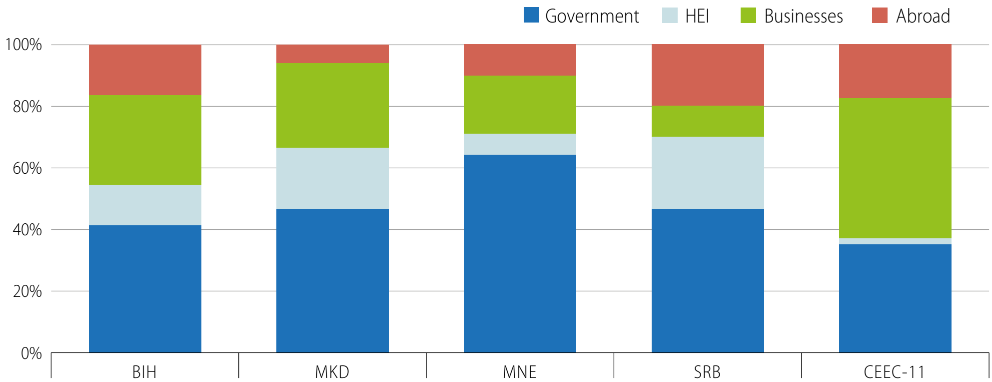
Source: UIS (2021), Science Technology and Innovation Database, http://data.uis.unesco.org/; Eurostat (2020), Gross domestic expenditure on R&D (GERD) at national and regional level, https://ec.europa.eu/eurostat/data/database.

Research and development in the Western Balkan six economies remains underfunded, with average gross domestic expenditure on R&D (GERD) at 0.5% of GDP, compared to 1.62% in the EU in 2018. Around 20% of these funds are received from the private sector, accounting for less than half of the CEEC-11 average.

While disparities in levels of STI policy development remain significant across the Western Balkan six economies, some progress has been made in the adoption of strategic frameworks on STI, increasing funding for research, as well as expanding institutional support and exploring different financial incentives for business-academia collaboration.

STI policy frameworks could benefit from further focus on increasing financial support and improving funding models for R&D, coupled with encouraging development of human resources in research and introducing targeted financial and non-financial incentives for business-academia collaboration.

Funding sources for research and development (2017)



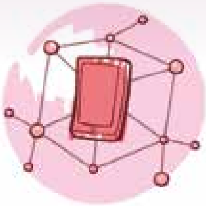
Note: Data for Albania and Kosovo are unavailable. CEEC-11=Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia. HEI = higher education institutions.
Source: UIS (2021), Science Technology and Innovation Database, http://data.uis.unesco.org/.

ACHIEVEMENTS

- **Most Western Balkan six economies have a comprehensive STI strategic framework in place** or are in the process of renewing their framework. Smart specialisation strategies have been adopted, or are in preparation.
- **Some economies operate or are setting up an innovation fund** as a key vehicle for implementing STI policy.
- **All economies are embedded in and connected to European and international research networks** and international research collaboration is growing.
- **Some economies have taken steps to reform the funding model for research** by introducing a stronger focus on performance and competitive project-based funding.
- **Some economies are increasingly promoting young researchers and linkages with their diaspora** to tackle falling numbers of researchers and accelerating brain drain.
- **Some form of financial incentives for business-academia collaboration has been introduced in all economies,** and institutional support for collaboration has been expanded.

REMAINING CHALLENGES AND RECOMMENDATIONS

- **Complete the strategic framework on STI** in economies where it is still being designed. The economies with an advanced framework in place should prioritise the adoption of smart specialisation strategies and ensure that they are well embedded in the broader STI framework.
- **Introduce a more balanced and strategic approach for public sector research funding,** with stronger emphasis on research outputs. Economies should consider performance-based institutional funding coupled with regular self-assessments and external evaluations of public research institutions.
- **Promote scientific research as an attractive profession, to develop human capital** and counteract brain drain, and leverage diaspora linkages to encourage knowledge transfer.
- **Raise awareness on business-academia collaboration opportunities.** For instance, a platform could be provided through science and technology parks (STPs) for the exchange and communication between researchers and the business community, to help all parties better understand different needs and requirements, and identify opportunities for more collaboration.
- **Develop more focused and well-funded financial incentives for business-academia collaboration.** If coupled with awareness raising, targeted voucher schemes could serve as an effective tool to encourage firms to seek co-operation with academic researchers. Introducing higher value co-operative grants could be considered as a follow-up. These should be implemented in line with international practice and follow clear assessment criteria.
- **Leverage the increasing support infrastructure for business-academia collaboration,** by rationalising investments in large-scale infrastructure such as STPs and ensuring that they serve as an effective platform to create linkages between research and businesses.



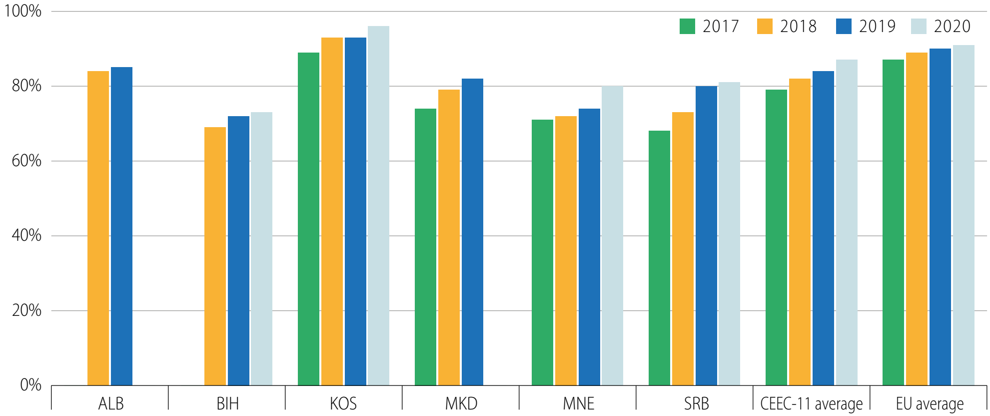
DIGITAL SOCIETY

Digital technologies and large-scale data flows fundamentally change the way of life, work, interaction with one another, participation in the economy, and engagement with public authorities.

Digital society policies are vital for promoting the use of opportunities offered by digitalisation - the variety of digital technologies already used in production, or coming in the near future, are bringing about the "next production revolution", and as they transform production and distribution of goods and services, they have far-reaching consequences for productivity, skills, income distribution, well-being and the environment.

KEY STATISTICS

Internet access in Western Balkan six households (2017-20)



Note: The EU average represents data for EU-28 for the period 2017-19 and the EU-27 estimate for 2020. The CEEC-11 countries are Bulgaria, Croatia, the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, the Slovak Republic and Slovenia.

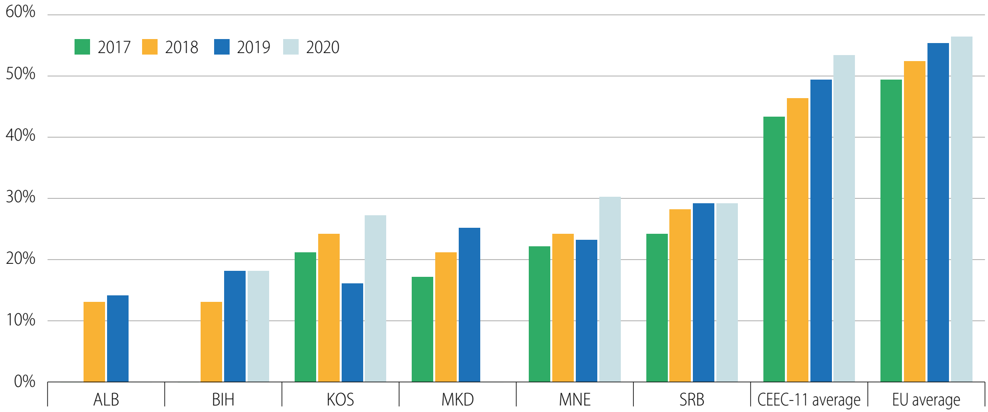
Source: Eurostat (2020), Households – level of internet access, https://ec.europa.eu/eurostat/databrowser/view/isoc_ci_in_h/default/table?lang=en.

The Western Balkan six have recognised the significance of the digital economy and society for the region, and are undergoing the process of digitalisation. In 2019, on average 81% of Western Balkan six households had access to the Internet, approaching the EU level of 90%.

Progress has been made in increasing access through broadband development, facilitating use of public services through their digitalisation, placing greater emphasis on digital skills, improving legal frameworks on data protection and privacy, consumer protection, and adopting cybersecurity strategies.

However, embracing a fully digital society will require increased digital literacy and awareness of the importance of digital tools, to enhance, for instance, the rates of internet use to interact with public authorities, which still remain at less than half of the EU average.

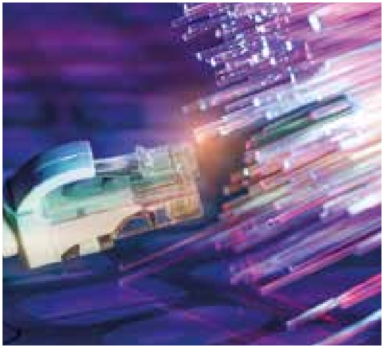
Rate of Internet use when interacting with public authorities (2017-20)



Note: EU average is for the EU-28 for 2017-19 and EU-27 for 2020. The CEEC-11 countries are Bulgaria, Croatia, the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, the Slovak Republic and Slovenia.
Source: Eurostat (2020), E-government activities of individuals via websites, https://ec.europa.eu/eurostat/databrowser/view/isoc_ciegi_ac/default/table?lang=en.

ACHIEVEMENTS

- **Progress has been made in broadband development.** Most economies have put together economy-wide broadband plans and secured significant donor financing to develop rural broadband infrastructure.
- **All Western Balkan six governments are in the process of transforming their public administration into a user-centric public service through digital technologies.** Progress has also been made in promoting public sector data accessibility and transparency.
- **All economies recognise digital skills as a key competence** in their education policies, and information technology (IT) subjects have been incorporated in education and training systems.
- **Legal frameworks for data protection and privacy are in place** in all economies.
- **Measures to protect consumers using e-commerce are now included in legislation** in all economies.
- **All economies are gradually aligning with the EU cybersecurity framework.** Most economies have a cybersecurity strategy in place and an economy-wide computer emergency response team (CERT).



REMAINING CHALLENGES AND RECOMMENDATIONS

- **Complete the alignment of the ICT policy regulatory framework with the EU Electronic Communications Code** and continue reforms to create an enabling broadband investment framework that facilitates rapid, cost-efficient co-deployment of broadband network infrastructure.
- **Improve the legal framework on data accessibility and strengthen the demand for open data innovation** through inclusive co-creation processes.
- **Increase resources for government digitalisation** and systematise the monitoring of digital government indicators to inform policy-making.
- **Improve the legal framework for e-commerce and e-business,** scale up programmes to support SMEs' digitalisation and boost the uptake of e-commerce.
- **Adopt a common digital competence (CDC) framework for students and a CDC framework for ICT professionals,** and involve the ICT industry in curriculum design to reduce the skills gap.
- **Design dedicated policies and programmes to help the ICT industry grow** and in turn boost the digitalisation of the economy.
- **Adopt accessibility requirements** in public procurement procedures for ICT products and services, and systematise monitoring of digital inclusion indicators.
- **Complete alignment with the EU General Data Protection Regulation** and ensure stronger enforcement of the framework.
- **Complete the framework on consumer protection in e-commerce** and provide opportunities for consumers to learn about their rights and how to exercise them.
- **Strengthen human and technical capacities for cybersecurity** and complete alignment with the NIS Directive on information systems and networks security.

TRANSPORT POLICY

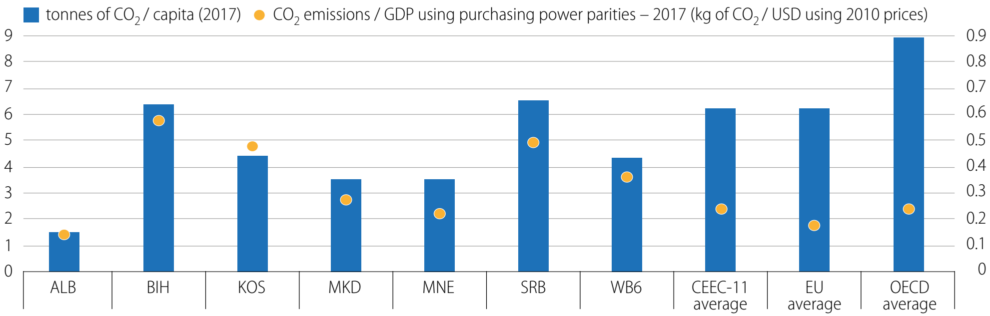
Transportation networks facilitate the flow of people, goods and services, and are therefore key to overall competitiveness. The transportation system also plays an important role in connecting urban and rural areas, therefore influencing social inclusion, making markets more accessible and the economy more efficient.

Given the often heavy energy use of the transport sector, as well as its other negative externalities (emissions, accidents), importance must be placed on making transport safer and more sustainable.

Transportation networks are key to the region's competitiveness as well-functioning, efficient, interconnected and sustainable networks can generate economic gains and further advance regional integration and connectivity. Sustainability is especially relevant given the region's high CO_2 emissions from transport (on average 13% higher than the EU average when adjusted for purchasing power parity).

KEY STATISTICS

CO_2 emissions from transport



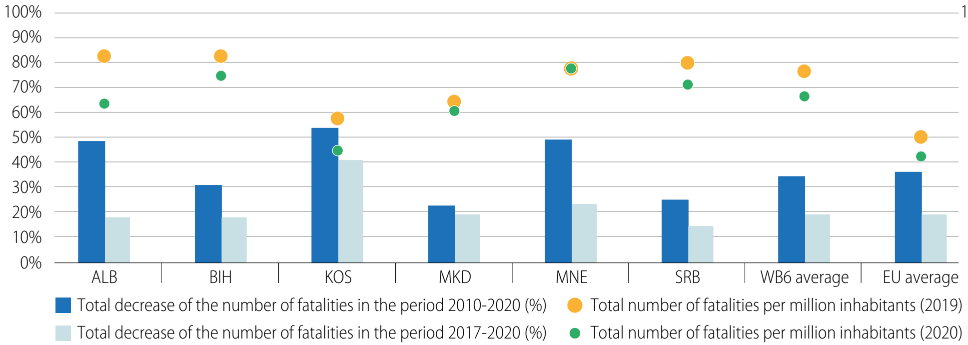
Note: The CEEC-11 countries are Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia.
PPP = purchasing power parity
Source: IEA (2020), *CO_2 Emissions from Fuel Combustion: Overview*, https://www.iea.org/reports/co2-emissions-from-fuel-combustion-overview.

The Western Balkan six region is geographically strategic and has excellent potential for transit traffic. However, considerable investments, as well as policy reforms to further align the transport sector's governance with the EU *acquis* and international good practices, are needed to fully utilise the sector's potential.

The Western Balkan six economies have made progress in developing their transport policy planning by adopting and updating their policy frameworks. The economies have also made progress in making road transport safer, reducing road fatalities in the region by 34.9% from 2010 to 2020.

The Western Balkan six economies have also advanced in key reforms in the road, railway and air transport sectors, bringing them closer to the EU and Transport Community *acquis* and governance practices. However, more needs to be done to ensure the development for infrastructure projects and maintenance of environmentally friendly and sustainable transport, as well as the efficient allocation of funds.

Road safety trends (2010-2020)



Source: Inputs provided by the government as part of the quantitative questionnaire (CO2021); Statistical data retrieved from Western Balkan six statistical offices; Eurostat (n.d.) *Road traffic deaths by type of roads*, https://ec.europa.eu/eurostat/data/database; EC (2020), *2019 road safety statistics: what is behind the figures?*, https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_1004; EC (2021), *2020 road safety statistics: what is behind the figures?* https://ec.europa.eu/transport/modes/road/news/2021-04-20-road-safety-statistics-2020_en; EC (2021), *Road safety: 4 000 fewer people lost their lives on EU roads in 2020 as death rate falls to all time low*, https://ec.europa.eu/transport/modes/road/news/2021-04-20-road-safety_en.

ACHIEVEMENTS

- **The Western Balkan six economies established the Transport Community Permanent Secretariat** in 2019 to support the regional integration of transport networks and relevant reforms.
- **Five of the six Western Balkan economies have developed long-term transport strategies,** while Serbia is currently in the process of developing its new strategy.
- **Albania and Serbia have developed project prioritisation tools** which will help allocate funding to the projects which have the best cost-benefit ratio and best return on investment potential.
- **North Macedonia and Serbia established a one-stop-shop at their road border crossing** on corridor X in 2019. This should help reduce waiting times at the border and make traffic more efficient.
- **The Western Balkan six economies have achieved good results in improving road safety** and reducing the total number of road fatalities in the period 2017-2019.

REMAINING CHALLENGES AND RECOMMENDATIONS

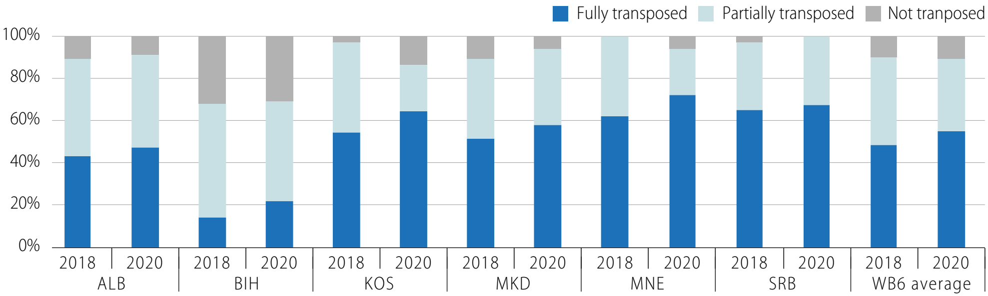
- **Ensure that transport facilitation remains a priority.** Measures to facilitate procedures at border crossing points have the potential to greatly improve efficiency by reducing costs and waiting times. More initiatives such as the one undertaken by North Macedonia and Serbia would help in this regard.
- **Improve project selection processes.** Most Western Balkan six economies still have weak secondary legislation on the prioritisation and selection of transport infrastructure projects, which negatively affects the allocation of funds. Good practices can be found in the systems developed in Serbia and Albania.
- **Develop and improve asset management systems.** Asset management is in the early stages in the region, and exists mainly for road transport. Developing systems for all transport modes and improving existing systems is necessary for the efficient allocation of maintenance funds.
- **Integrate environmental sustainability objectives into transport policies,** as they are currently missing from the main overarching strategic documents.
- **Prioritise the development of combined transport,** as this transport mode is in the early stages of development in the Western Balkan six economies.

Energy plays a pivotal role in almost any economic activity. Accordingly, the competitiveness of the entire economy is heavily influenced by its energy market. If an energy market is efficient and competitive with regard to price formation and allocation, and if the energy is provided in a stable, predictable and secure manner, economic activities will be more competitive. Conversely, if a market is distorted, has market barriers, or provides an unstable supply, the cost of energy, and thus the cost for any subsequent economic output in the value chain, will be higher and therefore less competitive on an international basis.

Energy policy typically addresses five overarching objectives: energy market structure, energy security, environmental and climate considerations, competitiveness, and economic development. These objectives are particularly relevant for the Western Balkan six economies, as they are in transition from monopoly-driven closed-off markets with ageing infrastructure to EU-style organised and integrated energy markets with

KEY STATISTICS

Western Balkan six progress on transposing the EU's Third Energy Package (2018-20)



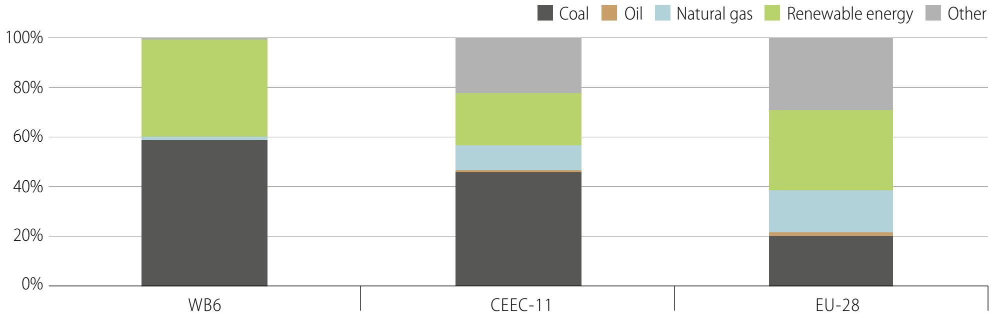
Note: Please note that the Western Balkan six score reflects the unweighted economy score provided by the Energy Community.

Source: Energy Community (2018), *2018 Implementation Report*, https://www.energy-community.org/implementation/IR2020/IR2018.html; Energy Community (2020), *2020 Implementation Report*, https://www.energy-community.org/dam/jcr:0af3b17a-3759-4a23-a2ef-3134784e217c/EnC_IR2020.pdf new legislative frameworks and modernised infrastructure.

Since the last Competitiveness Outlook assessment, the Western Balkan six economies have made progress in reforming the governance of their energy sectors and bringing it closer to the EU acquis, namely the Third Energy Package, and international good practices (the share of fully transposed legislation increased by 7% from 2018 to 2020). Efforts have also been made in increasing the security of the energy supply, by diversifying import routes for fossil fuels, increasing renewable energy generation and energy efficiency measures. The Western Balkan six economies have also made some progress in deploying EU-style organised markets and the economies' energy markets have improved with increased liberalisation, price deregulation on the wholesale level, and deployment of power exchanges.

Nevertheless, the region still faces challenges such as a heavy reliance on coal for electricity generation (nearly 60% of electricity generated in 2018), which carries negative environmental and climate effects. Other challenges include accelerating the development of non-hydro renewables and energy efficiency, as well as completing the unbundling of natural monopolies in certain sectors and advancing regional market integration and coupling.

Gross electricity generation mix in the Western Balkan six (2018)



Note: CEEC-11=Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia.
Source: Eurostat (2021), Complete Energy Balance, https://ec.europa.eu/eurostat/web/energy/data/database

ACHIEVEMENTS

- **The Western Balkan six economies have advanced the transposition of the EU's Third Energy Package.** A significant share of the relevant legislation has been transposed in most Western Balkan six economies, aligning the energy sector with EU *acquis* and international good practices.
- **The Western Balkan six economies have extensive legislative and policy frameworks** governing the energy sector. These frameworks are being updated to reflect new developments and goals as the economies are working on their National Energy and Climate Plans.
- **There has been significant progress in deploying EU-style organised markets in energy.** Most recently, Montenegro, Albania, and Kosovo have established power exchanges.
- **Energy efficiency is slowly being improved** as building certifications are rolled out across the Western Balkan six. However, funding is scarce and often limited to public buildings.
- **The Western Balkan six is nearing full implementation of international good practice on unbundling.** Most Western Balkan six economies have the legislative basis for unbundling, in line with the EU's Third Energy Package, however some economies and sectors are lagging behind.

REMAINING CHALLENGES AND RECOMMENDATIONS

- **Strengthen the independence and autonomy of key institutions, particularly energy regulators.** Further steps could be taken to ensure their financial and political independence. Furthermore, additional funding is needed to allow the regulators to deal with needs for increased staff.
- **Encourage investment into renewables by adopting more modern support schemes.** Most Western Balkan six economies rely on outdated support schemes for the compensation of renewable energy generation, such as feed-in-tariffs. A move to more modern and market-based schemes, such as feed-in-premiums, would further incentivise and reward the production of electricity from renewable sources, by allowing generators to market to higher-paying consumers.
- **Increase efforts to promote energy efficiency.** In most Western Balkan six economies, public energy efficiency funds are allocated to public projects, leaving considerable room for incentivising private renovation projects. Subsidising private initiatives, as Serbia has recently introduced, should incentivise households to improve energy efficiency. Public information campaigns, as well as increasing the funding and staffing of energy efficiency agencies, are also important measures.
- **Increase regional co-operation efforts and plan to move to regional market coupling and integration.** Progress towards regional energy market integration is currently limited, despite the region's transmission networks being strongly interconnected. Market integration is hindered by inefficiencies arising from the absence of short-term co-ordinated capacity calculation and an efficient mechanism for its allocation and use. The introduction of organised markets in some Western Balkan six economies is a welcome step towards advancing energy market integration in the region.
- **Eliminate the subsidisation of fossil fuels—in particular coal and coal-fired generation.** This is particularly important given the rise of climate pressures on energy markets and the associated subsidisation of renewable energy. While both are supported simultaneously, subsidising coal is counterproductive to the subsidisation scheme for renewable energy as it increases the need for financial support for renewables.

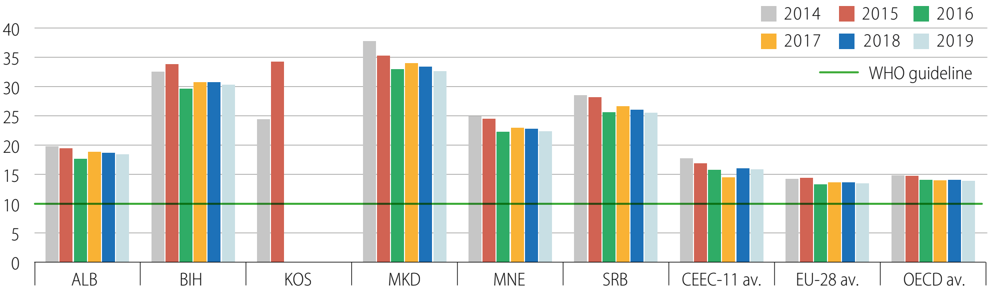
ENVIRONMENT POLICY

Climate change is increasingly affecting people's lives, disrupting economies and transforming ecosystems. Considering the Western Balkans' vulnerability to the impacts of climate change, building resilience to natural disasters and other environment-related risks will be necessary for the region's economic growth and people's well-being. To develop and maintain their competitiveness (especially in the long run), the Western Balkan six economies need to pursue green growth, i.e., sustaining economic growth while safeguarding their natural assets to maintain the environmental services on which their citizens' well-being depends. By aiming to achieve the net-zero goal for greenhouse gas emissions and mainstreaming environmental considerations into all areas of policy, including by adopting a circular economy, the Western Balkan six can increase their efficiency and competitiveness, spurring green innovation, new markets and jobs.

KEY STATISTICS

Annual mean population exposure to $PM_{2.5}$ air pollution (2014-19)

Micrograms per cubic metre (µg/m³)



Note: $PM_{2.5}$ – fine particulate matter. Data for Kosovo only available until 2015. CEEC-11 = Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia.

Source: OECD (2020), *OECD Environment Statistics* (database), https://stats.oecd.org/Index.aspx?DataSetCode=EXP_PM2_5; For Kosovo: World Bank (2019), *Air pollution management in Kosovo*, https://documents1.worldbank.org/curated/en/214511576520047805/pdf/Air-Pollution-Management-in-Kosovo.pdf.

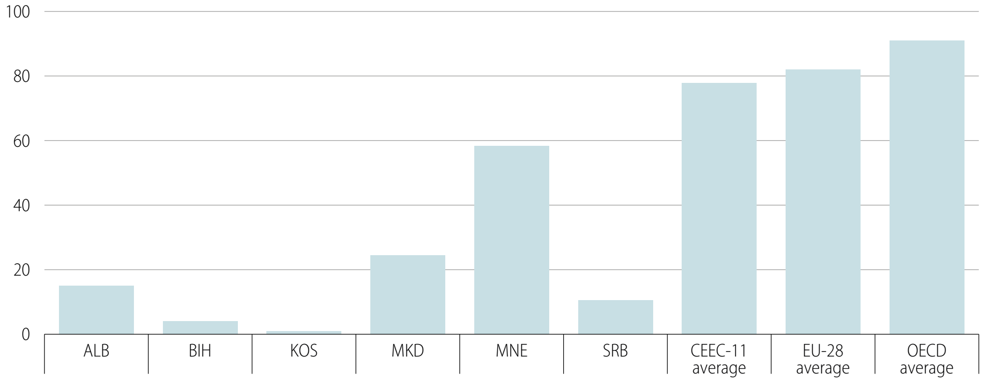
Despite progress in adopting overarching legal and policy frameworks, in particular for climate change adaptation, air quality and freshwater management, significant challenges remain in the assessed economies.

Air quality is still a major concern in the region, with concentrations of air pollutants such as fine particulate matter ($PM_{2.5}$) ranking among the highest in Europe, and two to three times higher than the WHO recommended highest levels of 10 µg/m³. The problem is exacerbated in winter, when air pollution increases due to solid fuel heating (using coal as a low-cost source of energy).

Moreover, on average only 6.5% of people in the Western Balkan six economies are connected to wastewater treatment facilities, which is a significantly lower share than the EU average of 86%. Water pollution, water losses from the system and infrastructure made of hazardous material remain key challenges.

Population connected to wastewater treatment facilities (2018)

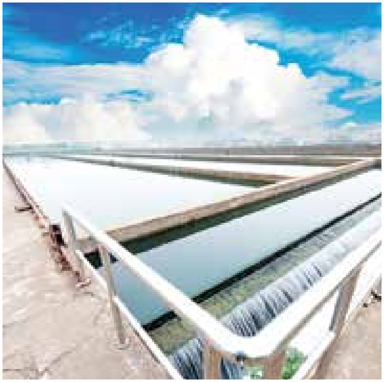
% of population



Note: Data for Bosnia and Herzegovina is the simple average of FBiH and RS. There are no wastewater treatment plants in the Brcko District. No data available for Croatia. CEEC-11 = Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia.
Source: Data provided by the Western Balkan six economies in the context of the Competitiveness Outlook 2021 assessment and OECD (2018), OECD Statistics, https://stats.oecd.org/Index.aspx?DataSetCode=WATER_TREAT.

ACHIEVEMENTS

- **Climate change adaptation measures are gradually being introduced** across the region, and major climate-related risks are being identified. Albania (2021), Montenegro (2019), and Serbia (2021) have recently adopted laws on climate change which establish the institutional frameworks and rules for monitoring, reporting and verifying greenhouse gas emissions.
- **Although air pollution remains one of the main environmental challenges in the region, progress has been achieved** thanks to relatively well-developed legislative frameworks, local air quality plans, upgraded monitoring systems and awareness raising activities.
- **All six economies have strategies that lay out objectives for municipal solid waste management,** and implementation has begun.
- **All Western Balkan six economies have adopted policy frameworks for biodiversity conservation.** Plans for endangered species and protected areas have also been adopted in most Western Balkan six economies. Progress has been achieved in collecting data and monitoring biodiversity.


REMAINING CHALLENGES AND RECOMMENDATIONS

- **Improve air quality by decreasing dependence on fossil fuels in the energy mix, upgrading household heating systems, reducing transport emissions, and decreasing emissions from industry.** The Western Balkan six governments should start phasing out coal subsidies and introduce incentives that support the integration of renewable energy sources.

- **Improve waste management by enforcing measures to separate and reduce waste and increase recycling and recovery in line with circular economy principles.** Governments need to step up enforcement efforts, strengthen co-operation with local governments and put in place educational and awareness raising activities for waste prevention, separate collection and recycling.

- **Design and implement effective, efficient, and inclusive freshwater policy responses to water challenges.** The Western Balkan six should ensure the proper collection of data and projections on water demanded from different economic sectors to guide decisions on water use.

- **Enforce close regional co-operation at the river basin level to protect and manage water,** bringing together all interests upstream and downstream. A joint approach to the diverse and interconnected transboundary freshwater resources in the Western Balkan six is still in its infancy and the main river basin management projects are donor driven.

- **Develop a comprehensive land-use policy framework to ensure effective land-use planning, preserve land and foster resilience** to hydro-meteorological and geophysical hazards. The Western Balkan six should focus on establishing an all-inclusive land-use policy framework focusing on modernising the building codes, updating seismic hazard maps and combatting unregulated and illegal building activities by enforcing the cadastre.

AGRICULTURE POLICY

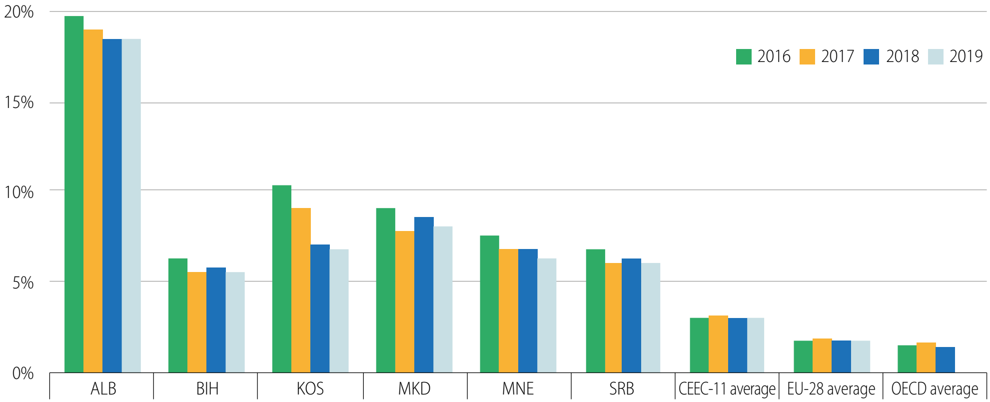
The agriculture sector has the potential to contribute significantly to economic development, reduce poverty and increase food security.

As such, agriculture is a significant pillar of the Western Balkan economies. It traditionally plays an essential employment role, being the predominant activity of the Western Balkan six economies' rural population. The sector's contribution to GDP is much higher than in the OECD, EU and CEEC-11, and is one of the sectors with the potential for competitiveness on the global market.

Agriculture is a heavily subsidised economic activity, and is the main source of income for almost 40% of the total population in the Western Balkan six economies.

KEY STATISTICS

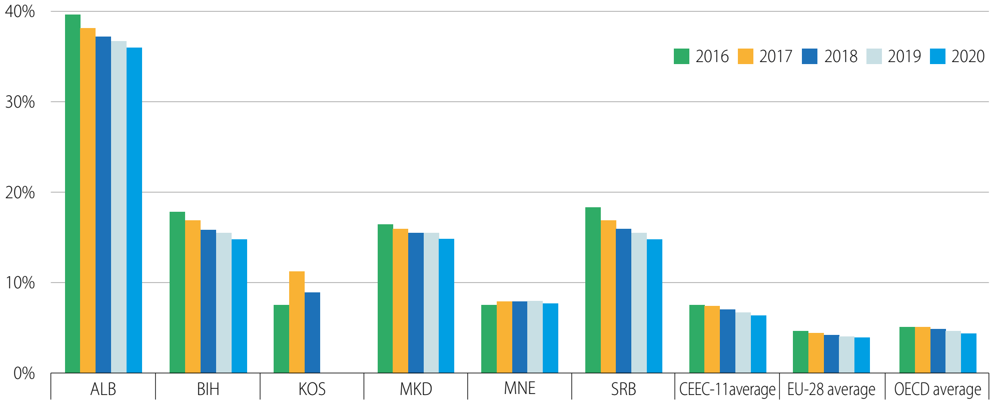
Share of value added in agriculture, % of GDP (2016-19)



Note: The CEEC-11 countries are Bulgaria, Croatia, the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, the Slovak Republic and Slovenia.
Source: World Bank national accounts data, and OECD national accounts data files, retrieved from: https://data.worldbank.org/.

All Western Balkan six economies have undertaken significant investment in agriculture. Implementation of the Instrument for Pre-Accession Assistance for Rural Development (IPARD) continues to improve among the accredited economies, and IPARD disbursing authorities are increasing their administrative capacity. The Western Balkan six economies continue to invest in rural infrastructure. They support essential projects for a competitive agriculture. Investment in other key areas, such as irrigation systems, is increasing, but their efficiency and monitoring are still a challenge. Investment in agricultural research projects remains low and agricultural extension services are uneven in scope and quality. The number of students in agriculture continues to decline. The sector's performance is also hampered by other weaknesses, such as generally poor cross-sectoral co-operation between agriculture and other relevant public institutions. And while all six economies have made efforts to improve and create an evidence-based policy system, monitoring and evaluation capacity is still limited.

Employment in agriculture (% of total employment)

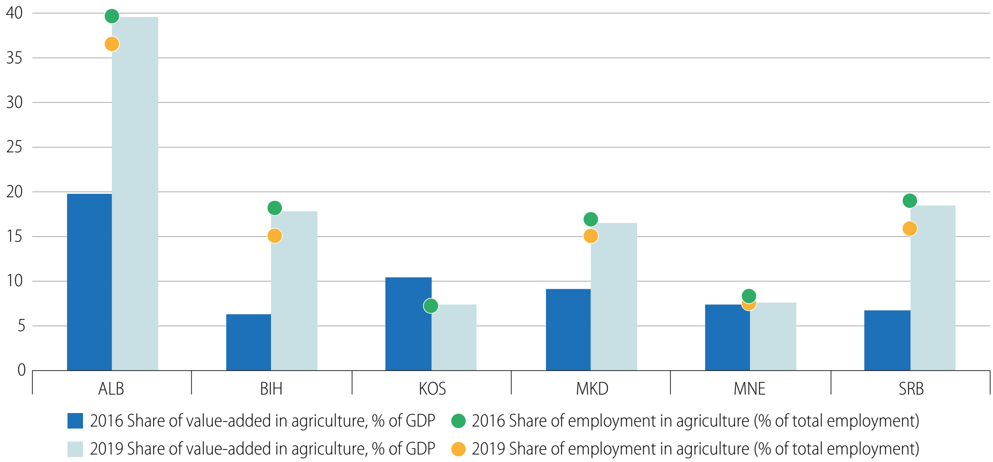


Note: The CEEC-11 countries are Bulgaria, Croatia, the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, the Slovak Republic and Slovenia.
Source: World Bank national accounts data, and OECD national accounts data files, retrieved from: https://data.worldbank.org/.

Agricultural productivity has increased between 2016 and 2019 in all Western Balkan six economies.

Montenegro had the highest relative agricultural labour productivity of the Western Balkan six economies in 2019: its ratio of total agricultural employment to share of GDP was 1.22. In comparison, the figure was 3.40 on average for OECD countries, 2.60 for the EU and 3.33 for the CEE countries.

Productivity index for the Western Balkan six economies (2016-19)



Note: 2019 Share of employment in agriculture (% of total employment) not available for Kosovo.
Source: World Bank national accounts data, and OECD national accounts data files, retrieved from: https://data.worldbank.org/.

ACHIEVEMENTS

- **All Western Balkan six economies have undertaken sizeable investments** in infrastructure over the last decade. They continue to support rural infrastructure projects such as sewage systems, electricity and gas supply, and broadband internet.
- **Implementation of the Instrument for Pre-Accession Assistance for Rural Development (IPARD) programme continues to improve** among the accredited economies (Albania, North Macedonia, Montenegro and Serbia), and IPARD disbursement authorities are increasing their administrative capacity.
- **Bosnia and Herzegovina and Kosovo** continue to prepare for full accreditation of their IPARD payment agency and appropriate reforms.

REMAINING CHALLENGES AND RECOMMENDATIONS

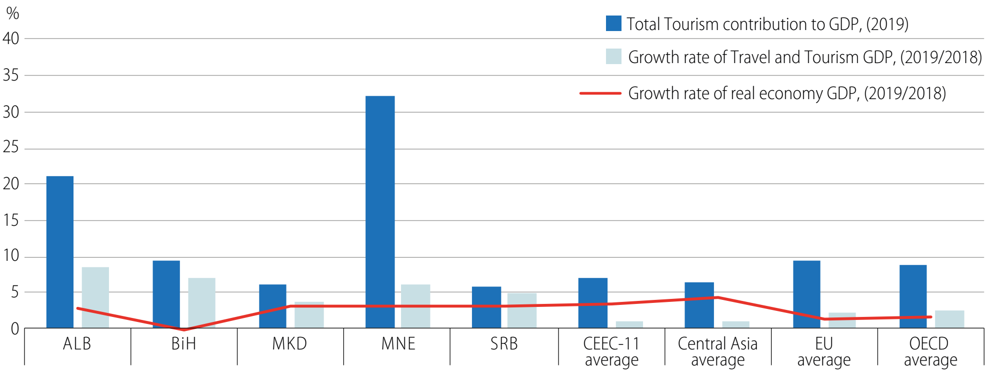
- **Increase investment and improve the implementation of rural infrastructure policy.** Rural infrastructure policies are crucial to improving the competitiveness and productivity of the agriculture sector. In Particular, **continue investing in irrigation infrastructure to improve irrigation water management.**
- **Ensure the skills taught in agricultural education meet labour market needs.** Agricultural education and training are still underfinanced and the number of agriculture students continues to fall. Domestic strategies either fail to address agricultural education or, if they do address it, measures are not yet implemented.
- **Enhance agro-food system regulation by strengthening land consolidation processes.** The land consolidation process is crucial for improved productivity. Continued implementation of consolidation policies using different approaches to increase the average farm size will significantly boost productivity. **Establishing agricultural land management policies and ensuring continuous improvement of the regulations on fertilisers and pesticides** to reduce their long-term negative impact on farming will promote the sustainable use of natural resources.
- **Strengthen agricultural support systems by adopting and implementing common market organisation legislation** as part of the introduction of cross-compliance measures, especially among those economies that have not prepared them; upgrading SPS systems in line with EU requirements; speeding up the process of establishing reference laboratories; strengthening institutional co-ordination, and harmonising standards and criteria for support measures.
- **Increase funding and implement national scientific research strategies in agricultural research projects** and agriculture extension services. **Improve farmers' access to information,** especially market information. The current information systems should be reformed into functional and dynamic platforms for the collection and dissemination of information.

TOURISM POLICY

As emerging tourist destinations, the Western Balkan six economies have all reported double-digit increases in tourist arrivals and overnight stays in recent years, making the region one of the fastest growing in the world. All Western Balkan six economies have recognised tourism as an opportunity for economic development. By designing tourism policy frameworks they have provided a base for improving the competitiveness and visibility of their economies in the highly competitive tourism market. However, the containment measures adopted to prevent the spread of the COVID-19 virus have had a significant impact on the tourism industry in the Western Balkans. The Western Balkan six governments will need to ensure that they strengthen their tourism policy frameworks to effectively support the recovery of the tourism

KEY STATISTICS

Travel and tourism and GDP growth in the Western Balkans (2018-19)



Note: EU includes all EU Member States in 2018-2019 period. The CEEC-11 countries are Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia. Central Asia countries are Azerbaijan, Kyrgyzstan, Kazakhstan, Tajikistan and Uzbekistan. Data for Turkmenistan are not available.
Source: WTTC (2020), *Economic Impact Reports*, https://wttc.org/Research/Economic-Impact; For Kosovo, (Kosovo Agency of Statistics, 2020), *Hotel Statistics*, https://ask.rks-gov.net/media/5950/hoteleria-q4-2020.pdf.

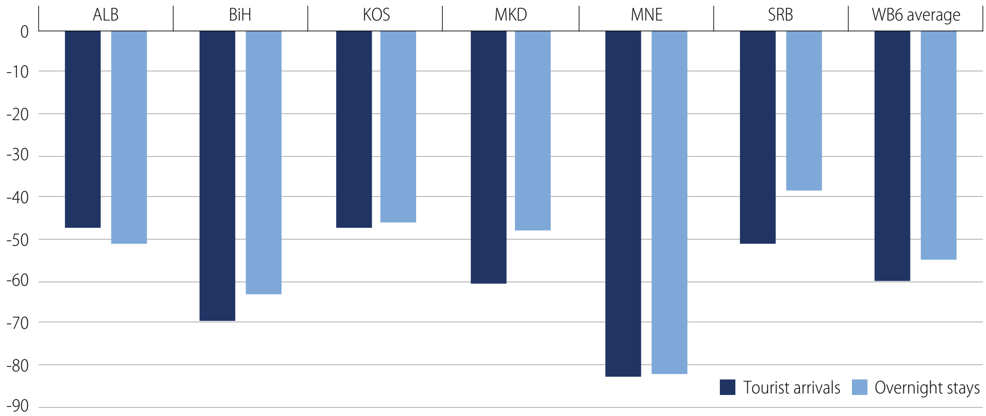
industry and take the opportunity of increased demand for outdoor and nature adventure tourism products, for which the whole region has enormous potential.

The fast growth of tourist arrivals before 2020 has contributed to a rise in earnings and consequently to the growth of travel and tourism as a share of GDP in the Western Balkan six economies. Given their location on the Adriatic Sea, the tourism sector in Montenegro and Albania contributes much more to GDP than in the other Western Balkan six economies, representing about one-third of GDP in Montenegro and one-fifth in Albania.

The COVID-19 crisis hit the tourism sector in the Western Balkan six very hard and led to a significant drop in tourism growth in the region, with tourist arrivals decreasing on average by nearly 60% and overnight stays by 55% in 2020 compared to 2019. Montenegro faced the highest drop in the region, followed by Bosnia and Herzegovina. The fall in tourist arrivals and overnight stays in other economies was lower, but still significant.

Tourist arrivals and overnight stays in the Western Balkans, 2019-20

% of change



Source: Statistical Offices of Western Balkan six economies.

ACHIEVEMENTS

- **Four of six Western Balkan economies (Albania, Montenegro, North Macedonia and Serbia) have tourism development strategies** and have committed to develop an efficient governance structure involving inter-ministerial co-ordination, vertical co-operation, and dialogue with private and other tourism stakeholders.
- **Most Western Balkan six economies have made some progress in developing tourism data collection frameworks.** Tourism Satellite Accounts are being prepared in most economies.
- **All economies have made progress in boosting accommodation capacity and establishing an accommodation quality standards framework** based on international standards. All Western Balkan six economies started categorising accommodation before this assessment, with progress having been made in the last two years on the establishment of a register of accommodation facilities.
- **Progress has been achieved in developing a vocational education and training (VET) framework for tourism,** although an overarching qualified workforce is still lacking throughout the region.

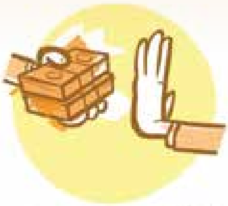
REMAINING CHALLENGES AND RECOMMENDATIONS

- **Revise tourism strategies and adapt strategic goals and policy measures to focus on more sustainable and resilient models of tourism development.** COVID-19 has changed tourist behaviour, preferences and patterns. Revised tourism strategies should also include crisis management to better address the recovery and to be better prepared for future crises.

- **Empower local communities and tourist destinations to manage tourism development by establishing tourism destination management organisations, providing sufficient budgets, and implementing sound capacity building programmes for local tourist organisations.**

- **Improve destination accessibility by further reducing visa requirements and easing border crossings.** Eliminating barriers identified in this area would ease tourism flows within the Western Balkan six economies, helping to increase the attractiveness of the region in the global tourism market.

- **Develop a tourism-specific human resource policy to address key challenges in the availability and quality of the workforce.** The strategy should include a comprehensive skills gap assessment that covers the consequences of COVID-19; a programme for strengthening the tourism educational system in close co-operation with tourism industry representatives; policy actions to increase the attractiveness of tourism studies and professions, especially among the young population; and policy actions to increase the attractiveness of tourism education for lecturers.
- **Further strengthen the natural and cultural heritage enhancement framework in tourism and promote investment and financing for sustainable tourism development.**
- **Strengthen regional co-operation in tourism marketing to increase the visibility of the Western Balkans as a tourist destination in international markets.** The development of a joint regional cultural and nature adventure tourist experience would offer an opportunity to make the whole region attractive for tourists from neighbouring and regional economies, as well as for long-haul tourists.



ANTI-CORRUPTION POLICY

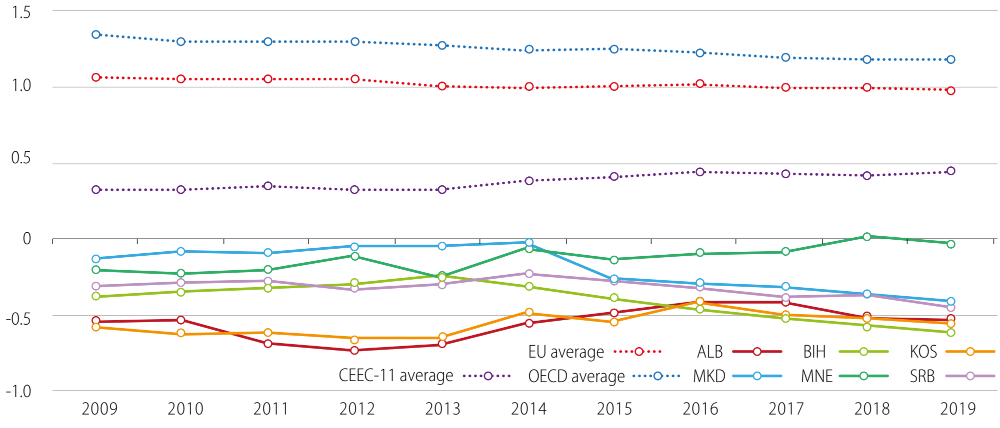
Anti-corruption policy encompasses both the formal policy framework and the concrete actions for combating and reducing corruption. In recent decades, the negative impact of corruption on economic growth and development has been extensively examined.

Corruption imposes a variety of costs on society and can diminish the competitiveness of an economy. Corruption has been shown to reduce incentives for innovation and productive labour and to damage government services. There is also a strong negative correlation between confidence in government and perceptions of government corruption.

All the Western Balkan economies have consistently high corruption levels. Weak anti-

KEY STATISTICS

Control of Corruption Indicator (2009-19)



Note: -2.5 – worst; +2.5 – best. The CEEC-11 consist of Bulgaria, Croatia, the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovenia and the Slovak Republic.
Source: The World Bank, Worldwide Governance Indicators, https://info.worldbank.org/governance/wgi/.

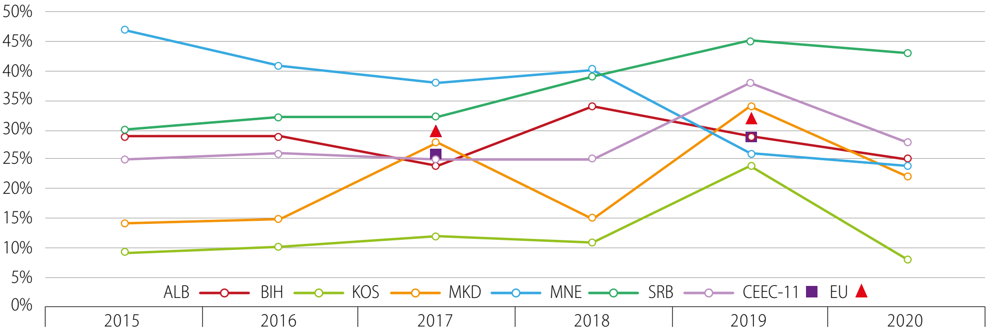
corruption actions have been a persistent obstacle to economic competitiveness in the region. Moreover, corruption has been a major challenge to the economies' progress towards EU accession. In recent years, the Western Balkan six economies have failed to reduce perceptions of their corruption. For instance, between 2009 and 2019 the Western Balkan six economies' average scores in the World Bank's Control of Corruption indicator deteriorated from -0.36 to -0.43. (see note).

The potential for improvement is strongly related to the anti-corruption efforts of the public authorities, which have varying degrees of credibility in the eyes of citizens. According to the Balkan Barometer, only a minority of people in all of the Western Balkan six economies agree that the government fights corruption successfully.

The general corruption situation in the Western Balkans region remains poor. The strongest general progress has been in making public awareness raising activities more sustainable through national funding. Individual economies have also implemented a few actions, however without amounting to broader regional trends.

Perceptions of the effectiveness of government anti-corruption efforts

% totally agree + tend to agree



Note: The relevant question was included in the Eurobarometer survey for EU countries only in 2017 and 2019. Please note that the data on Western Balkan six economies comes from the Balkan Barometer, which is a different survey, which only uses the same question.

Source: Regional Cooperation Council (2015-2020), Balkan Barometer, https://www.rcc.int/balkanbarometer/publications; EU (2017, 2020), Special Eurobarometer 470, 502. https://ec.europa.eu/commfrontoffice/publicopinion/index.cfm.

ACHIEVEMENTS

- **All Western Balkan six economies have anti-corruption strategies and/or plans, and all of the economies have mechanisms for monitoring the implementation of these policy documents,** although with different degrees of analytical sophistication.
- **Most Western Balkan six economies fund awareness raising and education activities from their national budgets,** a sign that they are prioritising this area of work.
- **Several of the economies have implemented reforms including setting up judiciary councils** with sufficient legal guarantees of independence, introducing competitive procedures for the selection and promotion for judicial positions, and strengthening the mechanisms of disciplinary liability.
- **Most of the Western Balkan six economies have recent laws on the registration of beneficial owners of legal entities** which envisage access to the data by any member of the general public.
- **All Western Balkan six economies envisage the liability of legal persons for all criminal offences.**
- **Most Western Balkan six economies have had at least some convictions in prominent corruption cases.**



REMAINING CHALLENGES AND RECOMMENDATIONS

- **The authorities involve civil society in the preparation of anti-corruption strategies and plans** by holding consultations or including civil-society stakeholders in working groups, but some non-governmental organisations remain concerned about the lack of responsiveness to their proposals. Therefore, the authorities should develop standards of good practice for the involvement of civil society, preferably based on broad consensus between the authorities and civil society groups.
- **Concrete business integrity practices or incentives for companies to improve the integrity of their operations are scarce.** The authorities should develop standards and guidance on the internal corruption risk management and anti-corruption compliance in companies.
- **Further develop legislation for the protection of whistle-blowers in line with international standards,** continue disseminating information to promote whistle-blowing and increase the usefulness of reports for follow-up by relevant authorities, and reduce the obstacles that whistle-blowers face.
- **Continue efforts to ensure institutional autonomy as a key success factor in anti-corruption enforcement.** In particular, in those economies where corruption investigation bodies are located within the regular hierarchies of the police or the ministry of interior, they should consider ways to strengthen their institutional autonomy.
- **Introduce transparent and detailed planning of funding for anti-corruption activities and explore how to strengthen the monitoring of outcomes and impacts of anti-corruption policies.**

For more information on the institutions, please visit their websites:

www.oecd.org

European Commission

www.ec.europa.eu

Contact details:

Ms Marzena KISIELEWSKA
Head of the OECD South East Europe Division
Marzena.KISIELEWSKA@oecd.org

Mr Martin KOHTZE
Project Manager of the Competitiveness Outlook 2021
Martin.KOHTZE@oecd.org

Mr Ali-Fuad TURGUT
Project Manager of the Competitiveness Outlook 2021
AliFuad.TURGUT@oecd.org

This pocketbook summarises the main findings of the *Competitiveness in South East Europe 2021: A Policy Outlook* publication.

The complete publication can be accessed at https://doi.org/10.1787/dcbc2ea9-en

BETTER POLICIES FOR BETTER LIVES

The Organisation for Economic Co-operation and Development (OECD) Is a unique forum where 38 member governments work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and help governments address emerging policy issues such as finding new sources of growth, building skills, and restoring public trust in government and business. The OECD provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies. It increasingly engages with a number of non-members who have become important actors in today's global economy.

www.oecd.org

The OECD Global Relations Secretariat works to enhance the Organisation's impact and relevance by strengthening relations with partner countries. It promotes and facilitates partner country participation in OECD activities in support of the Secretary-General's Strategic Orientations and according to member countries' vision of the OECD as a global policy network. Ultimately, the OECD's Global Relations strategy seeks to create a global community of economies committed to finding joint solutions for common challenges, guided by evidence-based policy advice and standards.

www.oecd.org/global-relations

Competitiveness and Private Sector Development

Competitiveness in South East Europe 2021

A POLICY OUTLOOK

The future sustainable economic development and well-being of citizens in South East Europe depend on greater economic competitiveness. Reinforcing the region's economic potential in a post-COVID-19 context requires a holistic, inclusive and growth-oriented approach to policy making. Against the backdrop of enhanced European Union (EU) accession prospects and a drive towards deeper regional integration, the governments of the six Western Balkan (WB6) economies have demonstrated a renewed commitment to enacting policy reforms.

The third edition of *Competitiveness in South East Europe: A Policy Outlook* comprehensively assesses policy reforms in the WB6 economies across 16 policy dimensions crucial to their competitiveness. It leverages a highly participatory assessment process, which brought together the views of OECD experts, WB6 policy makers and local non-governmental stakeholders to create a balanced and realistic depiction of their performance. The report seeks to provide WB6 policy makers with a multi-dimensional benchmarking tool, enabling them to compare performance against regional peers as well as OECD good practices, and to design future policies based on rich evidence and actionable policy recommendations.

Economy-specific profiles complement the regional assessment for the first time in this edition of Competitiveness in South East Europe: A Policy Outlook, and provide each WB6 economy with an in-depth analysis of their competitive potential as well as policy recommendations tailored to their specific challenges to inform their structural economic reforms and sustainable development agenda.

OECD
BETTER POLICIES FOR BETTER LIVES

www.oecd.org/south-east-europe

Co-funded by the European Union